



PRIME MINISTER

BRITISH TECHNOLOGY GROUP

(1) FUTURE ROLE

(2) CHAIRMANSHIP

I don't think we have got BTG right yet. Indeed I doubt whether any such group of people can really

competent <sup>to</sup> ~~form~~ <sup>to</sup> ~~the~~ <sup>potential</sup> of various research.

Only the person groups concerned can do that.

We will sort out BTG's present functions <sup>before</sup> we make a chairman out

Prime Minister

Please also see

- 1. Sir R Armstrong's note at flag A
- 2. Mr Sparrow's note at flag B

Agree I write as at flag C?

MUS 31/3

Over the last few months I have been giving a good deal of thought, and have had many discussions, about the enormously important subject of securing a much better return for the nation from the large sums of money which are spent on scientific research and development in the universities, by the Research Councils, by the Ministry of Defence and by other publicly funded institutes. The sums involved are huge, with total net expenditure by central government on R&D amounting to £3.5 billion in 1982/83. Many of us here shared your anger about the recent BBC TV 'Horizon' programme which presented a biased, partial and unfair picture. Yet, there was, as we all know, sufficient substance in the general thrust of the programme to warrant further action to improve our performance.

2 I have a number of initiatives under consideration. DoI Ministers and officials have been reviewing with our opposite numbers in the MOD how to improve the civil spin-off from defence



R&D. Much useful work has been done which I am shortly to review with Michael Heseltine. He fully shares my concern that we do not secure nearly a good enough return, in terms of civil spin-off, from the substantial sums spent on defence research and he and I are very anxious to explore all the possible avenues for increasing this.

3 Another exercise which I have in train is an intensive round of consultations with universities and polytechnics to see how best we can improve liaison between these institutions and industry and to accelerate the transfer of technology from the academic laboratory to the factory and the market. When Geoffrey Howe spoke of "Science Parks" at the pre-Budget Cabinet, it was this initiative he had in mind - though I hasten to add that the arrangements which I contemplate may go very much wider and be a good deal more fruitful than most of the "Science Park" developments which have happened so far.

4 I shall report to you on both these matters when we are further advanced.

5 The rest of this minute concerns the British Technology Group. You will remember that at the beginning of 1981, Keith Joseph said he wanted to explore the possibility of merging the NEB and the NRDC and he proposed appointing Sir Freddie Wood to chair both bodies. In July 1981 Keith reported that he proposed to accept Sir Freddie's recommendation for an interim merger of



the two bodies. Since then the NEB and the NRDC have operated in a combined structure as the British Technology Group (BTG).

6 The NRDC is of course much the older of the two bodies.

Founded shortly after the war, its main function has been to exploit discoveries from publicly funded research. It has done this in various ways - either by taking rights to intellectual property and licencing them to British firms, or by providing project finance to companies to share the risks and rewards of developing new ideas, or simply by promoting contacts between university scientists and commercial companies. For many years now they have had a right of first refusal to exploit the results of Research Council research including at universities. This "monopoly" has been much resented and in my view has led to all sorts of undesirable consequences. A generally lacklustre performance, an attitude which was largely reactive rather than proactive, a slow and somewhat bureaucratic organisation, a distinct lack of commercial knowhow and entrepreneurial flair - all these have characterised the NRDC's performance.

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7 Turning to the NEB, soon after we took office Keith changed the role of the NEB substantially from that it had pursued under Labour and confined it primarily to the promotion of innovation. He also laid down that while the NEB should continue to provide corporate finance to start up companies (as opposed to the project finance provided by the NRDC) its shareholdings should be restricted almost always to minority stakes. However, the work

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of the NEB has been overshadowed by the overhang of disastrous investments made by our predecessors which have occupied a wholly disproportionate amount of management time and attention.

