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From the Private Secretary

SIR ROBERT ARMSTRONG

SPACE

The Prime Minister was grateful for your minute of 13 March which set out your proposals on how you intend to tackle the task of discussions with Departments about expenditure provision for space.

The Prime Minister has made two comments. First, it should of course be open to her colleagues to find resources for space from areas other than R&D if they would prefer. Secondly, the Prime Minister believes that if you succeed in winning resources from Defence, there should not be a transfer affecting recorded total defence expenditure: any extra money should be spent on space from within the Defence budget.

The Prime Minister is otherwise content.

D R NORGROVE
16 March 1987

CCB&

Ref. A087/748

PRIME MINISTER

Prime Minister

Agree the approach proposed,
 Subject to my marginal comment on
 paragraph 4, and to Ministers finding their
 contributions from whichever part of their
Space programmes they choose? (Mr Fyfe
 may prefer eg to cut capital grants.)

At the meeting of E(A) on 12 March, it was concluded that, DWS 13/3
 although there was a case for pursuing Option 3 identified by
 the Director General of the British National Space Centre
 (BNSC), this would be possible only on the basis that no new
 money would be provided and other Departments concerned would be
willing to contribute the necessary extra funding from within
their present expenditure provision for research and
development. The additional amounts which would be required for
 Option 3 are some £42 million, £64 million and £81 million in
 1987-88, 1988-89, and 1989-90 respectively. You asked the
 Cabinet Office to pursue this further with the Departments
 concerned.

2. I have been considering how best to tackle this. As you
 know, the principal Departments have so far declared that they
cannot accord sufficient priority to expenditure on space to
justify displacing any expenditure on R&D already provided for
in their programmes. So far as the Ministry of Defence are
 concerned, you acknowledged the particular difficulties facing
 them; they are already committed to reducing their R&D
expenditure substantially in line with the 1985 long term
costings, and there are other pressures facing them.

3. If you agree, I should like to pursue the matter quickly as
 follows. I propose to invite the Departments mainly involved to
 consider contributing to the "gap" in 1989-90 (with the
 contributions extrapolated back to the previous two years),
 broadly on the following basis:

i. Department of Trade and Industry: As they are the principal demandeur, I think that if there is to be any prospect of persuading other Departments to contribute they must be seen to find part of the required amount themselves. I would suggest to them that they should find, say, £25 million; and, on the basis of relative priorities I would suggest that they should look for this from their £80 million grants for R&D to single companies (about £30 million of which goes to large companies) and the £30 million currently allocated to civil aerospace R&D.

ii. DES: Although they already face severe pressures on the Science Budget, and Mr Baker is likely to seek substantial additions in the forthcoming PES round, I think it would be reasonable for them to be asked to increase their current contribution to the civil space programme by some £15 million. Again on the basis of relative priorities, I would suggest as possible areas from which to find this money the SERC's £60 million contribution to the particle physics programme of CERN and the £40 million expenditure on astronomy.

iii. Department of Energy: A more concentrated and less costly nuclear energy R&D programme should be possible following the Sizewell decision. There could be reductions in their £70 million a year contribution to the fast reactor programme or the £40 million a year programme on fusion (or both). I think the Department could reasonably be asked to contribute £20-25 million in 1989-90.

iv. Agriculture Departments: Although painful cuts have been made in the recent past, the amount spent on agricultural and fisheries R&D is still too high, and is not focussed closely enough on securing the United Kingdom's comparative advantages in certain market sectors. The general case for a high level of spending on

agricultural R&D has in any case been weakened by growing food surpluses. I would look to the Agriculture Departments for some £15-20 million.

4. If Departments were willing to contribute on the above basis in 1989-90, and pro rata in the previous two years, it would provide the necessary funding for Option 3. I have no doubt that, for reasons with which you are familiar, they will put up strong objections. I should not, therefore, want to rule out the possibility of seeking a further contribution to civil space from the Ministry of Defence, at least in 1989-90.

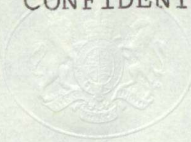
Despite the tough decision already taken on their R&D programme, it remains by far the largest single programme and, unlike some of the Departments mentioned above, they are direct beneficiaries from the civil space programme. There is also a strong feeling among other Departments that they could be asked to contribute even more. With your agreement, therefore, I would propose to sound out the possibilities here also.

But the money should still be

secured within the Defence budget. - Yes, no

5. So far as timing is concerned, there is, as you know, a further meeting at official level of the European Space Agency (ESA) on 19 March. We have, however, ascertained from the Director General of the BNSC, Mr Gibson, that, although his position is increasingly difficult, he should find it possible to steer through this meeting without undue further problems. He very much hopes, however, that it will be possible to have a firm decision in time for the meeting of senior officials on 15 April whose task is to start preparations in earnest for the ESA Council meeting in late June. I think, therefore, that we must try to reach a firm decision if possible before the Easter Recess.

6. I should be grateful for your agreement to proceed on the above basis. As you are well aware, it will not be easy to secure the amounts required, but as a first step I propose to talk to all the relevant Permanent Secretaries myself early next



week. I should then ask Mr Fairclough and Mr Unwin to follow up with each of the individual Departments concerned. I intend that this should result in a report to Ministers on the basis of which Ministers can take the necessary painful decisions.

7. This exercise will be a first demonstration to Departments that you mean business in what you have said about the need for machinery to look at priorities for resources over the whole range of Government-financed or supported research and development; and that the centre of government will be actively involved in the process.

RA

ROBERT ARMSTRONG

13 March 1987