1. I was invited by the Cabinet to initiate negotiations with the General Electric Company (GEC) and the other interests concerned to set up a single private sector nuclear design and construction (d/c) company led by GEC.

2. In addition to GEC I have talked with the Electricity Council, the Central Electricity Generating Board (CEGB), the United Kingdom Atomic Energy Authority (AEA), the two existing nuclear d/c consortia and Hawker Siddeley (Sir Arnold Hall) and British Insulated Callendar Cables (BICC) (Lord McFadzean).

3. I outlined to them the alternatives of a GEC majority shareholding and a GEC minority shareholding coupled with a management agreement which would give GEC full managerial authority. I explained that under either alternative the company would operate within the Government's nuclear strategy, as advised by the Nuclear Power Advisory Board, and that the Government would have reserved rights to safeguard in particular open purchasing and international links. I also explained that we wish to see participation by other private sector firms in the nuclear business.

4. The Electricity Council, the CEGB and the AEA confirmed their view that GEC is the only company at present capable of leading the new company. The electricity authorities want the maximum commitment of GEC's resources. The AEA would prefer a GEC minority share which they believe would be more acceptable presentationally to the rest of the industry. Most of the other industrial interests are, as expected, uneasy about control by a single powerful company, but they accept the need for rationalisation of the industry into a single strong company and that the present consortium system must go. In general if the decision is to give GEC management control they see no advantage from their standpoint in this being achieved by a minority share supported by a management agreement (a concept they dislike); they prefer a straight majority GEC holding.
5. Other firms' main concern relates to the purchasing arrangements. They doubt whether an open purchasing policy can be made to work effectively. They recognise however that this risk is an inescapable consequence of basing the new company on a strong, unified organisation whether it be GEC or another company such as BICC. Moreover the risk can be mitigated. In addition to Government's reserved rights and related monitoring arrangements on purchasing policy there will be -

a. The opportunity for other firms to be directly involved in the company.

b. The CEGB's intention to move away from the turnkey approach and to place separate and direct orders for turbogenerators and associated plant. This would further protect firms such as Reyrolle Parsons, Hawker Siddeley and BICC.

c. The CEGB's and other generating boards' ability to nominate subcontractors for elements of the nuclear steam supply system as well.

d. In the export field GEC have said that they will be prepared to work in association with eg Reyrolle Parsons in tendering for complete power stations.

6. My negotiations with GEC have established -

a. Their readiness to take 100 per cent ownership which they themselves, however, regard as politically and industrially unacceptable.

b. Their unwillingness to take a majority interest if other firms are to have a minority share (they fear this could allow obstruction of the management and friction).

c. Their wish to have a Government shareholding at least as large as the shareholding of any other firm.

7. I have accordingly been negotiating with GEC on the basis that GFC should hold 50 per cent and Government a minimum of 10 per cent and a maximum of 20 per cent with reserved rights. I suggest that we proceed on the basis of 15 per cent. Other firms would be offered the balance subject to certain conditions including that their shares should be held in a group which might be chaired by someone like Lord McFadzean. The proposed structure is outlined at Annex 1. There would be no management agreement as such but GEC would supervise the subsidiary operating company and be paid for services provided. GEC agree with me that the board should include leading people from other firms in the nuclear and electrical business including Lord McFadzean and Mr Woodeson (Clarke Chapman/John Thompson Limited).
GUARANTEES

8. I propose that all shareholders should initially be asked to participate in joint and several guarantees. Some of them may be unwilling to accept the substantial risks involved, having regard to their small stake and say in the management, and we may have to reconsider. GEC are concerned that some minority shareholders would be unable to meet their guarantees if called and are taking the line that they cannot be involved beyond their shareholding since the minority industrial shareholdings are at Government's specific request. On the other hand, while Government should in my view be prepared to carry some of the cost of default, it may be reasonable for GEC to bear a proportion since they have complete management responsibility. This will need further negotiation when we know the composition and size of the shareholding of the minority interests, but my colleagues should know that the Government may have to underwrite guarantees beyond the size of our shareholding.

9. Discussions with GEC are still continuing and I will report orally on further developments. However I believe that we now have the basis of a good solution meeting the requirement for a unified and strong management, Government's needs on reserved rights and allowing participation by other interests. If my colleagues agree, I would aim to make a statement to Parliament in the week beginning 19 March outlining the basis on which the company is to be set up.

NUCLEAR POWER ADVISORY BOARD

10. CP(73) 15 sought approval to establishing the Nuclear Power Advisory Board. For convenience I am attaching again at Annex II the note on terms of reference and membership.

RECOMMENDATION

11. I seek agreement to:

i. Complete negotiations with GEC and the other interests on the basis set out in paragraph 7.

ii. Announce in the week beginning 19 March the basis on which the new company is to be set up.

iii. Establish the Nuclear Power Advisory Board on the lines set out in Annex II.

