

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
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12 June 1985

Sir Robin Nicholson F.Eng. FRS
Chief Scientific Adviser
Cabinet Office
70 Whitehall
London SW1A 2AS

Dear Sir Robin,

UNITED KINGDOM RESPONSE TO EUREKA: EUROTYPE

I have seen your letter of 6 June to Geoffrey Howe suggesting that it is now time to float your Eurotype idea more widely.

It is clearly important to get Eureka on the right track. I agree that to work towards this and avoid possible criticism for foot-dragging we will need to come up with a new measure of this kind before Milan. I am content for the idea of Eurotype now to be floated in informal discussions on the basis you suggest, ie without commitment and also subject to a number of conditions and observations.

As I understand it, the aim of Eurotype is to improve competition in Europe for the benefit of European manufacturers of high technology goods by opening up public procurement in individual countries. I can see that the strengthened collaboration requirement in your latest outline, while working against competition in a narrow sense, is likely to enhance the acceptability and therefore effectiveness of Eurotype. It should therefore stimulate collaboration between companies, encourage a measure of industrial rationalisation and in a broader sense add to competition. It should also help to carry those who in their approach to Eureka place particular emphasis on co-operation in R&D. Indeed, the Eurotype idea may be most useful in bringing others around to our way of thinking about Eureka and weaning them from more expensive and less well targeted schemes.

Eurotype does, however, contain the potential to develop in a way which would be anti-competitive. Equal treatment -

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its stated intention - is an essential feature. But it would be counter productive if it were to lead to preferential treatment or to de facto monopolies. There could also be undesirable value for money consequences. We must ensure, therefore, that Eurotype confers no more than equal treatment on the products to which it will apply. We should also consider whether safeguards on this point are needed.

As for the specification of the benefits of a Eurotype warrant to manufacturers, I am unhappy with two elements. First, I think it unwise to raise the possibility of any new Community schemes, self-financing or otherwise. We should not encourage the Commission in their aims for an innovation venture loan scheme and more R&D spending generally. I must ask you, therefore, to delete item (c) from your outline.

Second, while I understand why you propose that a Eurotype product would be eligible for national SFI-type schemes, I do wonder if this is not unrealistic. Community action on state aids is surely more promising and appropriate.

Norman Tebbit will no doubt have views, but I could certainly not agree to make more money available for SFI if it was being extended to other countries.

Finally, more thought has in my view to be given to the administrative arrangements for awarding the Eurotype warrant and we should be careful to avoid premature commitment to the European Patent Office.

I am copying this to colleagues at the recent OD(E) discussion of Eureka.

Yours sincerely,

Philip Wynn Owen

pp. NIGEL LAWSON

(Approved by the Chancellor and signed in his absence)

Econ Pol: Summits"; p719

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From the Minister of State
for Industry and Information Technology

cc

GEOFFREY PATTIE MP

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

20 June 1985

*please put on file
but return a copy
to me on 26 June
EOP,
20/6.*

Dear Geoffrey

UNITED KINGDOM RESPONSE TO EUREKA: HIGH TECHNOLOGY PRODUCT
WARRANTY SCHEME

will require request required.

On my return from the Far East, I saw Robin Nicholson's letter to you of 6 June and thought I should make one or two comments.

I am always cautious about advancing proposals on the basis that they have not been fully researched and their authors are not in any way committed to them because inevitably they tend to generate a momentum of their own. Nonetheless I am sure you will have mentioned them at Stresa in exactly the right tone and I shall be trying them out on our industrialists in the course of this week.

I recognise the advantages of being able to canvass United Kingdom proposals in the Eureka exchanges, particularly if these would help to lead discussions into market orientated action. Certainly Robin Nicholson's scheme has that flavour. Nonetheless I think it might help anticipate some of the probing questions which may be put to us if we had a critical look at some of the considerations set out in the attached note. They

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seem to me to justify Robin Nicholson's description that this is not a fully researched proposal and that we are not at this stage in any way committed to it but that this merits further consideration.

I am sending copies of this letter to other members of OD(E) and to Sir Robert Armstrong and Sir Robin Nicholson.

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A handwritten signature in black ink, appearing to read 'Geoffrey Pattie', written over a horizontal line.

GEOFFREY PATTIE

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EUROTYPE PRODUCT WARRANT: SOME ISSUES FOR FURTHER CONSIDERATION

- (i) The proposition is for a system for "awarding" a Eurotype warrant.

Seemingly the "award" would be granted at a relatively early stage in a product's development. Decisions on the suitability of an award will thus be made largely on the basis of technological considerations rather than on assessments of marketability. Of itself the award will mean moving only a little way from technology push to market pull. The critical factors will therefore rest with the obligations resting on the holder of such a warrant and the advantages which he will receive - of which more later.

- (ii) Meantime the decision to grant an award will depend on "novelty" and "superiority".

One approach would be strictly objective by developing detailed criteria and a data bank of information (patents being the nearest analogy). Do we really accept the time that this would take and the bureaucracy entailed? Alternatively trust is placed in the subjective judgement and personal knowledge of wise men - who would be arbitrators and not consultants. Are we prepared for the considerable act of faith involved by potential applicants, potential users and by governments? [Do we envisage a situation in which Frenchmen would have endorsed EMI's NMR scanner?]

- (iii) There is a price to be paid for the award of a warrant, namely the readiness to negotiate in good faith with other enterprises to forward the research, development, production and marketing of the product on a risk-sharing basis.

Would warrant holders be able to do this without broadcasting their ideas to the world at large including their actual and potential competitors? And would they want to delay exploitation while "negotiating" for partners?² What about allegations of bad faith by either side? Who would adjudicate and perhaps demand withdrawal of the warrant and therefore its benefits?



(iv) The holder of a warrant would be entitled to a number of rewards.

First, such manufacturer would be eligible for domestic innovation support schemes in all participating countries regardless of the country of production. Are we prepared to use and to justify using British taxpayers money to support eg a Franco-German scheme deemed worthy of a warrant (probably while rejecting UK applicants because funds are limited)? Would it be believed that governments treated such applications for support on all fours with domestic applicants?

How does such a concept fit in with our attitude - made explicit in the 9th round for North Sea oil licensing - of encouraging the new technologies of British based companies? The Commission may also be expected to have something to say about the accumulation of financial support from a variety of national sources.

A warrant holder would be able to insist on his product being treated as a domestic product for public procurement purposes in all participating countries. This, of course, he should be able to do under the terms of the Rome Treaty. The problem is not discrimination based on nationality but governments framing requirements in ways that domestic manufacturers find it easier to meet. We must therefore ask whether potential warrant holders will believe that the warrant will guarantee them what the Treaty has failed to achieve or accept that on occasion public sectors purchasers preferences for competing technology solutions is a matter of genuine consumer preference.

Finally it is proposed that such a product would be eligible for any new self-financing Community scheme for demonstration and pre-production orders. Are we prepared to incite the Commission to make such proposals? And do we expect manufacturers to be greatly motivated by those possibilities where such a scheme is not already in place or at least formally in prospect?