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Treasury Chambers, Parliament Street, SW1P 3AG
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5 October 1984

The Rt. Hon. Norman Tebbit MP
Secretary of State for Trade and Industry

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INDUSTRIAL COLLABORATION AND COMMUNITY R & D

I have seen a copy of your letter of 24 September to Geoffrey Howe. As you say, we will shortly be discussing Community R&D and industrial collaboration at OD(E). There are substantial UK public expenditure issues involved in all this.

Your proposals for the Industrial Technologies (BRITE) and Biotechnology programmes represent a bid for the UK to spend at least a further £24 million over the next few years, in addition to around £50 million a year which we already contribute to Community R&D Programmes. This is, of course, on top of the substantial sums spent on industrial research and other subsidies to private sector industry under your domestic programmes.

I do not need to remind you that these proposals come at a time when we already face very difficult decisions on public expenditure. Moreover they depart from the arrangements for controlling expenditure on Community R&D which you and I proposed to colleagues and which were agreed in February.

The Euro-PES arrangements provided a 'baseline' for total UK expenditure in this area and established procedures for dealing with additional bids in respect of new proposals. There is scope within the existing baseline for modest expenditure on Biotechnology and BRITE. But if you wish to support more ambitious programmes, then the arrangements would require you to look for appropriate offsetting savings from within your own programmes. The priorities are for you to judge. But from what you say in your letter the Community proposals would not appear to have high priority, and this would imply that the UK should argue in Brussels for lower levels of provision, compatible with our overall total.

There is also the important question of funding for Community R&D generally. Not all the Commission's proposals can be accommodated within the available resources and decisions will have to be taken about priorities; which programmes can go forward, when and at what level of expenditure. I would hope the proposals described in your letter would be tested as part of that process.

I am sending copies of this letter to the Prime Minister, to the other members of OD(E) and to Sir Robert Armstrong.

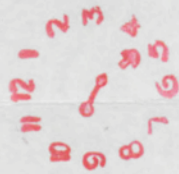
A handwritten signature in cursive script, appearing to read 'Nigel Lawson'.

NIGEL LAWSON

Europa A27 Budget



- 5 OCT 1984





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Secretary of State for Trade and Industry

24 September 1984

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

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D Geoffrey.

In my letter of 7 August to Nigel Lawson about Community expenditure on R&D, I said that I would wish to revert to this topic in the context of the OD(E) discussion on EC standards and industrial collaboration now scheduled for 3 October.

2 There is always some danger of taking an unduly pessimistic view of the extent of industrial collaboration in Europe. We are agreed that such ventures are most effectively initiated by those who take part directly. There is a wide measure of industrial co-operation between British and European firms which does not, and cannot be expected to, come to the attention of governments or to hit the headlines.

3 That is not to say that these ventures owe nothing to the Community or that the Member States do not have a collective role to play, particularly in establishing the right regulatory and financial framework.

4 The establishment of common standards is a case in point: not least in those fields of high technology where the choice between wastefully competing technologies is intimately linked to drawing up common standards. The most rewarding role which we can play as a Member Government at this time is to ensure effective follow through by Community working groups and specialist Councils of work already in hand - largely in response to earlier UK initiatives. (These will doubtless be spelled out in the paper which will be coming to us from officials). Now is not the time for the kind of fresh initiative which could be picked up at the European Council.

JHLAWS



5 Finance may be considered under two headings.

6 First, industrial access to capital. In this letter I do not wish to do more than suggest that some liberalisation of capital movements within the Community must, inter alia, facilitate collaborative activity. We are well placed to urge it upon the French and others, who see this activity as a test of Community thinking.

7 A second role for Community governments in the context of industrial co-operation lies in the area of pre-competitive R&D involving industrial enterprises as participants and beneficiaries. It looks ahead on a time-scale over which enterprises cannot afford to commit their own expert and financial resources at an effective level. It also mobilises skills which by definition are otherwise too thinly spread. Such programmes are of a different nature to domestic programmes. They have an authentic Community dimension since action at that level offers particular benefits. They complement rather than duplicate domestic programmes.

