ANNEX B

BRITISH AEROSPACE

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The Rt. Hon Kenneth Clarke, QC, MP,
Chancellor of the Duchy of Lancaster &
Minister of Trade & Industry,
Department of Trade & Industry,
1 Victoria Street,
London SW1H OET

Dear Chancellor of the Duchy of Lancaster,

UK Space Progamme

Thank you, on behalf of Sir Raymond who is abroad, for meeting with BAe on 19th January and for the opportunity to brief you on our perceptions of the way-ahead for the UK. You will recall that in essence we were advocating a 'lean' programme, which would nevertheless preserve what we regard as essential long-term science and technology goals, whilst at the same time enabling industry to seek and develop effective means of exploring the world market for communications and earth observation systems, and also permitting the UK to gain value for money from HMG's subscription to the ESA programme.

With the deadline date of 10th February for closure of the UK options on key European programmes now approaching, I thought it advisable to try and summarise what we regard as the key issues. February 10th is effectively the "drop dead" date for further participation in Ariane V and Columbus, after this date the packages of work allocated to the UK will be irrevocably redistributed amongst the European partners.

First, to leave the UK level of funding as it is means that the UK does not get fair value for its money: it is in effect, acting as a subsidy to reduce the contribution of other European countries, whilst being too little to give the UK enough flexibility to affect choice of programmes and objectives. Moreover as time passes there will be fewer programmes on which the UK can effectively spend its money because all the practical programmes will have been funded and allocated. It will be fruitless to spend the money which would otherwise be spent on ESA programmes on alternative National programmes which would only be in direct competition with European programmes. We can only conclude therefore that the UK would be forced to progressively reduce our space programmes to an ineffective level. There may be better ways of spending this money.

Second, whilst the level of funding proposed in the BNSC programme, or the lower level recently advocated in the House of Lords select committee, would be welcomed by the space community in the UK (and in Europe) we recognise that these levels are unrealistic in the light of our various discussions.

Third, it should be recognised that UK industry has made considerable financial contribution to the space programme - British Aerospace has in total spent some £45M over the last 7 years, and we are prepared to continue this when we can justify the return to our shareholders. For instance my letter to Lord Young on HOTOL and Radarsat of 7th August 1987. In addition I have started a major UK initiative for advanced materials as part of the HOTOL enabling technology programme. The first steps have already been taken to start a similar initiative for advanced software systems. Of course neither we, nor the rest of industry, can sustain such long term programmes if there is no hope of a UK space programme at a sustainable and viable level.

I would strongly advocate that very serious consideration should be given to our proposal for a 'lean' and cost-effective increase beyond the present level of funding. Our estimate for this is approximately an extra £10M in 1988, rising to £30M per year from 1990 onwards. This will enable 'UK Ltd' to establish mechanisms for returns on investment in communications and earth resources systems, continue joint Government/industry fuding of appropriate National programmes, and to play an effective part in ESA programmes to ensure that the UK receives (at least) a 'juste retour' for its funding of ESA programmes; my long experience of international collaboration leads me to believe that given reasonable room for manoeuvre 'UK Ltd' can ensure that HMG gets not only a good return on its investment, but obtains a good return on the total European investment.

In a few words: the case for space should be based on economic competitive advantage to the UK. A 'lean' programme as proposed would provide a cost-effective approach, with HMG setting down the long-term science and technology basis which industry can then exploit as the technology matures and becomes closer to the Market. This is, we believe, entirely consistant with the recent DTI white paper. To stay with the present level of funding will progressively lead to programmes which will not be viable; logic suggests it might be better to face up to complete withdrawal.

I hope this is helpful

Yours sincerely

Ian Yates.

I R Yates