

SUBJECT CC MASTER



10 DOWNING STREET

From the Private Secretary

MR. JOHN FAIRCLOUGH
CABINET OFFICE

The Prime Minister held a meeting with Sir Francis Tombs, Chairman of ACARD earlier today. John Fairclough (Chief Scientific Adviser) was also present.

Sir Francis said he welcomed the opportunity to set out some of the thinking behind ACARD's comments on the 1986 Annual Review of R&D, and to explain some of the areas the Council were proposing to tackle in the future.

Sir Francis identified a number of encouraging developments in the R&D field:

- (i) The establishment of a Science and Technology and Assessment Office, reporting to John Fairclough, to strengthen Ministers' ability to assess the economic returns to R&D.
- (ii) The research councils were beginning to increase the emphasis they placed on the contribution research made to economic well-being.
- (iii) ACARD's work, particularly their comments on the Annual Review were now being taken more seriously by departments.

Sir Francis believed however there was a lot more to be done. ACARD's main concerns at present were:

- (i) Encouraging British companies. When considering the introduction of new regulations, for instance in pollution control, Government should have regard to drawing up a specification which would help British companies to meet it.
- (ii) Over-specification. The Government tended to over-specify their procurement requirements, and this had the effect of discouraging British firms from investing in research and development. This had sapped industry's ability to undertake such research. The process needed to be reversed. Sir Francis agreed this was an area ACARD ought to consider further.
- (iii) Government R&D expenditure on defence. The proportion of Government R&D spending on defence remained worrying. Overall, as a percentage of

GDP, UK R&D expenditure was not out of line with that of our competitors. But over half of that went on defence. Sir Francis urged that the Government should take steps to reduce this figure.

- (iv) Cross-department issues. Occasionally scientific matters did not fall clearly to the responsibility of one department. Some way of dealing with this was needed. One approach would be for the Chief Scientific Adviser and ACARD to be allocated a small budget, say £250,000, to commission work which crossed departmental boundaries.

Sir Francis also identified two key points which ACARD would be looking at over the next year.

- (i) Technology transfer. ACARD proposed to investigate ways in which the benefits of defence R&D expenditure found their way into industry more widely. It was too often the case that substantial investment in defence R&D had no commercial use, beyond its immediate procurement purpose. A way needed to be found to increase the scope for technology transfer.
- (ii) Industrial spending on R&D. Only one-third of R&D expenditure was met by the private sector. Industry was making good profits but managements have tended to lack the technological awareness to know where and when to invest in research. Companies had, during the recession, cut back on training and R&D. Old habits died hard. This was an area ACARD was looking at.

defence The Prime Minister thanked Sir Francis for setting out ACARD's concerns and proposals so clearly. She shared his anxiety to improve the wealth creating potential of Government R&D expenditure, to improve the scope for technology transfer (particularly on defence contracts) and to encourage industry to invest more in R&D. She also noted ACARD's concern that ^{defence} R&D expenditure formed too high a proportion of Government R&D spending overall, and she said that steps were being taken to tackle this. She took note of Sir Francis' suggestion that a small sum be set aside for cross-departmental work; John Fairclough said that this might be part of the Assessment Office role, and he would be coming forward with proposals in this area in due course. The Prime Minister was glad to hear that John Fairclough would be co-ordinating a general response to ACARD's comments on the annual review of R&D.

The Prime Minister welcomed the creation of the new Assessment Office. She noted that there was now no shortage of advisory and co-ordinating bodies in Government to help secure a better directed research effort. The need now was not for more committees, but for action. She noted the difficulty of deciding what research in the longer term

might have a helpful economic impact, and it was vital that evaluation should not become a sterile and bureaucratic activity. John Fairclough said that his aim was that the Assessment Office would have a forward looking and stimulating effect; evaluation was certainly difficult, but not impossible.

I am copying this minute to Rob Smith (Department of Education and Science) and Michael Stark (Cabinet Office).

Mark Addison

MARK ADDISON

25 July 1986

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Prime Minister ②
Re Jomati.
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PRIME MINISTER

30 July 1986

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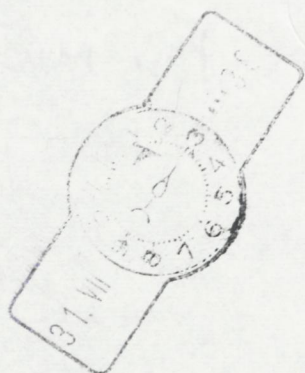
I am writing to thank you for agreeing to meet Sir Francis Tombs to discuss the comments of the Advisory Council on Applied Research and Development on the Annual Review of Government Funded R & D.

2. I know that Sir Francis was very pleased with the meeting, and went away reassured that the work which ACARD is undertaking still commands your interest.

3. One point which arose in the meeting which I promised to look into was the question of the contribution to GDP made by high technology industries. The latest figures available are those for 1983. In that year, high technology industries accounted for 3% of GDP; some 13% of the contribution to GDP by manufacturing industry which accounted for a quarter of GDP in total. If, however, we enlarge the definition of high technology industries to include computer services and telecommunication from the service sector, this increases the ratio to nearly 6%. However, as you can see from these figures, we are still dependent, to a large extent, on the more traditional industries and I share Sir Francis' view that it is the application of high technology to those industries which needs greater attention.

John W Fairclough

JOHN W FAIRCLOUGH
Chief Scientific Adviser



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10 DOWNING STREET

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From the Private Secretary

MR FAIRCLOUGH
CABINET OFFICE

There is a slip in my record of the Prime Minister's meeting with Sir Francis Tombs on 25 July. On page 2, in line 7 of the penultimate paragraph "R&D expenditure" should read "defence R&D expenditure".

I am copying this letter to Rob Smith (Department of Education and Science) and Michael Stark (Cabinet Office).

(MARK ADDISON)

29 July 1986

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