CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street on Tuesday, 11 July, 1972,
at 11 a.m.

Present:

The Right Hon. EDWARD HEATH, M.P., Prime Minister
The Right Hon. REGINALD MAULDING, M.P., Secretary of State for the Home Department
The Right Hon. LORD HAILESHAM OF ST. MARYLEBONE, Lord Chancellor
The Right Hon. WILLIAM WHITELAW, M.P., Secretary of State for Northern Ireland
The Right Hon. ROBERT CARR, M.P., Lord President of the Council
The Right Hon. GEOFFREY RIPPO, Q.C., M.P., Chancellor of the Duchy of Lancaster
The Right Hon. GORDON CAMPBELL, M.P., Secretary of State for Scotland
The Right Hon. PETER WALKER, M.P., Secretary of State for the Environment
The Right Hon. James Prior, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. MAURICE MACMILLAN, M.P., Secretary of State for Employment
The Right Hon. FRANCIS PYM, M.P., Parliamentary Secretary, Treasury

Also present:

The Right Hon. SIR ALEC DOUGLAS-D M, M.P., Secretary of State for Foreign and Commonwealth Affairs
The Right Hon. ANTHONY BARBER, M.P., Chancellor of the Exchequer
The Right Hon. LORD CARRINGTON, M.P., Secretary of State for Defence
The Right Hon. SIR KEITH JOSEPH, M.P., Secretary of State for Social Services
The Right Hon. MARGARET THATCHER, M.P., Secretary of State for Education and Science
The Right Hon. THE EARL JELLICCE, Lord Privy Seal
The Right Hon. PETER THOMAS, Q.C., M.P., Secretary of State for Wales
The Right Hon. JOHN DAVIES, M.P., Secretary of State for Trade and Industry
SECRET

Secretariat:
The Right Hon. Sir Burke Trend
Mr. J. Anson
Mr. H. F. Ellis-Rees

Subject
Reorganisation of the Nuclear Industry
The Cabinet considered a memorandum by the Secretary of State for Trade and Industry (CP (72) 69) about the reorganisation of the nuclear industry. They also had before them a Note by the Secretary of State for Trade and Industry (CP (72) 73), to which was annexed a report on the same subject by an interdepartmental group of officials and a note summarising the main views which had been expressed by industry and by other interested bodies.

The Secretary of State for Trade and Industry said that, although the current examination of energy policy had not yet been completed, it already indicated clearly the need to develop the use of nuclear power to the maximum extent. While the United Kingdom had led the world in the introduction of nuclear power in the 1950s and our scientific and technological achievements in this field were still of a high order, our nuclear construction projects had met severe technical problems and we had been relatively unsuccessful in export markets. Some of the difficulties must be attributed to the present structure of the industry, as a result of which nuclear reactors were developed by a statutory body, the Atomic Energy Authority (AEA), but were subsequently designed and constructed for industrial use by private enterprise in the form of two consortia, whose members tended to be influenced more by their respective commercial interests than by the need to create a strong competitive position for the British nuclear industry as a whole. The two consortia were inherently unwieldy in form and hesitant in decision; and they were competing against each other in a market which was too small to maintain more than one. Moreover, the fabrication of nuclear fuel had also been transferred from the AEA to a wholly owned subsidiary company, British Nuclear Fuels Limited (BNFL).

