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HAPPY
cc 250
Dr Nicholson

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PRIME MINISTER

FUTURE OF BRITISH TECHNOLOGY GROUP

One of the points left outstanding before the Election was the future of the British Technology Group (BTG). This subject has now become more urgent because the Chairman, Sir Freddie Wood, whose early retirement has already been announced and whose health appears to be deteriorating, has asked to be replaced as soon as possible and certainly within the next month.

2 You discussed the role of the BTG with Patrick Jenkin, and I do not want to re-tread the ground covered in his submissions of 28 March and 9 May. My own starting point is our Manifesto commitment "to accelerate the transfer of technology from the University Laboratory to the market place." I have also approached this by asking whether we would want to set up a BTG if one did not exist already, rather than by trying to find a new role for it just because it does exist.

3 There is certainly no need for the NEB role which involved expensive investments and which appears to have dominated the BTG's thinking in the past. They have a portfolio of some 60 companies inherited from the National Enterprise Board (NEB) which they ought to dispose of preferably within the next 12 months. At present they lack the expertise needed for this and



should recruit someone from the City with the right qualifications to concentrate entirely on divestment under clear instructions. The receipts from such disposals should go to the Treasury.

4 At the smaller end of the scale there is also a welcome growth of venture capital companies providing finance in an area in which the NEB was involved (and to some extent the NRDC). However, at present the venture capital companies naturally tend to 'cherry pick' the more favourable opportunities and, as we recognised in our Manifesto, we have to consider whether we ought to be getting more benefit out of our R&D spend.

5 We spend about £6 billion a year in this country on R&D. More than half of this sum is funded by Government (£3.3 billion in 1981/2) and this public funding is split roughly equally between civil and military work. About £2 billion of this is actually carried out in the public sector by about 30,000 scientists: £1.5 billion of it is civil R&D and the universities account for about £800 million of this.

6 At present the nation does not get the benefit from this research that it should, because so little of it gets commercially exploited. There is a real gap between research and industry and we need action to fill it. My Department already helps to promote links between industry and higher education e.g through the Teaching Company Scheme and I expect to initiate some new



proposals following the consultative process which Patrick announced in the Budget Debate. In addition, we now have the ACARD Report on R&D links between industry and universities, which confirms the need for further action and makes some useful proposals which are being examined.

7 The removal of the first refusal right from the BTG should in itself stimulate more direct forms of technology transfer involving the researcher, industry and, where necessary, some form of private venture capital support. In an ideal world such direct contacts would no doubt be so well developed that no intermediary body such as the BTG would be required and we could scrap it. Companies would know where the good research was carried out, and researchers would be on the look-out for aspects of their work that could be profitably exploited and would seek to give British companies the first chance wherever possible. There are indeed situations where these direct contacts exist and I want to take every opportunity I can to encourage the development of such links. But it would be unrealistic to imagine that these links are just waiting for the removal of the BTG's "monopoly" rights. In fact there is evidence to the contrary. The BTG have never had preferential access to UGC funded research, and yet are still used extensively by research workers offering their inventions to them voluntarily. We simply do not as yet have many universities or individual research workers who include the commercial exploitation of their work among their objectives; within industry our companies are patchy in terms of the interest they take in university research; and



although the financial market is improving as a result of the measures we have taken on tax, etc, the number and competence of venture capital companies is still relatively weak compared with the potential opportunities available. All this is confirmed by the recent ACARD Report.

8 There is therefore a gap - at least for the time being. I believe that if we are to get more benefit out of our R&D spend we will have to help to fill this gap. I do not want to be committed to any particular specific figure of staffing and I would want the new Chairman to start - in concept - from scratch and decide how many people are required. However, the BTG has the necessary skills and knowledge and it is reasonable to start from that base rather than scrap it and have to create another body. But they will have to modify their attitude and mode of operation. In short they will have to see themselves as supporters of others (in the Universities, industry and financial institutions) rather than as principals in their own right. The main tasks I see them performing are as follows:

- to make sure they are fully aware of commercially promising ideas from research projects, that firms likely to be interested in developing and licencing them know of them too and that researchers themselves think far more in terms of commercial development
- to take up the rights to inventions when offered to them voluntarily



*difficult -
to adjust*

- to help fund further development work when ideas show promise but are insufficiently advanced to be taken up by industry for commercial exploitation (the NRDC has been almost the only source of finance in the pre-development gap between Research Council and industrial funding)

*also
difficult -
in practice*

- to draw together the exploitation of parallel research projects being carried out in a number of different institutions (this should be an important service for venture capital companies which would not otherwise know about all the relevant research work)

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- to provide a patent and licensing service to universities and others who would prefer to work in partnership with the BTG rather than hand over rights to them

*But see
Policy Unit's
paper on
MOD*

- to work more closely with the MOD and defence establishments in encouraging the spin-off to civil application of defence R&D

- to help industrial companies to establish relationships with university researchers and so facilitate the take up of industrial property under licence, giving preference to exploitation by UK companies

- to help find sources of venture capital and to help with the establishment of start-up companies by the researcher.



