GCB/UP

CONFIDENTIAL

P 02620

PRIME MINISTER

Space

E(A)(87) 18

CONCLUSIONS

The Sub-Committee will need to decide:

a. whether it is possible to fund Option 3 (of E(A)(87)9) from within existing provisions for Departmental expenditure on R&D;

b. if so, what contributions should be made by individual Departments;

c. if not, whether and to what extent the funding gap for Option 3 should be met from the Reserve;

d. (if Option 3 is ruled out) which other Option (1 or 2) to select and how best to present that decision.

BACKGROUND

2. At E(A)'s last discussion of Space on 12 March, the Sub-Committee considered the options in Mr Channon's Memorandum E(A)(87)9. These produced the following expenditure in the PES period:

		£ million (cash)	
	1987/88	1988/89	1989/90
Present Provision	112	113	119
Option 1	116	116	119
Option 2	130	140	150
Option 3	154	177	200
Option 4 (Mr Channon's proposal)	179	217	254
Option 5 (Mr Channon's earlier proposal)	201	252	302

These sums were in addition to the current MOD spend on space of around £130 million a year, of which well over half is on Skynet.

3. Summing up the E(A) discussion, you said that there appeared to be a case for Option 3, but only if the necessary extra funding could be found from within the existing provisions for Departmental expenditure on R&D; and that it would be difficult at present for the Ministry of Defence to increase its contribution to the civil space programme. You instructed the Cabinet Office to pursue the possibilities for savings with other Departments. The outcome of the discussions I have held is set out in E(A)(87)18.

4. In considering space, you will also need to bear in mind that decisions have still be be reached on the UK contribution to the EC R&D Framework Programme (where pressure on the UK to go beyond the 4.2 becu agreed by E(A) is still very strong and the Germans seem to have caved in); and on launch aid for the Airbus (where Mr Channon has, without commitment, proposed to British Aerospace launch aid of £400m over the 5 years 1987/88 to 1991/92; British Aerospace are considering this, but are likely to hold out for more).

MAIN ISSUES

5. All Departments are opposed to transferring resources from existing R & D provision to help finance Option 3. The issue now is whether the advantages of doing so outweigh the disadvantages; and if they do not, whether and to what extent, any funding gap might be met from the Reserve.

6. The gap to be filled to fund Option 3 is as follows:

		£m (cash)	
	1987/88	**1988/89**	**1989/90**
Option 3	154	177	200
Current Provision	112	113	119
Gap	42	64	81

7. The DTI have offered £6m, £9m and £12m in the 3 Survey years provided other Departments contribute; and the Ministry of Defence are committed to funding their share (£5m, £6m and £9m) of the Columbus programme, if the project were to proceed beyond the present project definition phase. Taking these contributions into account, the gap becomes:

£m cash	1987/88	1988/89	1989/90
	31	49	60

8. To try to fill this gap, I have held detailed discussions with senior officials from the Departments of Trade and Industry, Education and Science, Energy and the Ministry of Agriculture, Fisheries and Food and the Department of Agriculture and Fisheries for Scotland. These are the Departments with significant R&D programmes. The Ministry of Defence provided written information but refused, unlike other Departments, to attend a meeting to discuss any possible defence contribution. The DTI apart, no Department has been willing to offer anything. The room for manoeuvre has also, of course, been narrowed by the announcement this week of an extra £15m (from the Reserve) for the Research Councils in 1987-88. The suggestions in E(A)(87)18, therefore, are entirely my responsibility, but based on Departments' judgements of where cuts might be made if Ministers collectively decided that they had to be in order to finance increased space expenditure. I would expect all Ministers to oppose them.

