

CONFIDENTIAL

MR GRAY

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Copied to Mr Guise

GOVERNMENT SPENDING ON R&D

The Chief Secretary will be writing to the Prime Minister outlining the progress he has made in the PES round in finding savings on near market R&D which could be diverted to basic science research. The meeting of E(ST) on 19 October will not be needed unless the Prime Minister thinks that discussion would be useful.

As far as agricultural R&D is concerned, no useful purpose would be served by discussion at this stage.

This is not to say that the PES deal with MAFF on R&D is particularly satisfactory. At E(ST) in July, Mr MacGregor offered to save £30 million per annum on near market R&D. The only improvement on this offer secured during the PES round is that he has now undertaken to achieve the £30 million saving in three instead of five years.

Realistically, we could not have expected the Chief Secretary to secure much more over such a short period of time. But it is very important the Prime Minister indicates continuing dissatisfaction with the proposed savings on near market R&D in agriculture.

Two issues which officials need to pursue over the coming months are:-

- finding a way of decoupling redundancy costs from the potential savings on near market R&D (at present MAFF

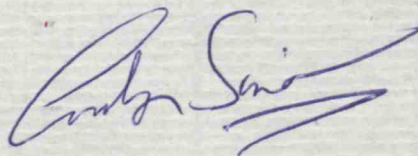


can argue too easily that they cannot afford the short term cost of making long term savings);

- agency status for ADAS as a prelude to privatisation - this could lead to near market work for which there is no market being shed faster than otherwise (and is probably why MAFF to have backed off the idea of making ADAS an agency).

It would be helpful if the Prime Minister could make the following points in her reply to the Chief Secretary:-

- It is very disappointing that Mr McGregor has not been able to improve on the figure of £30 million of near market research which he identified last July;
- The latest definition of 'near market' R&D was set out in the Government's response in August to ACOST's advice on national priorities for science and technology - this definition should be used by all departments, including the agricultural departments, in reviewing the scope for saving on near market research;
- It has been agreed that E(ST) will take final decisions *next year* on the level of Government funding for agricultural research in the light of agricultural ministers' discussions as to how much funding industry would be prepared to take over. But that will only be one criterion. There is no presumption that all the current research will continue, and that the issue is merely the source of money for the work.



CAROLYN SINCAIR