9 I would expect the BTG to act in a business-like way in performing these tasks but I think it is important that their success should be judged by the amount and quality of technology transfer in which they are engaged and the increase of direct industry-university relationships which they facilitate rather than by any set financial return. I envisage monitoring their progress on this by reference to the number of cases offered to them, the speed with which they deal with them and the proportion that lead to successful licences or new companies. If they are really successful, they should work themselves out of a job as direct contacts take over or, conceivably, with private sector money being attracted into them. Equally if they do not yield a measurable increase or improvement in technology transfer then we should abolish them.

how is this to be measured?

MCS

will this suffice?

10 As far as their finance is concerned, they are unlikely to be a major burden on state funding, certainly in relation to the expenditure being incurred on the R&D itself. They can expect to receive an income from royalties etc and judging from their past experience I see no reason why they should not be self funding over say 5 years. The BTG have, after all, been in profit on the NRDC side of the business for some years.

- from one man's
some.

11 Their expenditure would be primarily on administration and patenting costs. As I have said I would not want to commit myself on the size of staff required to carry out these tasks.

we must specify the
nos.



I would propose to appoint the new Chairman with the objectives above and ask him to report to me within three months as to the size of organisation required to meet these objectives. The level of operation that I envisage will be on a considerably smaller scale than at present. As far as providing finance for others may be concerned, this would be restricted to funding early development work and in exceptional cases helping with the financing of start-up companies set up by researchers to exploit their own ideas. In order to finance this expenditure I would want to leave open the possibility of the BTG continuing to receive public funds, since I regard this service as being in the national interest. Patrick Jenkin had agreed this with Leon Brittan. I do not believe any topping up funds would be large. The exact amounts would need to be considered when reviewing the BTG's annual Corporate Plan, which it would be the first duty of a new Chairman to formulate.

Chairmanship

12 If you can agree to my approach we would need a Chairman who would recognise the strength and experience available in the BTG but would turn it round to these new objectives and attitudes. Patrick Jenkin had suggested Dennis Stevenson, who is a young (37) existing Board Member and who impressed Patrick with his grasp of the new requirements when Patrick discussed his



proposals with the Board. I attach his CV and recommend him to you.

13 Finally, if you agree, I would make a statement by written PQ as in the attached draft. This mentions the desirability of early legislation and although the prospects do not look too promising, despite the length of the session, I am proposing to raise the question of legislation with the business managers, in case a convenient slot should arise.

14 I am copying this minute to Peter Rees, Keith Joseph, Willie Whitelaw as Chairman of QL and Sir Robert Armstrong.

C P

4 July 1983

Department of Trade & Industry

Henry Dennistoun Stevenson CBE

Born 19 July 1945 in Edinburgh; married, 3 sons.

Educated at Edinburgh Academy, Trinity College and King's College, Cambridge, graduating with an MA in classics and economics.

Career

- 1964-70 Junior Partner in a Market Research Consultancy.
- 1970- Founded his own business comprising:
(a) 2 Market and Management Consultancy companies
(b) a wool company. - *which one?*
- 1971-80 Chairman of the Peterlee and Aycliffe New Town Development Corporations with major responsibility for building the new towns and attracting industry to them.
- 1971 Chairman of a government committee which produced a report "The Role of Young People and Voluntary Organisations in the Environment".
- 1972-76 Chairman of a government committee set up to produce an Advisory Code for Pop Festivals.
- 1973 Appointed Chairman of the National Association of Youth Clubs.

- 1977 Appointed Director of National Building Agency.
- 1977-78 Council Chairman and member of the Youth Involvement Committee of the Queen's Silver Jubilee Trusts.
- 1978 Member of the Council of the Royal Silver Jubilee Trusts.
- 1979-83 Adviser on Agricultural Marketing to the Minister of Agriculture.