Possible Way Through

9. The crucial first question is, of course, whether you still wish to find means of financing Option 3. If not, Option 1 would still permit a civil space programme of well over £100m a year and some flexibility on sums not actually yet committed (£14m, £15m and £21m in the three years). This is not exactly negligible. But the Director General of the British National Space Centre (BNSC), Mr Gibson, does not believe it would permit a viable programme which enables us to get value for money from our contribution to the European programme; and the Chief Scientific

Adviser has endorsed this view. Mr Gibson will almost certainly resign if anything significantly less than Option 3 is agreed.

10. If, however, you still wish to finance Option 3 or something near it, I see no realistic alternative, despite Departmental opposition, to coercing departments into making <u>some</u> contribution, and finding the balance from the Reserve.

11. There is no exact science for doing this. Each proposal will be opposed by the Minister concerned on detailed grounds. <u>Two broad approaches</u>, however, might be worth considering, based on the contribution ranges in paragraph 5 of the Cabinet Office paper (which I have deliberately set to be capable of producing more than needed, in order to give scope for manipulation):

> <u>Approach A</u>: this would be to take a specific view on each R&D programme, in the light of its size and merits and seek savings of say, the following order:

£m cash	1987-88	1988-89	1989-90
Gap	31	49	60
DTI (1)	6	7.5	8
DES	-	-	-
D/Energy	5	7.5	8
MAFF	5	7	7
DAFS		2	3
MOD (2)			4
Reserve	15	25	30
	31	49	60

(1) ie <u>total</u> DTI contribution (taking into account the DTI offer in paragraph 7 above) of £11m, £16.5m and £20m.

(2) ie <u>total</u> MOD contribution, taking into account their share of Columbus (paragraph 7 above) of £5m, £6m and £13m.

Approach B: this would be the very crude device of taking half of the higher figure in the ranges in paragraph 5 of the Cabinet Office paper. This would give:

£m cash	1987-88	1988-89	1989-90
Gap	31	49	60
DTI (1)	4.5	5.5	6.5
DES	5	7.5	10
D/Energy	5	7.5	10
MAFF	5	7.5	10
DAFS	2	3	4
MOD (1)	-	-	7.5
Reserve	9.5	18	12
	31	49	60

(1) Again, these are additional to the contributions in paragraph 4.

A further variant of the crude approach would, of course, be a uniform percentage cut from each programme; we could work out such an 'equality of misery' formula if required.

12. Under Approach A I have excluded DES, in view of the existing pressures on the Research Councils and the decision earlier this week. But there is still a case for extracting something from them (eg by anticipating a decision to withdraw from CERN - see paragraph 10 of E(A)(87)18) and anything from DES would reduce the pain elsewhere.

13. If you decide in the end that it is simply not possible to find savings on the above or some similar basis to finance Option 3 or something near it, very careful thought will need to be given to the presentation of the Government's decision. The next major European meeting is on 24 April, when the leading countries (France, Germany, Italy and the UK) will meet to concert their views on the handling of the ESA Ministerial Council in June. The

BNSC - with or without Mr Gibson - will need to lay the ground for this carefully.

FUTURE ORGANISATION OF BNSC

14. You will recall that Mr Channon proposed that, subject to the decision on the level of funding, BNSC (which is in practice a loose interdepartmental 'umbrella' organisation) should be constituted as a subordinate Department. You will not want to reach any decision on this at this meeting. If there is no extra funding, there is no case for it; and the case is doubtful even if extra funding is agreed.

HANDLING

10. You may wish to ask me introduce E(A)(87)18. The Secretary of State for Trade and Industry may wish to say a few words about the space proposals themselves. Thereafter, you will wish to explore the scope for Departmental contributions to fund Option 3 on which the Secretaries of State for Trade and Industry, Education and Science, Energy and Defence, and the Minister for Agriculture, Fisheries and Food will have views. The Chief Secretary, Treasury will wish to comment on financial implications. The Secretary of State for Foreign and Commonwealth Affairs will have views about international aspects; and the Lord President of the Council and the Chancellor of the Duchy of Lancaster may wish to comment on handling and presentation.

J B UNWIN

Cabinet Office
3 April 1987