

PRIME MINISTER

BTG

This paper is much
too vague. We must
have a meeting
not

1. Please see:

a) Cecil Parkinson's proposals (Flag A)

and comments, by

b) Dr. Nicholson (Flag B)

c) John Sparrow (Flag C)

d) Nick Owen (Flag D)

2. Agree

(1) A smaller BTG should continue to exist, its size to be determined following the new Chairman's proposals?

(2) Its objectives should be those listed in para 8 of Flag A?

(3) It should lose its first refusal right (para 7)?

(4) It should be told to dispose of 60 companies within the next 12 months?

(5) ^{In the way} ~~As~~ suggested by John Sparrow (para 2 of his minute)?

(6) It should be permitted to retain its income from technology transfer (not from disposals) (see para 3 of minute and para 7 of draft statement in Flag A) and be told to become self-financing within 5 years (para 10 of Flag A)?

(7) It should be allowed to do some funding itself (para 11 of Flag A)?

?

- (8) There should be a once-and-for-all capital restructuring (para 7 of draft statement in Flag A), after which DTI and Treasury must stand back (para 5(a) in Flag B)?
- (9) It should be judged by its financial return not by the growth of technology transfer etc. (para 1 of Flag D)?
- (10) It should be able to take minority equity stakes (para 5(b) in Flag B)?
- (11) Its goal should be privatisation?
- (12) It should continue to have a regional role (para 6 in Flag B)?
- (13) Dennis Stevenson should be the new Chairman? **No**
- (14) All this should be the subject of early legislation?
- (15) Announcement by written PQ?

MCS

8 July 1983

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

11 July 1983

Future of the British Technology Group (BTG)

The Prime Minister was grateful for your Secretary of State's minute of 4 July about the future of the BTG.

The Prime Minister's general reaction was that these proposals are far too vague. The Prime Minister believes that the BTG would have great difficulty in judging what were in fact the ideas which "showed promise but were insufficiently advanced to be taken up by industry for commercial exploitation", and which deserved in consequence to be funded by the BTG. She also thinks that it would be difficult in practice to draw together exploitation of parallel research projects being carried out at a number of different institutions; has doubts about the BTG providing a patent licensing service to universities and others who would prefer to work in partnership with the BTG rather than hand over rights to them; and is not attracted to the proposal that BTG's success should be judged by the amount and quality of the technology transfer in which they are engaged rather than by any set financial return; and she doubts the realism of the estimate that BTG might be self-funding within five years. Finally, the Prime Minister dislikes the idea of the BTG engaging in joint ventures, funding early development work and financing in exceptional cases start-up companies; and she thinks it would be necessary to set a ceiling on their staff numbers from the outset.

The Prime Minister has asked for a meeting to discuss these issues and we will be in touch with you soon to arrange this.

M. C. SCHOLAR

Jonathan Spencer Esq
Department of Trade and Industry

JCE VC

ke JCE-CEO, that
Dr. N. R. ...
CRS

C

CONFIDENTIAL

cy no
2 pps

Qa 06411

To: PRIME MINISTER

6 July 1983

From: JOHN SPARROW

British Technology Group

1. I have seen a copy of Cecil Parkinson's minute to you of 4 July. I have also seen (and agree with) Robin Nicholson's note to you today.
2. I have two points to add. The disposal of the inherited portfolio of some 60 companies will be a major undertaking. To recruit someone from the City for this purpose, presumably on a temporary basis, and probably without adequate seniority within BTG, could well prove ineffective. A better course might be for BTG to put all its investments into one holding subsidiary, thereby freeing mainstream BTG management for its mainstream future task; and for the Board of BTG to appoint one or more merchant banks to act for it in conducting a programme of sales that combined expedition with optimal receipts. The responsibility for ensuring speedy and effective disposal would be clearly placed upon the BTG Board.
3. My second point relates to the proposal that Dennis Stevenson becomes Chairman. I do not know him personally: people who do speak highly of him, and he seems to have the attitudes, vigour and track record that we need.
4. I am sending a copy of this minute to Sir Robert Armstrong.

JS.

CONFIDENTIAL

B

of no

W.0416

PRIME MINISTER

THE FUTURE OF THE BRITISH TECHNOLOGY GROUP

1. I have seen a copy of the minute to you (JU926 of 4 July) from the Secretary of State for Trade and Industry and would like to comment. A strong case is made for the retention of BTG. I support this providing a complete break with the past is made.

