



TO:

PRIME MINISTER

FROM:

KENNETH CLARKE

20 July 1987

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SPACE AND IT92

1 We are now considering our priorities on research and development in meetings of E(ST), and David Young and I will be contributing to discussions on papers setting out strategic options which are now being prepared. We have however inherited two troublesome issues which need to be resolved quickly to clear the decks for our wider discussions. Since the Election, David and I have been considering what response the Government should make to the BNSC Space Plan and the IT'86 report. Both issues have been outstanding since last year. Key decisions have to be taken in the next few weeks to avoid the risk of our abandoning or winding down programmes by default rather than choice. The issues will not wait until after the Parliamentary Recess, and the House will expect a statement about them.



2 On space, as you know, E(A) considered that there was a case for Option 3 of the Space Plan but colleagues were not prepared to find the necessary funds from their own budgets. After two lengthy discussions, E(A) decided that if we could not find the funds to enable Option 3 to proceed, then we should continue with the current level of funding - Option 1. E(A) invited my predecessor to explore the possibility of finding funds from industry to enable Option 3 to proceed. The major suppliers, British Aerospace and GEC, and the users BT and Cable and Wireless, have between them offered £10m a year for the first three years if the Government were to proceed with Option 3. But there is still a substantial shortfall (the figures are given in Annex A).

3 We now need to bring the matter to a conclusion and announce our decision to Parliament. The Director-General of ESA will be visiting the UK in the first week of August to begin the last round of talks before the ESA long-term plan is finalised. Unless we decide our level of participation before the recess it would be too late to have much influence on the shape of the ESA programme and our industry would almost certainly be unable to secure the most attractive work even if we were to decide to proceed with Option 3.



4 David and I do not feel that additional involvement in space should be a Government priority and we believe that the resources available to us could be used elsewhere to produce greater benefit for UK industry. If you and colleagues agree I would propose to announce that we have decided to keep to the same level of expenditure on space for the time being. This would mean that we cannot enter into any of the new ESA programmes starting this year, including the space station, Ariane 5 and Hermes since we already have commitments which need the present level of funding for the next two years. Thereafter I would need to consider further the appropriate mix of programmes.

5 I would wish to announce our decision on space this week. The announcement will cause some disappointment and may excite criticism of our support for research and new technology. I would therefore like to combine it with a positive announcement about our long expected response to the IT'86 report in the context of our general approach to R&D. This would involve announcing firm proposals to proceed with a significant programme of user led and collaborative research and development of applications of IT. The European Community's programme on information technology (ESPRIT) is an important part of our response to the IT'86 report. I also need to tell the House that ESPRIT will be extended now that the adoption of a new R&D



Framework Programme is imminent, following your proposal at the European Council. In addition I would announce the commitment of further funds from within existing baselines. I would not anticipate that David and I would need to press for any significant funds above baselines in future years for support for research and applications in this sector of industry. It will be a feature of the new programme that industry will be expected to contribute a much higher proportion of expenditure than was the case under the Alvey Programme.

6 I am enclosing a draft statement. I would be grateful for colleagues' agreement and any comment by noon on Tuesday 21 July.

7 I am copying this minute to Geoffrey Howe, (in view of the reference to EC R&D), to Members of E (A), E(ST) and to Sir Robert Armstrong and John Fairclough.

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KENNETH CLARKE



INNOVATION IN INDUSTRY: DRAFT STATEMENT

1 With permission, I will make a statement on Government support for innovation in industry.

2 Innovation is a key element for successful and competitive industry. The main responsibility for increasing effective innovation effort must rest with industry itself. Only the private sector can provide the necessary level of resources and make the judgements about market opportunities required to meet the challenge of the next decade and beyond. The Government has fostered an economic and business environment which has resulted in increased industrial competitiveness and profitability. We now look to industry to maintain the present welcome trend towards increased expenditure on innovation.

3 However, we accept that Government also has a direct role to play and public expenditure is required to stimulate research and development and the application of new technology by industry in the market place. The Government provides some £4.3bn per annum of financial support for innovation. The



Government's main task has to be to decide the most effective use of the resources it can make available from the taxpayer.

4 The Government has completed its consideration of two major high technology proposals: the British National Space Centre's Space Plan, and the Report of the IT'86 Committee.

5 The Government already provides over £100m a year for space R&D. The longer term benefits of increased expenditure on space research have to be balanced against alternative uses of the funds in support of other areas of UK industry. Having studied the options on space in the light of the space plan, we are not convinced that it would be cost effective to increase our expenditure on space above present levels. We shall be reviewing current programmes to ensure that present expenditure is being directed as effectively as possible. We believe that additional resources available to us for research and development expenditure can be better directed to other areas of greater direct benefit to the UK's industrial performance.



6 The IT86 Report proposed that the Government should allocate funds towards application projects which would support the implementation of advanced information technology, and towards collaborative research designed to support applications and to develop the most promising aspects of the Alvey Programme. The Government welcomes the broad conclusions of the IT'86 Report. I am pleased to announce that my Department is prepared to allocate £70m over the next 5 years towards such an initiative. The Science and Engineering Research Council is prepared to allocate £55m towards research projects over the same period, and is considering the scale and nature of its support for higher education institutes in applications projects.

7 This part of the initiative will be administered by a new unit, the IT92 Directorate, which will be located within my Department. I intend that it should be headed by an executive from industry and that its staff should include people from industry and the Research Councils - notably the Science and Engineering Research Council.



8 The IT'86 Committee also envisaged that the European Community's ESPRIT programme would form an important element of their proposed new programme. I am therefore glad to inform the House that agreement by the Council to the Community's 1987-91 Research and Development Framework Programme has now been reached. Major initiatives in the field of information and telecommunications will be made possible. UK firms will certainly benefit significantly from this second stage of ESPRIT which will be a £1.1 billion programme. In telecommunications the £350m RACE - Research in Advanced Communications in Europe - programme will be implemented and again UK firms will be important participants. One task for the IT92 Directorate will be to ensure that domestic and European research efforts are compatible and complementary.

9 Taken with the new EC Framework programme and the existing programmes of support for information technology by Government Departments, the IT92 programme marks a Government contribution of at least £375m to the United Kingdom's IT industry. We shall be looking to industry to continue to take the lead in these initiatives, and further to increase its own commitment. In this way we believe that we can achieve the major increase in innovation in industry that is essential to our future competitiveness.



ANNEX A

£m	1987/8	1988/9	1989/90
Current space provision	112	113	119
Additional contributions:			
DTI	6	9	12
MOD	5	6	9
Industry	10	10	10
	133	138	150
Space Plan (Option 3)	154	177	200
Shortfall	21	39	50

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