8 But there is a problem: the present mechanism of attribution in respect of Community expenditure on R&D.

9 My primary concern is to allocate our limited R&D resources to the more immediate challenge of ensuring that we keep up industrial capability in place. This means domestically funded programmes directed at national objectives. With the current resources available to me, if the choice lies between domestic expenditure and expenditure in Europe I choose the former because I have national programmes of high priority that I am unable to finance.

10 I recognise that it is easier to consider such an issue in concrete terms and I see a way forward based on some of the programmes under discussion in the EC. I attach an Annex on these. They would have an authentic Community dimension and would be cost effective on a joint basis. Industry has already shown considerable interest and willingness to share the cost. UK support for these areas would be well received in the Community. The UK's gross contribution to the two programmes would be of the order of 40 mecu, that is £24 million. Yet the present Euro-PES baseline makes inadequate provision, and offers no manoeuvre, for accommodating either a biotechnology programme at the level proposed in the Annex or any programme covering basic industrial research. I regret that I can give neither priority over my hard-pressed domestic requirements.

11 When we launched ESPRIT, we recognised that it had a political significance which warranted special arrangements under Euro-PES. It would seem to me sensible to examine these other programmes in the same spirit. Indeed, just as we reached an understanding on the Community's R&D budget for 1984 and 1985 in the context of reaching an agreement on ESPRIT, we should couple our willingness

JHLAWS



to move on biotechnology and on BRITE to a requirement that the Community should engage in a continuing critical examination of its R&D programmes with a view to phasing out those of lowest priority.

12 I am sending copies of this letter to the Prime Minister, to the other members of OD(E) and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a horizontal line underneath the name.

NORMAN TEBBIT



POSSIBLE MEASURES FOR ACTION IN THE COMMUNITY

A BIOTECHNOLOGY

For biotechnology, the areas identified by the United Kingdom are more selective than the approach proposed by the Commission. The UK emphasis is on items such as databanks and culture collections which it is logical to develop at the European level rather than through individual national initiatives, and on basic biotechnology research - exploring jointly the vast number of avenues of precompetitive research which characterise the development of this technology.

Estimated cost
over 5 years
(MECU)

Infrastructure measures:

Updating and improvement of databanks)	
and networks)	
)	
)	
Upgrading and developing new)	
collections of biotic materials)	
)	

7

Basic biotechnology - precompetitive research
in the following areas:

Technology of bioreactors	
Genetic Engineering	
Physiology and genetics of species important to industry and agriculture	c. 30

Technology of cells and tissues cultured in vitro
Screening methods for evaluation of toxicological effects and biological activity of molecules

Assessment of risks

Training

Long and short term, high level training for post doctorates, and researchers in industry	c. 5
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Estimated cost
over 5 years
(MECU)

Short term specialist courses

Co-ordination

A small unit to co-ordinate the Commission's activities; to maintain links with national activities to identify problems (see non R&D actions below) and to progress these within the appropriate Directorates General of the Commission. 3

Plus non-R&D actions:

- improved Community regimes for raw materials for the biotechnology industry (sugar, starch etc) -
- intellectual property rights/patenting -
- regulations -

45 MECU
over 5 yrs**

MAFF, DHSS, SERC, AFRC and MRC have been closely involved in drawing up the above priority list.

Industry Interest: the proposed work is aimed at long term development of industrial biotechnological processes and techniques. Industry involvement would be essential.

A Commission proposal for a Biotechnology Programme is under discussion in the Council of Ministers. The proposal would cost 88 MECU over 5 years. The above priorities feature in the Commission's proposals.

B BASIC INDUSTRIAL RESEARCH /BRITE

As far as basic industrial technological research is concerned, the areas identified are not much different in scope and scale from the Commission's

** This total excludes the cost of research to industrial and research institute participants who would normally bear 50% of the research costs



own proposals - the so-called BRITE programme (Basic Research in Industrial Technologies for Europe). The emphasis here is on a programme of pre-competitive research, and UK industry has already expressed strong interest and shown a willingness to participate on a 50:50 shared cost basis. This programme would bring British firms more closely into contact with European capabilities. With BRITE there is a ready made package which could be launched immediately. In many ways it is a parallel approach to ESPRIT but for the more traditional industries.