There were, broadly, two ways in which the industry might be reorganised. One, following the course adopted in France, would add a capability for design and construction to the existing technological capability of the AEA. But French experience suggested that this form of organisation was unsatisfactory in several respects. The alternative, modelled on the practice in the United States and Germany, would build the new organisation on the foundation of a commercial company which would inject strong and effective management into the structure. The only British company which at present appeared able to provide the necessary resources and managerial ability for this purpose was the General Electric Company (GEC). The Ministerial Committee on Economic Strategy had concluded that, on balance, the advantages of a commercially-oriented organisation outweighed the risks of entrusting a further vital industry to the control of GEC, provided that this did not jeopardise our technological pre-eminence in the field of nuclear energy. The Committee had therefore agreed, subject to endorsement by the Cabinet, that we should seek to establish a new form of organisation in which the existing consortia would be replaced by a single strong company which would be under effective and unified management provided by GEC as a majority shareholder and would be encouraged to forge close links with corresponding enterprises in Europe. Under this proposal there would also be a
reallocation of responsibility between the industry, the AEA and the Government, whereby the new company would have the responsibility for initiating proposals for the development of reactors and their fuel and a Nuclear Power Board would be created to improve co-ordination between the bodies concerned and to provide concerted advice to the Government on those major issues which would need to be kept under Government control. Some link would be needed between the new company and BNFL, probably in the form of a minority shareholding for the latter. Adequate safeguards would be required to secure proper control of the public money which would still have to be provided to support nuclear research and development and to ensure that the Government was able to determine the nuclear systems to be adopted. It would also be necessary to arrange that GEC and the other shareholders in the new company should not be given any preferential position in the placing of its contracts.

In discussion considerable concern was expressed about the extent to which GEC was already gaining control in a number of essential industries involving advanced technology. The present proposal would create a commercial monopoly involving an additional industry of this kind. This might be avoided if the industry could continue to be organised on the basis of two consortia or the monopoly took the form of a public enterprise drawing on the experience of private companies with expertise in this field. Our nuclear strength was based largely on our research capability, which was centred in the AEA; and we still had a significant technical lead, notably in the development of the fast breeder reactor. It might yet be possible to eliminate the faults of the present generation of advanced gas-cooled reactors; and the British-developed steam generating heavy water reactor might still prove preferable, for reasons of safety, to the American-developed light water reactor. If the present proposals were implemented, however, there was a risk that GEC, which had not had great experience of nuclear development, would prefer to draw on the technology of other countries and to manufacture light water reactors under licence, thus weakening the British industrial base. A proposal to place the industry in the hands of a single private company, while much of the research and development was still subsidised from public funds, might also be open to the criticism that it would confer an unaccustomed benefit on the shareholders concerned, including individual Ministers, who declared their interest in this respect during the discussion, and others among the Government’s supporters. The result might be to provoke a demand that the industry should be nationalised.

On the other hand, there were only two major companies in this field even in the United States; and the British economy, by analogy, could not accommodate more than one industrial organisation of this kind. GEC should also be better able than a public corporation to form effective links with the corresponding European industries. The Government should be able to retain control of the choice of reactor systems by means of their financial support for research and development. It might be desirable, however, to supplement the managerial capacity of GEC in the new organisation by recruiting individuals with particular experience in nuclear matters and mobilising the expertise of other companies through minority shareholdings.
In further discussion it was suggested that the full benefit would not be obtained from a commercially-oriented organisation if it was constrained by Government instructions on the choice of reactor systems and by the intervention of the proposed Nuclear Power Board. The proposal under consideration might therefore prove to be an unsatisfactory compromise between letting the new company operate in a fully commercial manner and adopting a solution based on some form of public ownership. But it would in any case be necessary to impose some control on the large sums of public money which would continue to be needed to support research and development; and this would be provided by the Nuclear Power Board, which would also ensure co-ordination of the various interested bodies, particularly the electricity generating Boards, whose unsatisfactory ordering policy had been one of the principal reasons for our relative lack of success in our domestic nuclear reactor programme.

_The Prime Minister_, summing up the discussion, said that the Ministerial Committee on Economic Strategy would now need to consider the matter further in the light of the views which had been expressed by the Cabinet. The Committee should also give thought to the choice of nuclear reactor systems, the action to be taken to meet the requirements of the electricity generating Boards in the short term and the timing and content of any necessary public statement.

The Cabinet—

Took note, with approval, of the summing up of their discussion by the Prime Minister.

_Cabinet Office,_

11 _July, 1972._