Stevenson continues to run his own business, Specialist Research Unit, which is now effectively a holding company for a diversified range of activities ranging from market research consultancy to furniture manufacture and investment in high technology ventures.



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THE FUTURE OF THE BTG: DRAFT STATEMENT

The British Technology Group was formed in September 1981 by bringing together administratively the National Enterprise Board and the National Research Development Corporation and we have been reviewing its future.

21 We recognise that we are not obtaining as much benefit as we ought from the results of the excellent research work in the country and we have concluded that the BTG's primary task should be to help to promote the transfer of new technology, particularly from our Universities and Polytechnics, into industrial and commercial application. I believe that the combined technical, commercial and professional skills brought together through merging the NEB and NRDC equip the BTG for this important role. I see this function as helping researchers to identify and develop promising ideas and assisting their exploitation, in particular through patenting, licensing or occasionally participating in the establishment of a new company. We also want the BTG to encourage more direct links between industry and Universities by engaging in joint ventures and assisting the development of new ideas to the stage where private sector finance can take over. This will help to encourage the growth of venture capital companies, which are already beginning to become involved in technology transfer. The task of the BTG will be to act in support and partnership with research



workers, potential industrial partners and the venture capital and other sources of finance. The primary measure of its success will be the growth in technology transfer and the links between industry and research workers which it facilitates.

3 In this new situation it will no longer be appropriate for the BTG to retain its present rights of first refusal and the obligations which go with this. Together with my Rt Hon Friend the Secretary of State for Education and Science I shall be consulting those concerned about new arrangements to govern the exploitation of publicly funded research, particularly Research Council funded research in Universities.

4 Sir Frederick Wood has already announced his intention to retire early as Chairman of the BTG. I should like to pay tribute to the considerable efforts which he and his Board have made in carrying out the reorganisation of the BTG so far. In order to take the organisation forward on its new role I am appointing [] to serve as Chairman from 1 August, 1983.

5 The task of returning the inherited investments to private ownership will continue. The present Board has done well in disposing of some £140 million of its holdings since 1979. We will want to ensure that the activity is pressed ahead without distracting attention from the primary role and I am therefore asking the new Chairman to consider ways of handling this activity separately from the rest of the organisation's activities.



6 The BTG has also inherited the NEB's regional investment role in the English Assisted Areas. This task will continue for the time being and I shall make a decision about the BTG's continuing involvement in the light of our review of regional policy generally.

7 The BTG will be permitted to retain all income arising from its technology transfer activities and to determine the terms on which it provides its services and assistance. Its financial objective will be to become self-financing. It will require a proper capital structure on which to base its operations. I shall want to consider this with the new Chairman when the BTG has prepared a new Corporate Plan.

8 The BTG will also require a firm legal footing and I intend to introduce appropriate legislation as soon as the Parliamentary timetable will permit.

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10 DOWNING STREET

From the Private Secretary

11 July 1983

Future of the British Technology Group (BTG)

The Prime Minister was grateful for your Secretary of State's minute of 4 July about the future of the BTG.

The Prime Minister's general reaction was that these proposals are far too vague. The Prime Minister believes that the BTG would have great difficulty in judging what were in fact the ideas which "showed promise but were insufficiently advanced to be taken up by industry for commercial exploitation", and which deserved in consequence to be funded by the BTG. She also thinks that it would be difficult in practice to draw together exploitation of parallel research projects being carried out at a number of different institutions; has doubts about the BTG providing a patent licensing service to universities and others who would prefer to work in partnership with the BTG rather than hand over rights to them; and is not attracted to the proposal that BTG's success should be judged by the amount and quality of the technology transfer in which they are engaged rather than by any set financial return; and she doubts the realism of the estimate that BTG might be self-funding within five years. Finally, the Prime Minister dislikes the idea of the BTG engaging in joint ventures, funding early development work and financing in exceptional cases start-up companies; and she thinks it would be necessary to set a ceiling on their staff numbers from the outset.

The Prime Minister has asked for a meeting to discuss these issues and we will be in touch with you soon to arrange this.

M. C. SCHOLAR

Jonathan Spencer Esq
Department of Trade and Industry

JCE VC

ke JCE-CEO, that
Dr. N. R. ...
CRS



Prime Minister

(2)

MES 19/7

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Cecil Parkinson MP
 Secretary of State for Trade & Industry
 Ashdown House
 123 Victoria Street
 LONDON
 SW1

18 July 1983

FUTURE OF THE BRITISH TECHNOLOGY GROUP

Thank you for sending me a copy of your minute of 4 July to the Prime Minister.

