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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
The Chancellor of the Duchy of Lancaster
and Minister of Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H 0ET

21 July 1987

Dear Chancellor,

SPACE AND IT92

We have discussed your minute of yesterday to the Prime Minister on your proposed announcement on the Government response to the Space Plan and the IT86 Report.

As I told you, I have no difficulty with the general line on space. But the announcement of funding for the IT92 programme causes me severe problems both in relation to our forthcoming discussions in the 1987 Public Expenditure Survey and the substance of the proposals for a follow up programme to Alvey. You told me that you had provision in your baseline for this programme of £10 million, £14 million, £14 million in each Survey year. Our officials have subsequently discussed and, as I understand it, the programme has not been agreed between the Departments, despite it being above the DTI's delegated authority. On that basis I cannot accept that it is firmly scored within your baseline provision.

Moreover, as his recent letter to me on the Survey made clear David Young does not regard the existing baseline for innovation spending as adequate: he has put in a bid for £150 million for the DTI innovation programmes over the PES period out of a total bid for additional resources, excluding agreed additional and demand led increases, of over £500 million in the 3 Survey years. In his letter David also asked for my agreement that he should be able to have flexibility to accommodate developing priorities within his programme limits agreed in the Survey. Any agreement now to earmark part of your baseline for IT92 spending would seriously pre-empt our forthcoming bilateral discussions on DTI programmes and priorities for the Survey period.

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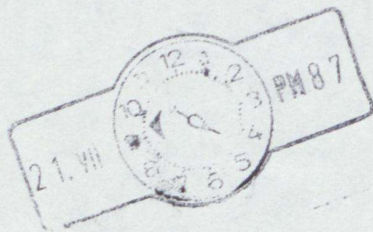
I have further reservations about the rationale, objectives and management of the proposed IT92 programme which I would want to discuss with you before any commitment were made. On rationale, it is not at all clear what is the justification for the new programme's heavy emphasis on application based research. Given the relative nearness of these applications to the market place, it is difficult to see why these developments should not be funded commercially, particularly in view of the heavy involvement in many of the programmes of major electronics companies like GEC and Plessey. And, as with the Alvey programme, there is an almost total absence of measurable objectives for IT92. I find this particularly worrying when we have so little evidence of the commercial, as opposed to the technical, success of the Alvey programmes. Finally, the management of IT92 presents a considerable challenge because of the much greater complexity of working relationships between public and private sector institutions. Given that the management of the Alvey programme gave rise to problems of effective co-ordination, I would need to be assured that there were adequate arrangements in place to manage what will be a far more complex operation.

It was for these reasons that I have resisted any announcement on the level of commitment and funding of IT92 in advance of our Survey discussions in your speech at last week's Alvey Conference. That speech served, very helpfully, to dampen down expectations about Government support for a post Alvey programme. Given the way in which your speech was reported I see no need in substance for any Parliamentary announcement on IT92 this side of the Recess. In view of the points outlined above I remain convinced that we should postpone any announcement until after our Survey discussions are concluded. I do however recognise your presentational problem. As I said, I think you could give greater emphasis to the agreement on the EC R & D Framework in which it would be possible to make some reference to both ESPRIT and RACE (on which Legislation Committee agreed last week that there should be a scrutiny debate anyway). For the reasons set out above this would need to avoid any specific commitment to domestic funding for IT92.

I am copying this letter to the Prime Minister, Geoffrey Howe, members of E(A) and E(ST) and to Sir Robert Armstrong and John Fairclough.

Yours sincerely,

Jim Butler



PP JOHN MAJOR

(Approved by the Chief Secretary
and signed in his absence).