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1. Mr Nodder
   Dr Harris
   } separate copies - if you agree.

2. Mr Knight

BLOOD PRODUCTS LABOTATORY: POSSIBLE TAKEOVER BY BEECHAM

1. I attach a submission, which has been prepared after wide consultation in the Department. I am afraid it is long and complex - a state of affairs for which I take full responsibility. But the issue is a complex one. Moreover it is of great importance, both to the health of the Blood Transfusion Service as a whole and to the policy of maximum use of the private sector. This minute attempts to identify and balance the key factors. Others may wish to comment or dissent.

2. I should point out that the submission directs itself to the issue of "whether or not Beecham". It does not deal fully with other issues, which will need further consideration if the answer to Beecham is negative.

Weaknesses of present arrangements

3. There are four major weaknesses at present. First the BPL lacks industrial management expertise. We can - and if we do not go for a commercial solution must - take steps to improve the management within the NHS. But a good commercial solution would be more effective in this respect than any NHS-based solution. This is a very important consideration, though we may have to work hard to ensure that the prime benefit would accrue to us rather than to the company.

3. Second, we are short of capital for redevelopment. Beecham would supply this but would expect a good return. It is difficult to be sure about the costs of redevelopment in the public as opposed to the private sector, but in the long run, taking account of both capital and revenue, an arrangement with Beecham would probably be the more expensive.

4. Third the field is one of great potential technological change. Industry should be better equipped to cope with such changes.

5. Fourth we are short of plasma. To my mind the likely effect on the plasma supply - although dealt with only briefly in paragraph 12 of the submission - is the most important aspect of the whole matter.

Plasma supply

6. In order to gain the benefit of full national self-sufficiency in blood products (whether BPL is publicly or commercially run) it would be necessary to increase plasma supply dramatically (nearly six-fold). This factor is therefore crucial. Although there are examples elsewhere of successful co-existence of voluntary donor programmes with commercial fractionation, these are no guide to the effect of moving to such an arrangement. All our advisers - not only those from the NBTS itself, but those from industry and academia - believe that commercialisation would make it difficult to increase our plasma supply from voluntary sources, or even to maintain it. I agree that this is a major risk. It can neither be quantified nor demonstrated to exist unless we test it. Nevertheless, there are indications (eg from the reaction to the National Heart Hospital affair) that a substantial number of donors would be lost if they thought that their donated blood was being made the subject of commercial transactions, however carefully this might be explained. There is also the attitude of employers - para 11e of the submission. If our domestic supply cannot be increased, either we shall have to have increasing recourse to expensive foreign material, with all the difficulties which that entails, including its higher hepatitis risk; or we shall have to pay our donors.

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7. Beecham propose that if the NHS cannot supply enough plasma to supply their factory they should import to make up the deficiency. Apart from the hepatitis risk (present of course in the commercial products which Authorities now buy) this raises questions about the ethics of international trading in blood and blood products, and our position in relation to international resolutions. Important as these issues are, however, I regard them as secondary to the effect on our domestic position.

Summary

8. The major advantages of an arrangement with Beecham are

- the provision of commercial management expertise
- the transfer of technological risk
- the short-term expediency of their putting up the capital for redevelopment
- speed.

The main disadvantages relate to

- the risk to the voluntary donor programme and the implications if our plasma supply contracts or cannot be expanded
- the associated issue of commercialisation of blood
- health and ethical problems relating to the import and export of plasma and products
- the possibility that the company could exploit their monopoly position to impose higher costs on the NHS.

9. The strong opposition which the proposal will undoubtedly arouse in the NHS and NBTS - and has already aroused from our advisers - is a factor to be taken into account, even though not all their arguments are strong or conclusive. I am however particularly impressed by the fact that none even of our outside advisers - including Dr Dunnill who has acted as consultant for many firms including Beecham - favour the proposal on balance. (A copy of Dr Dunnill's latest letter to the Minister is attached.)

10. I regard it as of some significance also that several countries which have voluntary donor programmes and commercial fractionation are moving to establish non-commercial fractionation facilities. This appears to be because of the difficulty of securing effective co-ordination in a non-integrated service - a problem which we should also face.

Recommendation

11. I have involved myself closely in the discussions leading up to this submission - both with Beecham and with our advisers - and have given it much thought over a prolonged period. The advantages and disadvantages are substantial, and I foresee continuing problems of both investment and management if we retain BPL within the NHS. The Beecham proposals are, at this stage, helpful and reasonable. From the point of view of fractionation pure and simple I would advocate Beecham. Nevertheless my conclusion is that wider disadvantages outweigh the advantages - and in particular that the likely impact on the donor programme and possibly on the whole voluntary donor principle is too substantial to incur.

Decisions required

12. I think it important that we should reach a decision <u>in principle</u> now: that is we should either reject the commercial option or decide that we intend to implement it subject to satisfactory negotiations. A decision merely to continue negotiations, without commitment in principle, would prolong uncertainty, encourage continued argument and further damage morale at BPL. And it would not be fair to Beecham.

13. A number of decisions is required:

(a) should we now enter into detailed negotiations with Beecham?

(b) if so, should we do so on the basis of the conditions suggested in Appendix B - as I would recommend?

(c) should we abandon discussion with Beecham and instead formulate plans to redevelop BPL with public funds as soon as they can be made available - subject to (d) below?

(d) should we at the same time explore other possibilities, eg the Red Cross and NEB, even though there is no present indication that they will be able to help us? But not the foreign blood fractionation companies, who will certainly present problems much more severe than Beecham?

(I assume that we cannot continue with the existing BPL, with only minimal upgrading.)

Handling and timing

14. I assume that Ministers will wish to discuss with us - and, I suggest, with selected advisers. We might best discuss handling at that stage. If however the decision in principle is affirmative it would in my view be best not to make it known until we have seen the impact of the forthcoming Granada programme. Indeed Ministers may wish to postpone a decision till then.

GRO-C

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cc: Mr Knight - advance copy
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