8 For some months now therefore I have been reviewing both roles and have come to the conclusion that further changes are necessary. I believe that the merger makes sense but that the role of the merged body should shift the emphasis much more towards the technology transfer role hitherto carried on by the NRDC. It has made sense to combine the technical skills of the NRDC with the more commercial skills of the NEB, but we need now to create a single, cohesive organisation with a single management and much more clearly defined objectives. The role I envisage for the BTG in future is, in a sense, "an enhanced NRDC role" - that is to say its primary aim should be to promote the transfer of technology from the laboratory to the market-place using a range of instruments, techniques and measures as appropriate. I propose that the "overhang" investments should be separated out and separate arrangements made for their sale or failing that their liquidation. (This could be done either by entrusting them to a separate management unit in the BTG, or alternatively by instructing a merchant bank or consortium of banks to undertake the job for the BTG. This is still being explored).





the representatives of the BTG should be members of the appropriate research requirement boards and that there should be close liaison at all levels.

11 There are a number of other roles which I believe the BTG could usefully perform. They include helping to promote the civil exploitation of defence research; promoting contacts between universities and industry on a much wider scale; and (something which they do already) acting as an instrument of regional policy. They are the appropriate instrument to support new ventures in advanced technology in the Assisted Areas (in the same way that the SDA and the WDA do in Scotland and Wales respectively). All these roles require a good deal more detailed work before specific objectives can be drawn up and agreed with colleagues.

*Have they any justification for doing this?*

*why?* 12 Finally, while I do not rule out the BTG taking the occasional equity stake, I see it as very much as the exception. I would expect them to seek to pursue their aims by other means wherever possible. If an equity stake becomes unavoidable, it should be a minority stake in every case.

13 I have now agreed with the Chief Secretary the financial regime within which the new BTG should operate and I would like to make a statement very soon announcing the new arrangements. I have to add that legislation is vital to give statutory backing



to all this. I have submitted proposals for a "Development of Inventions Bill" to QL, but so far it has not found its way into the programme. I am making representations to the Home Secretary.

Chairmanship of BTG

14 I believe the new arrangements require new management.

Although the present Chairman, Sir Freddie Wood, fully endorses the role I have outlined we have agreed that it would be sensible to signal the change of role by the appointment of a new Chairman. Sir Freddie's appointment was due to expire next January; he has offered to retire early to make way for a new man. (Because this was leaked prematurely to the press, I have already made a press statement to this effect).

15 The man I propose to appoint in his place, subject to your agreement, is Dr Jack Birks. He has the right technical background. He was a former Managing Director of BP, and since his retirement last year (he is now 63), he has been part-time Chairman of the newly privatised National Maritime Institute where he is doing a very good job. He has the right qualities of intellectual acumen, enthusiasm and hard-headed realism to tackle the business of technology transfer at the BTG on a part-time basis. He has indicated that if asked, he would be prepared to make available three days a week - one more than Sir Freddie Wood does at present. His appointment has been cleared with Sir

*All his  
We have been  
with B.P.  
especially on  
oil exploration  
I doubt  
whether there  
is anything  
entirely new  
and I should  
like to know  
a little  
longer.*

*They aren't worked out yet*



Robert Armstrong and Sir Douglas Wass. I would be grateful, therefore, to have your agreement to proceed with making this appointment which I should wish to announce when I make my statement on the future role of the BTG. Following his appointment I would expect there to be further senior management changes including the appointment of a new Chief Executive.

16 I have discussed the new role with the BTG (though of course not the management changes) with the Board whose names I list in the Annex. Although they reflected the unhappiness which recent press speculation has caused among the staff of the BTG, I was gratified by the enthusiasm which the Board members showed for the role I propose. I therefore do not expect any significant opposition. I am copying this minute to the Home Secretary as Chairman of QL, the Chancellor of the Exchequer, to the Secretaries of State for Education and Science, Defence and Employment, to John Sparrow and to Sir Robert Armstrong.

PJ

P J

28 March 1983

Department of Industry  
Ashdown House  
123 Victoria Street





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2  
Prime Minister

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

Support for Mr Jenkin.

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 2111/3

MUS 15/4

MO 26/1

11th April 1983

*Patrick Jenkin*

*MUS*

I have read with interest Patrick Jenkin's minute to you of 28th March about the future of the British Technology Group.

I would just like to add that I support the approach Patrick has taken. I am currently looking closely at ways of improving the spin-off of defence technology into the civil sector, in consultation with Patrick, and while I have not yet come to any final decisions I would hope that a re-organised BTG would be able to play as a medium for transmitting technology and transforming it into marketable ideas.

