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From Sir Robin Nicholson F.Eng, FRS
Chief Scientific Adviser

W0405

The Rt Hon Sir Geoffrey Howe QC, MP
The Secretary of State for Foreign
and Commonwealth Affairs

20 May 1985

Dear Secretary of State,

EUREKA/EUROTYP

In your summing up at OD (E) on 14 May you said that you would reply to M. Dumas' letter of 17 April expressing interest in the French proposals, outlining our own ideas and suggesting the creation of a high level group.

I thought it might be useful to let you have a draft which could form the basis for your reply. It reflects your summing up and provides a little more detail about my proposal for a warrant for high technology goods. I am sending copies to other members of OD (E) but suggest that if they have any comments that they should be sent to your office.

I have also attached an outline of my ideas on the EUROTYP warrant for the further information of members of OD(E) but I do not recommend that we send this level of detail of the scheme to the French and our Community partners at this stage. The intention is to discuss it in EQO in the near future.

The draft has been written in what I hope is courteous but plain language since I think it is important to make it clear to the French at this stage that we believe that EUREKA is no doubt well meant but also well off target. In order to counter the media treatment that EUREKA is receiving, you might feel it is appropriate to disclose the basis of your reply to M. Dumas to selected members of the Press at the time that you send it.

M. Dumas' letter was copied to his colleagues in other member states of the European Community and to the Commission. You may wish to consider whether your reply should be given a similar distribution.

In addition to members of OD(E), I am copying this letter to Mr Addison (No 10) and Mr Gregson, Mr Williamson and Mr Hatfield here.

Yours sincerely,

ROBIN NICHOLSON

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DRAFT LETTER FROM THE FOREIGN AND COMMONWEALTH SECRETARY TO THE FRENCH FOREIGN MINISTER.

1. You wrote to me on 17 April setting out your proposal for a European Research Co-ordination Agency (EUREKA) which would help promote a "Europe of Technology" capable of competing on an equal footing with the United States and Japan. Since then we have had the opportunity to discuss the idea in the margins of the WEU, the Foreign Affairs Council and the Economic Summit and our officials have also had several meetings to consider details. I think it would now be useful if I let you know our preliminary reaction to the proposal and offer some suggestions on how to move forward.

2. Your analysis of the problem which Europe faces in research and development, particularly in the advanced technologies over the next decade and beyond, is timely. It has to be recognised that there is a growing technological gap between Europe on the one hand and Japan and the United States on the other and that the gap with the United States may widen further as a result of the research to be undertaken as part of President Reagan's Strategic Defence Initiative (SDI). The EUREKA proposal, in our view, addresses a matter of real concern for Europe and I would like to express appreciation to you for focussing on the problem.

3. It is important now to develop this idea in a practical and effective way which will achieve the objectives to which we all subscribe. In the view of the United Kingdom, however, the French diagnosis of the problem is incomplete. We believe that a major weakness in Europe lies in the exploitation of research

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and development to produce high technology products and services as effectively as the Americans and Japanese. We want a "Europe of Technological Products and Services" not just a "Europe of Technology". Of course you recognise this in your own letter by referring to the need for action on opening up of public procurement, and definition of European standards.

4. We have been working on some practical means to achieve this which would complement the efforts we are already making in the Community to create a more dynamic internal market. I believe that, in those technological sectors which you have identified in your EUREKA proposal or in such other sectors as we may agree, there should be made available a warrant for high technology products and services which would guarantee certain advantages including their uninhibited access throughout the Community or the participating European countries. This warrant might be called a EUROTYPE.

5. In brief the EUROTYPE warrant would be granted to a European manufacturer who registered a new product with appropriate evidence for its novelty or superiority in terms of specification and performance over existing products. The act of registration (if accepted) would constitute an invitation to other European manufacturers to discuss with the originator the possibility of participating, on a risk-sharing basis, in the R & D production or marketing of the product. These products would be guaranteed the right of treatment as a domestic product for national financial support schemes and public procurement in the Community or the participating European countries.

6. While we have found our bilateral discussion with you and other Community countries useful, and I understand these are continuing at a technical level, I also think that we have now reached the stage where it would be useful to start

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multilateral talks in which the ideas on EUREKA and EUROTYPE can be discussed and developed. I should like to suggest the establishment of a group of high level officials - I have in mind that we would be represented by Sir Robin Nicholson - which could be given the task of assessing the different elements and product recommendations. I would also suggest that the group should be asked to draw on the experience and expertise of leading European industrialists, perhaps through the formation of a small team who could act as consultants to the high level group. The high level group itself should be open to those Community (and possibly other European) countries which would be interested in participating, and, of course, to the Commission.