The objective would be to improve the technology base of the more conventional UK and European industries and to encourage the introduction of new technology. The following interlinked areas would be favoured by DTI:

	Approx allocation of funds over 4 years (MECU)
- Reliability, wear and deterioration	c 20
- Laser technology	c 15
- Joining techniques	c 15
- New testing methods including non-destructive testing, online testing and computer aided testing	c 15
- CAD/CAM and mathematical modelling	c 10
- Polymers, composites, other new materials and powder metallurgy	c 15
- Membrane science and technology	c 10
- Catalysis and particle technology	c 10
- New production technologies suitable for products made from flexible materials	c 30

A very detailed list of priority technical themes within the above areas has been drawn up. These reflect expressions of interest from industry and the views of DTI and bodies such as SERC and Harwell. The emphasis would be on precompetitive industrial research aimed at industrial application in



the longer term. Such a programme would complement DTI's 'Support for Innovation'. On this basis DTI would favour a programme of 130-150 MECU over 4 years spread over the 9 areas on the basis of the quality and relevance of proposals received.

A Commission proposal for Basic Research in Industrial Technologies for Europe (the BRITE programme) which covers the above themes is currently being considered by the Council of Ministers. The proposal is for a programme costing 170 MECU over 4 years. The UK has been closely involved in the development of this programme in its development in view of the proposed content and the industrial interest and involvement, both in the research and financially. The programme parallels ESPRIT in being a ready-made programme of industrial collaboration, but aimed at the introduction of new technology in the more conventional industries. From the very considerable interest that UK industry has expressed in the programme, UK organisations should benefit substantially from the programme. [Strong Parliamentary support for the programmes was expressed in a Debate in the House of commons on 27 June.]

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Secretary of State for Trade and Industry

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7 August 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
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D. Nigel

COMMUNITY EXPENDITURE ON R&D

*W. Lee
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I was on the point of commenting on Geoffrey Howe's minute to you of 18 July when I received your own reaction dated 30 July.

2 OD(E) is committed to return in September/October to the Prime Minister's request for a report on possible UK initiatives in the Community, among other things for industrial co-operation in high technology: in such a setting we must look at useful and available joint research and development work. I do not wish to anticipate my response at this stage - and I imagine that other colleagues with close interests in Community R&D will in any case have their own suggestions - but I should wish to make three points:

3 First, your minute assumes that Community expenditure for R&D can be looked at on the same footing as "equivalent domestic expenditure". As Geoffrey Howe has pointed out, however, the Community's programmes focus essentially on the pre-competitive stage of research and development. This contrasts somewhat with our own domestic programmes and we may do well to keep the distinction in mind.

4 Second, the absolute constraints of the Euro-PES baseline and attribution will inevitably colour any proposals which I and other colleagues are able to make in response to the Prime Minister's request. In securing effective Community R&D expenditure above all we need reasoned - and not simply accountancy - disciplines which will over time make it possible to eliminate the less cost-effective programmes and allow the growth of more beneficial items. To achieve this we need to identify our own priorities.



5 Third, it follows from what I said above that I do not believe the right way of approaching this problem is by exclusive regard to either financial mechanisms (whether domestic or Community) or to political pressures in Brussels. This would come close to the Commission's own unstructured approach towards building up priorities in the R&D framework programme which we have criticised so strongly to date. If we want to have "cost effective" Community expenditure then we must reach first base with a set of specific programme priorities of our own. We shall then be in an effective position to see what we can negotiate within what we regard as a "cost-acceptable" framework. Only in this way can we hope to have a rational relationship between domestic and Community programmes.

6 As you yourself point out the nature of everyone's "commitment" to Community R&D is for the moment short of financial commitment to particular figures. Our own insistence on priorities has drawn increasing support not only from the Germans but more recently, if grudgingly, from the French. Both are evidently increasingly alert to the burden of Community expenditure as present and future net contributors. All this means we have a little breathing space to formulate our position on worthwhile Community R&D.

7 If I and my colleagues can be ready to advise OD(E) of our position on priorities in connection with the Prime Minister's request in the early autumn, I hope that Treasury can meanwhile have sorted out with Departments realistic mechanisms on the adjustments required following Fontainebleau and on the problem of Community programmes not properly attributable to the responsibility of any single Department.

8 Copies of this letter go to the Prime Minister, Geoffrey Howe and our other colleagues in OD(E) and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Norman Tebbit', with a horizontal line underneath the name.

NORMAN TEBBIT

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8 AUG 1984

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