

CC G. Guise.



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CONFIDENTIAL

PRIME MINISTER

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SPACE

at Holf

The Chancellor of the Duchy of Lancaster's minute of 1 February seems to me to represent a very sensible analysis of priorities in the short term, given the Government's decision not to increase existing expenditure on space. It looks a perfectly reasonable basis for the decisions to be communicated to ESA next week. However, I think there are some longer-term implications that need to be addressed.

As the Chancellor's minute indicates, by 1992/93 there will be considerable headroom within the programme, and decisions will need to be taken on the way that headroom is to be used. If the Chancellor's recommendation is accepted that expenditure on space should stay at present levels, a period of review is required to decide how the DTI's headroom for space after 1990 should best be allocated. I believe those decisions should be guided by two principles.

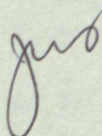
First there is the question of consistency with the DTI's new innovation policy. The priority now is to concentrate on long term technologies in collaborative ventures. The Chancellor rightly refers to space as a potential technology driver. In my view the aim should be to identify programmes which offer the best prospect of stretching the technological capabilities of the aerospace and other industries and to evaluate the different options - of which the Chancellor has said earth resources is his current preferred choice - against this objective.

Second, we need to think through the implications of these decisions for our continued membership of ESA. By 1992, our total commitment to ESA, including the part paid by SERC, will have fallen to £47m, of which £24m will be for science programmes, £8.6m for residual commitments on existing applications

programmes, and £14.3m for the general budget. The general budget payments, which are mandatory, will then represent around 30% of our total payments to ESA as opposed to around 10% now. This is essentially pure overhead and will make our continued membership of ESA progressively worse value if we do not commit to any new ESA programmes. (Aramis does not affect these figures, since the expenditure ends in 1991/92.) This does not mean that we should subscribe to ESA programmes just for the sake of doing so but, if the Chancellor's preference for earth resources is borne out in the subsequent examination of the technological case, this might point to the UK considering whether to negotiate a lower level of commitment to the Columbus polar platform (which seems likely to be a more sensible programme than ERS II), consistent with the headroom available. This decision would of course also need to take account of whatever attitude the Americans were then showing to the Columbus programme and ESA's participation in it.

In short, I think we need a strategic view which carries the Chancellor's thinking forward to embrace the sort of programmes we should expect to have by 1992/93, our involvement in ESA by that time, and also the technological position of our aerospace industry. This might also lead to conclusions on the structure and management of the BNSC. It would be helpful if the Chancellor would set a time by which he would expect to report to E(ST) colleagues on the conclusion of this long term review.

I am copying this minute to the Chancellor of the Exchequer, the Foreign Secretary, the Secretaries of State for Defence and Education and Science, the Chancellor of the Duchy and to Sir Robin Butler.



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