I am equally anxious for private entrepreneurial organisations to have the opportunity to play a role here as well. For this reason I also welcome Patrick's proposal to remove BTG's right of "first refusal" on the exploitation of certain types of Research Council-originated technology. My officials are in touch with his about the implications of this and other changes for Defence. But overall we are firmly behind his proposals and look forward to their incorporation in the context of a suitable Bill in due course.

I am sending a copy of this letter to the Home Secretary, the Chancellor, the Secretaries of State for Education and Science, and Employment, John Sparrow and Sir Robert Armstrong.

*MUS*

Michael Heseltine

The Rt Hon Margaret Thatcher MP

Ind Pol. pt 2  
BTG. pt 2



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2JG

RECEIVED  
DEFENCE  
SECRETARY  
GENERAL

2 JUN 1982

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BF to Mrs  
OK  
DSE

10 DOWNING STREET

*From the Private Secretary*

5 April 1983

*Dear Jonathan,*

BRITISH TECHNOLOGY GROUP

The Prime Minister has seen your Secretary of State's minute of 28 March. She has made the general comment that before considering the question of the replacement for the present Chairman, she wishes to give further thought to the future role of the Group. Michael Scholar will let you know, as soon as possible after his return to the Office next week, what arrangements the Prime Minister envisages for further consideration of this matter. It is possible that a meeting will be required.

I am sending copies of this letter to Tony Rawsthorne (Home Office), Margaret O'Mara (HM Treasury), Imogen Wilde (Department of Education and Science), Richard Mottram (Ministry of Defence), Barnaby Shaw (Department of Employment), Gerry Spence (CPRS), and Richard Hatfield (Cabinet Office).

A. J. COLES

Jonathan Spencer, Esq.,  
Department of Industry.



SC 1/a

Prime Minister

Mus 15/4

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP  
Secretary of State  
Department of Industry  
Ashdown House  
123 Victoria Street  
London SW1E 6RB

8 April 1983

2 Patrick

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BRITISH TECHNOLOGY GROUP

I have seen a copy of your minute of March 28 to the Prime Minister.

These issues have been discussed at length between us and I am content with your proposals. I especially welcome the severe curtailment of the NEB's corporate investment role which, as you say, during the previous Government's term led to a series of disastrous investments. I assume that you still plan the same ground rules on equity investments as you proposed in your letter of February 2 to me: namely BTG to seek consent in every case; approval only where other forms of finance are inappropriate; and that it should in no case exceed 25%.

There are just two other points to take up. First, you propose ending the BTG's right of first refusal to exploit the results of Research Council research. I am content with this but I would not want it to lead to Research Councils turning into mini-BTGs and providing finance for innovation. This should come from industry itself.

Second, I accept your point that the BTG should support advanced technology in English Assisted Areas but believe that the emphasis should be on advanced technology and not general regional support. Officials will be thinking further about this in the light of the proposals which you put to MISC 14 Committee last month.

I am copying to the recipients of your minute.

LEON BRITTAN

End Pol

BTG.

28 APR 1953



APPOINTMENTS IN CONFIDENCE



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Ref. A083/1001

MR BUTLER  
✓

The Secretary of State for Industry sent the Prime Minister a minute on 28 March about the future role and chairmanship of the British Technology Group.

2. If the Prime Minister is content with the more active role in technology transfer now envisaged for the British Technology Group, I have no reason to suppose that Dr Birks would not be a suitable candidate for the chairmanship, though it seems slightly odd to combine the public sector BTG with the newly privatised National Maritime Institute.

3. The Prime Minister should be aware that Lord Weinstock suggested to me the other day that, if the main role of BTG was going to be to dispose of its existing holdings, Mr Ronald Grierson might well be a suitable candidate for the chairmanship.

RTA

ROBERT ARMSTRONG

31 March 1983

APPOINTMENTS IN CONFIDENCE



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EX NO

Qa 06313

To: PRIME MINISTER

30 March 1983

From: JOHN SPARROW

British Technology Group

1. Patrick Jenkin sent me a copy of his note of 28 March to you on the future of the British Technology Group. I think that this calls for an initial response from you before you have a Ministerial meeting.
2. I attach a note on the major issues and the areas which need further clarification. I also attach a draft of a letter which Michael Scholar might send to the Department of Industry.
3. A copy of this goes to Sir Robert Armstrong.