2. The case for BTG is focussed on the need to improve the exploitation of publicly-funded research, particularly that in universities. The evidence collected by the recent ACARD Report "Improving Research Links between Higher Education and Industry" which you commissioned, supports the view that too often there is a gap between research and those capable of commercialising it.

3. BTG can help to "fill" the gap, not by providing all the resources needed, but by demonstrating, in competition and co-operation with the private sector, that profitable exploitation of publicly-funded research is possible. This demonstration is especially needed in longer-term, higher risk/higher reward projects where the "cherry-picking" activity of the existing private sector is seen to greatest disadvantage.

✓ 4. In the past BTG has shown all the sloth and leaden-footedness characteristic of a state-owned monopoly. To convert it into an enterprising and dynamic organisation is a formidable, but not impossible, task. But BTG will need to be freed from the previous restrictions in order to exploit fully its skills and expertise.

✓ 5. The Secretary of State's proposal recognises two of these restrictions and rightly proposes the removal of the monopoly rights of first refusal and the appointment of a new entrepreneurial Chairman. But I believe he needs to go further in three areas:

(a) BTG's enterprise must not be subject to continuing petty oversight and second guessing from officials in DPI's sponsor divisions and in the Treasury: a once and for all financial restructuring must follow the Secretary of State's approval of the new corporate plan and thereafter BTG should operate at arms' length from Government;

Finance?

(b) BTG must be as responsive to customers' needs as the private sector: the right to take minority equity stakes (on a fully commercial basis and in partnership with private sector equity) is an essential feature of this responsiveness;

Finance?

(c) BTG's eventual reward for success must be privatisation rather than elimination if staff morale and performance are to be equal to their task: the technology transfer industry will by then be large enough to easily accommodate a slimmed down BTG.

6. Finally, I note from the draft statement attached to the minute that BTG's regional investment role will continue for the time being. To the extent that this implies making investments that do not satisfy BTG's future commercial criteria, such activity should be funded by Government on a fee basis so as not to deter BTG from its primary task or tempt it to return to its old non-commercial habits.

7. As a postscript, can I comment that paragraph 5 of the Secretary of State's minute draws attention to the continuing anomaly of the massive State role in a function like research which requires creativity and enterprise if it is to be successful; I shall minute you separately on this matter.

8. I am copying this minute to Sir Robert Armstrong and to John Sparrow.

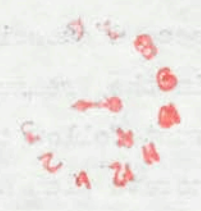
RBW

ROBIN B NICHOLSON
Chief Scientist

Cabinet Office

6 July 1983

Faint, illegible text at the top of the page, possibly a header or introductory paragraph.



16 JUL 1953

Faint, illegible text in the middle section of the page.

Faint, illegible text in the lower middle section of the page.

Faint, illegible text in the lower section of the page.

Faint, illegible text in the bottom section of the page.

Faint, illegible text at the very bottom of the page.

5 July 1983

cc Mr Mount

MR SCHOLAR

FUTURE OF BRITISH TECHNOLOGY GROUP

Mr Parkinson's note fails even to mention the option of privatising the BTG, once its NEB assets have been disposed of in a year or so. There is no good reason why the BTG need remain in the public sector. The NRDC side of the business has demonstrated that successful technology transfer can be a profitable business. No-one doubts that the services which NRDC provide are in the national interest. This is not an argument for public financing; on the contrary, because the NRDC functions are so important, they should be guided and stimulated by commercial pressures. It is not explained why (at paragraph 9 of Mr Parkinson's note) the BTG cannot be judged by its financial return, or how the "amount and quality of technology transfer" which it achieves can be satisfactorily judged by any other way.

One reason why DTI want to retain BTG within the public sector is that they wish to maintain its NEB functions, using BTG as an arm's-length device for the Government to take a 25 per cent equity stake in new companies. The Welsh and Scottish Development Agencies do this; DTI is able to say to the English "regions" that they are not forgotten. This presentational aspect apart, there is no sound case for this role. Industry is suspicious of public sector venture capital; why would a budding venture capitalist of real talent forsake the chance of becoming reasonably wealthy in exchange for a salaried post with BTG?

The decision on this important matter should not be hurried because of the Chairmanship succession problem. If we want BTG to be floated off in a year or so, the new Chairman needs to be recruited with that prospect clearly in mind.

NICHOLAS OWEN

but see
S(b) in H
Dr Nicholson's
note.
MUS