PW

Department of Trade and Industry

16 March 1973
OUTLINE STRUCTURE OF THE NEW DESIGN AND CONSTRUCTION COMPANY

Shareholding

1. Three groups:
   a) The Government, through the AEA 15% (approx)
   b) GEC 50%
   c) A grouping of other private sector interests - BNH * 35% (approx)

Shareholders' Rights and Obligations

2. A shareholders' agreement between the AEA (for the Government), GEC, and the other interests will provide, inter alia, for the following:
   (i) The AEA's shares to carry rights, reserved to Government, to control:
      a) the purchasing policy of the company, which will be open to shareholders, as such, would have no claims to contracts.
      b) formation of international links.
      c) issues relating to R and D affecting the AEA's statutory position.
      d) any material change in the company's activities.
      e) any alteration of share capital or rights of shareholders.
      (The AEA would only operate these rights by agreement with Government)
   (ii) Liability to give guarantees to be a condition of shareholding.
   (iii) The Chairman and all main Board members to be appointed by agreement between Government and GEC. (There would be no restriction on number of directors but the Board would be kept fairly small.)
   (iv) Share transfers. BNH shares to be transferable to other existing BNH shareholders without Government or GEC approval so long as no one participant thereby obtains a shareholding which * the grouping might be called British Nuclear Holdings - BNH.
exceeds that of the Government. Any reduction in BNH's proportion of the company's shares has to have such approval and Government and GEC would have equal rights in the purchase or disposal of shares. Government will have first option on any shares which GEC decide to dispose of as will GEC in the event of sales of Government shares.

(v) The company to supply the Government with regular information on operation of reserved rights and its financial affairs; this information to meet the needs of public accountability.

(vi) In all other respects the rights of shareholders to be equal.

Share capital

3. The company's capital will be £10m, all called up.

Operations

4. The company will have a wholly-owned operating subsidiary, provided in the shareholders' agreement, the Board of which will have as Chairman the Chairman of the main Board and as members the executives of the company. Appointment of directors and the Managing Director of the operating company will be made by the Chairman with main Board approval. In the event of equality of votes on such appointments he will have a casting vote.

5. The managing director and vice-chairman of the operating company will attend main Board meetings and other directors will attend when required. None of them will be main Board members.

6. GEC will act in a supervisory capacity in respect of the operating subsidiary company and will negotiate the fees for their services with the main Board. The supervisory arrangement will be subject to approval and review by the main Board.

16 March 1973
NUCLEAR POWER ADVISORY BOARD

Introduction

1. On the advice of an Inter-Departmental Official Committee, we decided last summer (CX(72)40th) that a Nuclear Power Board should be set up with the responsibility of providing concerted advice to the Secretary of State for Trade and Industry on strategy for the use of nuclear power. This followed from our judgement that the existing machinery for advice and consultation available to the Department of Trade and Industry did not seem adequate to ensure that Government decisions were based on full consultation with the various industrial interests and, in particular, that the consumer interest of the generating boards was taken into account at all stages of the development of new nuclear systems.

2. The Government's intention to set up a Board to this end was announced in the statement on the future of the nuclear industry on 8 August 1972.

3. The rest of this note sets out briefly my present proposals on establishing the Board.

Name

4. The Board is to be a purely advisory body which is not to be backed by legislation. It will not have executive functions. The Nuclear Power Advisory Board (NPAB) is the most suitable title for it.
Terms of reference

I propose for the formal terms of reference:

"To provide the Secretary of State for Trade and Industry with continuing advice on all strategic aspects of civil nuclear energy policy."

(On matters of safety of civil installations, I will continue to be advised and the NWRA will in future be advised by the Chief Inspector of Nuclear Installations and the Nuclear Safety Advisory Committee).

Within these general terms of reference I envisage the following subjects as coming within the scope of the Board. This is not necessarily a firm list. The choice of subject will depend on developments and on the Board itself:

i the choice of reactor systems to be developed in the UK, taking domestic, international and overseas trade considerations into account;

ii specific programmes of development work which are believed to have commercial potential (including prototype and design studies) and the allocation of this work, e.g. between the new company and the AEA;

iii the allocation of Government funds for R and D;

iv the ordering of nuclear power stations;

v possible ways of developing international collaboration;

vi the position of specialist component manufacturers;

vii the underlying nuclear research programme;

viii major system developments of longer term application e.g. fusion.
6 The KPA3 will also be able to initiate its own studies and make recommendations.

7 I will appoint its Chairman and members, and its Secretariat will be provided by my Department.

Chairman

8 The choice is between a DTI Minister or senior official and an independent Chairman. On balance I regard an independent Chairman with relevant industrial experience as preferable. The industry seems to expect it and his position would not be complicated, as would a DTI Chairman's, by the individual statutory relationships between the Department and some of the proposed members. He would be in a better position to get the members to give clear and committed views and to produce concerted and firm (if not always unanimous) advice even though the members' individual interests could diverge.

Membership

9 The membership should be representative of all the main interests in the nuclear field. At the same time the KPA3 will perform better if its formal membership is small. The following outside membership is proposed:

- The new d/c company - (one member)
- The Electricity Supply industry from the Electricity Council, the CEGB and the SSEB - (one member each)
- The AEA - (one member)
- BNL, the fuel company - (one member)
- The nuclear power component industry - (one member)

I am looking further to see if the representation of the electricity industry can be reduced to two.
10. As regards Government Departments, it is proposed that there should be a member from my Department who would consult the other Departments involved and represent the Government interest on the Board. Clear machinery would be established for such consultation. I do not consider we can have more than one voice of Government on the Board.

11. Members would be expected, so far as is possible, to participate with full commitment on behalf of the bodies they represent.

Confidentiality of reports

12. Since the KPA(JVs role will be a continuing one, unlike many external Committees, it will need to have a close and regular relationship with the DTI. The intention is not normally to publish its advice. It may be difficult to persuade the Select Committee on Science and Technology to accept this but we do not believe it would be suitable to make any general promise to make public any advice, recommendations or reports of a body whose members will be representative of the industrial interests and whose advice is to be given on a continuing basis and is bound to be based on commercially confidential information. It would prejudice the KPA(JVs work if its members did not feel protected in this respect. The Select Committee, of course, would be at liberty to examine members if they wished.

8 February 1973