JS.

Att

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BRITISH TECHNOLOGY GROUP

1. Before the future role of the BTG can be settled, the Government must be clear what its objectives are for innovation policy, and what part, if any, the BTG should play to further them. An evident primary aim is the transfer of technology from the laboratory to the market-place but BTG will not be the only organisation attempting this. Is it to have a preferred position? Is it to operate commercially, earning a rate of return that would be acceptable to the private sector, or is it to operate to other criteria?

2. It is Government policy to encourage the private sector to be as active as possible in innovation so that in due course there would be no need for a state-owned agency.

3. Why have a state-owned agency?

Despite the recent growth in project finance and venture capital funds, the financial institutions are not yet very experienced in assessing advanced technology and are not investing in situations where the pay-off might be large but slow in coming through (what is called "patient" money).

4. What role would a state-owned agency play?

It would not have the resources to plug the national financing gap. Therefore it must, by the success of its individual projects and its overall performance, demonstrate the successful backing of advanced technology for others to duplicate.

5. What strengths does BTG have for the role?

It has a good knowledge of the nation's research base in universities and Government research laboratories; experienced licensing staff; experience of financing mechanisms; and (subject to decision on its financial regime) the ability to deploy "patient" money.



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6. How should BTG carry out its role?

It must act in a catalytic fashion, bringing in private capital; be free to respond to what private sector partners require, e.g. joining an equity package (but as a minority partner); and must operate with commercial flair and develop a reputation that commands respect in the commercial world. It should lose its present privileged position with respect to publicly funded research.

7. What should be BTG's financial regime?

Once the initial capital structure is determined, BTG should operate independently of further Government support and have commercial freedom and responsibility.

8. Should BTG have non-commercial tasks?

Preferably not, but if Government wishes BTG to carry out any non-commercial role (such as an "English Development Agency") BTG should be reimbursed on a contract basis.

9. In the light of the above catechism, the Department of Industry's proposals need the following clarification:

(i) What is the Department of Industry's overall policy for innovation? Is BTG to be a permanent feature of that policy or is it, by operating commercially, to encourage others and itself to pass out of state ownership?

(ii) Is commercial operation by BTG consistent with it being regarded as an instrument of the Department of Industry?

(iii) After any capital restructuring, is it intended that BTG should operate independently of further Government support?

(iv) Even if its present right of first refusal on Research Council funded research is removed, will BTG still enjoy preferential access to other publicly funded research? Who will be responsible for exploiting research in universities funded by Research Councils?

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(v) Can a BTG regional role be specified in advance of the MISC 14 regional review? Would a regional role, any other non-commercial role or a role outside advanced technology be compatible with its main objectives?

CPRS

30 March 1983

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DRAFT LETTER from MICHAEL SCHOLAR to JONATHAN SPENCER,  
Department of Industry

British Technology Group

The Prime Minister has seen your Secretary of State's note of 28 March on the future of the British Technology Group. Before discussing it in detail, it would be helpful to have a paper which takes into account the following questions: *with answers to*

*The Prime  
Minister now  
find*

- (i) What is the Department of Industry's overall policy for innovation? Is BTG to be a permanent feature of that policy or is it, by operating commercially, to encourage others and itself to pass out of state ownership?
- (ii) Is commercial operation by BTG consistent with it being regarded as an instrument of the Department of Industry?
- (iii) After any capital restructuring, is it intended that BTG should operate independently of further Government support?
- (iv) Even if its present right of first refusal on Research Council funded research is removed, will BTG still enjoy preferential access to other publicly funded research? Who will be responsible for exploiting research in universities funded by Research Councils?
- (v) Can a BTG regional role be specified in advance of the MISC 14 regional review? Would a regional role, any other non-commercial role or a role outside advanced technology be compatible with its main objectives?

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*would be grateful if*

The Prime Minister also suggests ~~that~~, in preparing the paper, *you* consult the Treasury and the CPRS.

*Gov  
Department  
were to*

I am sending copies of this letter to Private Secretaries to those who received your Secretary of State's minute.

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