Perhaps I could offer some thoughts on the finance and management of the BTG which will be relevant if it is decided that it should continue.

I agree that the growth of private venture capital organisations has greatly reduced whatever need there may have been for the NEB-style investment function, and that the emphasis should henceforth be on what you call "technology transfer", that is, helping to get inventions carried through into industry. I should welcome the monitoring you propose - something that has been markedly absent in this field. We should need to keep under review the case for maintaining the organisation in the light of its results.

I agree that the BTG should dispose of its inherited investments as quickly as possible and surrender the proceeds to the Treasury: and that if it continues it should thereafter be basically self-funding. That would probably be a better discipline than the alternative, which our officials also considered, of requiring it to surrender all its current receipts and providing it with an annual grant-in-aid to cover administrative expenses and patenting costs. But self-funding should not mean exemption from all controls on staff numbers and remuneration, which I believe should still be handled very much as for a grant-aided body.

If the Group required a small subsidy from the Department's votes it would of course have to be found from within existing resources: I would suggest that it should be a charge on your Science and Technology Budget. Subject to that we could discuss the actual requirement, if any, in the course of the Survey. Likewise if it were to generate a surplus we might want it to pay a special dividend from time to time to the Exchequer. There are some details of the financial regime which would still need to be worked out by our

officials, and for the moment it might be best to omit paragraph 7 of your proposed statement.

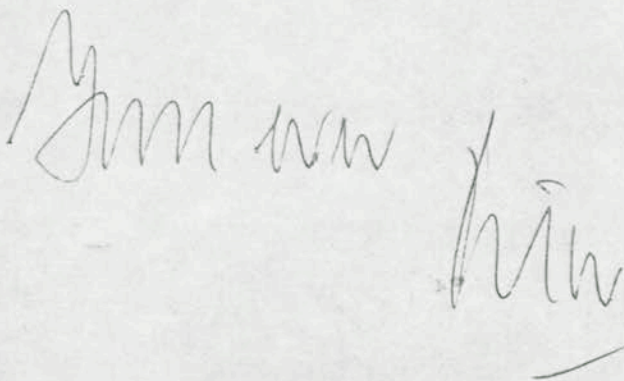
We in the Treasury know little of the man you propose to appoint to succeed Sir Freddie Wood. But looking at his CV, I am sure that it would be important, if he were appointed, that Mr Stevenson should be supported by a Deputy or Chief Executive with a strong financial background. The organisation needs better financial management. The opportunity should also be taken to make some changes in the senior permanent staff.

We shall need, as you say, to look at the BTG's regional role in the light of the second report from the interdepartmental Review of Regional Economic Policy, which has just been submitted. On the face of it a regional role would not seem to fit very easily with the main responsibilities which you have identified for the Group. But I am conscious that the BTG may be able to do things in the regions for which you would otherwise be under pressure to provide additional civil servants.

I agree that if it is to continue early legislation to regularise the position of the BTG is important. If a place can be found in the 1983-84 programme for an "Industrial Development (Miscellaneous Provisions) Bill" it might perhaps be possible to include in it a clause giving the BTG a legal existence, and allowing us to unify its accounts?

One final thought. Under its new terms of reference the BTG would not, after the first year, be primarily a holding company as the name "British Technology Group" suggests. Would not "British Technology Services" be more appropriate? This would serve to emphasise its proper role.

I am sending copies of this letter to the Prime Minister, Keith Joseph, Willie Whitelaw and Sir Robert Armstrong.



PETER REES

INDUSTRIAL POWER
BTG Pt2

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MAY 1983

29 JUL 1983



DEPARTMENT OF EDUCATION AND SCIENCE

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FROM THE SECRETARY OF STATE

The Rt Hon Cecil Parkinson MP
Secretary of State for Trade and Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

12 July 1983

Jan Cent.

FUTURE OF BTG

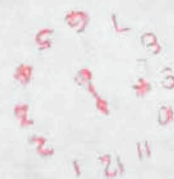
You copied to me your minute of 4 July to the Prime Minister on this subject, and the proposed draft statement.

I welcome the statement and in particular what you propose to say about consultation on the new arrangements to govern exploitation of Research Council funded research. I gather that officials here have suggested a small drafting change, to reflect this Department's lead role in these joint consultations with the Councils and the various HE bodies, which yours find acceptable. Subject to that, I am content.

Copies of this letter go to recipients of yours.

Jan Cent.
Kerr.

IND POL: BTG: P12



1 JUL 1983