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EUROTYPE PRODUCT WARRANT

An outline

European manufacturers of high technology products are at a significant disadvantage compared with their American and Japanese counterparts because of the fragmented nature of the European market and the nationalism of most public procurement in Europe. It is well established that it is often only a Mark II or Mark III product which is really "right" and which achieves commanding acceptance and sales; instant cameras, hand-held calculators and videos are obvious examples. But the Mark I product serves a vital purpose of establishing the market and providing cash flow for product development. European Mark I products are not able to take advantage of the real size of the European market and too often they simply serve to stimulate market interest for Mark II Japanese and American products, supported by Mark I sales in their more dynamic domestic markets, to take over.

European progress on the internal market, standards and public procurement is real but slow. By various means, however, domestic markets for high technology goods often remain protected. Something more is needed.

The EUROTYPE product warrant is designed to meet this need. It is analogous to a patent in that it is a bargain between the innovator and the state to their mutual benefit. The manufacturer of a novel high technology product will have the option of registering it at the research and development stage with a specification, description and supporting evidence for its superiority over existing products. If the registration is accepted it will be warranted a EUROTYPE product and a brief description and specification will be circulated to other European manufacturers. They, in turn, will have the option to contact the originating manufacturer and offer, on a risk sharing basis, to participate in the research and development, production and marketing of the product. The originator will be bound to negotiate in good faith with other manufacturers but will not be compelled to accept these offers.

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In return for this disclosure and possible sharing of his product, the originator will receive the following warrant:

- (a) a EUROTYPE product is warranted as eligible for domestic financial support schemes in all Community (or participating European) countries, regardless of the Community (or participating European) country in which it is actually produced;
- (b) a EUROTYPE product is warranted as a domestic product for public procurement purposes in all Community (or participating European) countries;
- (c) the EUROTYPE product may apply to products within the areas of research and development cooperation covered by the EUREKA scheme.
- (d) a EUROTYPE product will be eligible for any new self-financing Community scheme for demonstration and pre-production orders.
- (e) a EUROTYPE product warranty will last for a fixed period of time or until superseded by a new product which shows a substantial improvement in specification or performance.

The EUROTYPE scheme would be administered by the European Patent Office in Munich, assisted by a small team of independent industrial consultants.

As with patents, there is an anti-competitive element but this is countered by the obvious existence of American and Japanese competition and by the fact that any European manufacturer can launch a competitor to a EUROTYPE but will not have the EUROTYPE advantages given above.

Compared with the original concept of EUREKA, the coordination would not be confined to research and development and would be developed organically by manufacturers themselves rather than being thrust upon them. The products would be the result of manufacturers' judgement of the market place rather than the whims of an agency's administration.

Calls for Budget

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MR WILLIAMSON

23 May 1985
CVP
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c Mr Braithwaite
Mr Renwick
Mr O'Neill - FCO

Miss Lackey - DTI

EUREKA: THE HIGH LEVEL GROUP.

1. I have read the paper circulated by Mr Braithwaite at your meeting last night and am more re-assured than I was after the verbal presentation. I think there is enough new substantive material to support both our discussions with the Germans today and a possible similar bilateral with the French next week. I have the following comments on the paper:

i. I think there is still some danger in confusing the High Level Group, which is obviously short-term, with whatever replaces the Agency, which is clearly long term. Indeed it is not clear (bottom of page 1.) that the Germans distinguish between these. Hopefully we can clarify this point today and then amend paragraph 3. and perhaps amend and amplify paragraphs 5(a) and (g).

ii. I am still worried that the French will rightly criticise our proposals as lacking urgency in dealing with the American threat. I suggest we add at the end of 5(f) "The group is encouraged to agree urgent actions as soon as possible so that these may be implemented in advance of the group report". (A similar procedure was used for the Versailles Group).

In commenting on the FCO paper I also want to confirm my agreement to the procedure you suggested for amending my draft letter for the Foreign Secretary to M. Dumas. I regret the post OD(E) veto on the mention of the warrant by the

DTI but I hope that, with the help of DTI's expertise in this area, your proposed MISC group will come up with an agreed alternative which meets the real needs of industrialists in Europe rather than the theory of the Treaty of Rome. The Foreign Secretary's account at OD(E) of his meeting with the Chairman of Philips was very illuminating on this point.

But if paragraphs 4 and 5 of my draft are simply eliminated I believe we will have failed to meet the point in Mr Pattie's letter which I think OD(E) members agreed with namely: "If we are not to be swept along we need to take an effective initiative ourselves".

I suggest that consideration be given to including paragraph 5(b) of the FCO note in the Dumas letter and, additionally, a de-warranted version of my paragraph 4. as follows:

"We are working on some practical means to achieve this which would complement the efforts we are already making in the Community to create a more dynamic internal market. I believe that, in those technological sectors which you have identified in your Eureka proposal or in such other sectors as we may agree, there is a need for new measures to ensure uninhibited access for high technology products and services throughout the Community and other participating European countries".

I am copy this letter to others who attended your meeting, to Oscar Roith (DTI), to Geoffrey Fitchew (Treasury), and to Charles Powell (No.10) and Richard Hatfield here.

SIR ROBIN NICHOLSON
Chief Scientific Adviser

23 MAY 1985

