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MO 26/1

PRIME MINISTERA GOVERNMENT STRATEGY FOR INDUSTRY

A number of major developments have come together very recently in the field of advanced technology to cause me to wonder whether, as a Government, we are at present best organised to ensure that Britain attains the maximum national advantage from these developments. I know that we are making a proper response to each of these developments. But my concern is that separate responses may not be enough, and that we may need to put them together more effectively.

2. The first such development is the United States' Strategic Defence Initiative. I circulated last week a paper on British participation in the research phase of SDI which OD is due to discuss on 12th July. As you will see, I am recommending that the Government should adopt a positive and leading role in co-ordinating the British response both within Government itself and in industry to the opportunities the SDI programme offers. To this end I propose to set up in my Department a unit whose role would be to see that our national approach is an integrated



and coherent one designed to achieve from participation long-term technological gains across the widest possible front and not just short-term financial returns from individual contracts.

3. At the same time I am suggesting that we should not neglect the need to keep in touch with the response of our European partners in the SDI programme and that the Foreign and Commonwealth Secretary and I should look for opportunities for greater European collaboration in the fields of SDI-related research. The focus for this effort, especially on the industrial side, would again be the SDI Participation Office in the MOD.

4. Secondly there is Eureka. Here again we have a response in hand. The Department of Trade and Industry is doing good work in bringing notice of possible opportunities to British industry and, with the Foreign and Commonwealth Office, will be pressing the relevant governments, especially France and Germany, to make collaborative opportunities available for British firms.

5. Thirdly, there is the work I have been doing over the last couple of years to strengthen European collaboration in the defence equipment field. We are making progress, but it is bound to be slow; and if anything is to be achieved, it will need constant pressure at Ministerial level to overcome the bureaucratic and industrial obstacles. But if we do not succeed, the European defence industries and the European technology base



more generally will fall further and further behind the United States. And that will happen even without the impetus that the SDI programme will give American technology.

6. My Department is, of course, in the lead on defence equipment collaboration. We are closely in touch with the other Government departments with an interest in defence equipment collaboration, as well as with the firms concerned. But all the time in this process we are making judgements which could have significant long-term effects on some of the more advanced areas of our industrial base and we should be aware of that.

7. Fourthly, there is R&D. I have seen ACARD's comments on the 1985 Annual Review of Government Funded R&D which your Private Secretary circulated to the Cabinet on 1st July. The Council has concluded that there is at present no overall Government policy for R&D and they recommend changes in the Government machinery for managing R&D "so that Departmental programmes are more complementary and synergetic". And in papers coming to EA, Ministers will be invited to consider whether it would be advantageous to set up a Ministerial Group to review R&D programmes across Departments to assess the extent to which they promote wealth creation.

8. There is thus a recurrent theme in all these developments and the responses to them: it is that the Government needs to do more, in conjunction with industry, to identify national



objectives in the field of advanced technology, to decide in consultation with industry how best to meet those objectives and then to provide the necessary direction and co-ordination of both its own efforts and those of industry in the detailed implementation of the agreed policies. If the Government does not assume this leading role, then I fear we shall see our competitors like France who do already tackle these issues on the basis of a coherent, Government-led approach pulling away from us.

9. The separate issues all point to the need for action. My concern is that it should address the problem across the board rather than in separate compartments. We need some new machinery. I do not have preconceived ideas on the form that it should take. But I think the question needs examination - in particular, because we must be careful to preserve the essential thrust of our policies for promoting competition. We must at all costs avoid a set of independent measures, separately organised, which would together drive a coach and horses through all that we had done to promote the operation of market forces.

10. What I should like to suggest is that we might discuss the points I have raised in this minute at the meeting of OD to take my paper on participation in the SDI research programme, since all Ministers directly concerned will, I understand, be present. If there is general agreement that there is a problem here that needs examination, I propose that the Secretary of the Cabinet

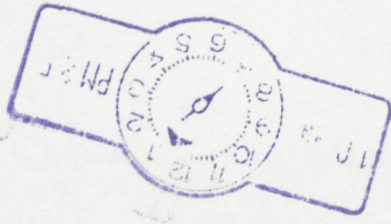
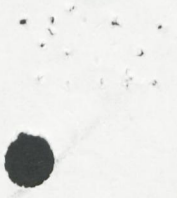


should be asked to arrange for such an examination to be carried out and for recommendations for new or strengthened machinery to be submitted to us.

11. I am sending copies of this minute to other members of OD, the Secretary of State for Education and Science and Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be "W. G. J.", written in a cursive style.

Ministry of Defence
10th July 1985





10 DOWNING STREET

From the Private Secretary

11 July, 1985.

Dear Richard,

A GOVERNMENT STRATEGY FOR INDUSTRY

The Prime Minister has noted the Defence Secretary's minute of 10 July on the need to obtain the maximum national advantage from a number of recent developments in the high technology area.

The Prime Minister has no objection to the Defence Secretary raising the matter at the end of tomorrow's OD if there is time.

I am copying this letter to the Private Secretaries to members of OD, Rob Smith (Department of Education and Science) and Richard Hatfield (Cabinet Office).

Yours sincerely,
C.D. Powell

(C.D. Powell)

Richard Mottram, Esq.,
Ministry of Defence.

For E(A) fold: *cc 100*



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MO 26/1

18th July 1985

Dear Andrew,

A GOVERNMENT STRATEGY FOR INDUSTRY

I attach a copy of a minute which my Secretary of State circulated on 10th July to colleagues in the Defence and Oversea Policy Committee (OD).

At their meeting on 12th July, OD decided that the issues addressed in Mr Heseltine's minute should be considered at the meeting of E(A) to be held on 31st July. I am therefore sending copies of this letter, and the attachment, to the Private Secretaries to other members of E(A), and to Richard Hatfield (Cabinet Office).

Yours ever,

Denis

(D BRENNAN)

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10 Downing Street