
CONFIDENTIAL

Qz.03598

MR TURNBULL

COMMUNITY EXPENDITURE PROGRAMMES AND CONTROL OF UNITED KINGDOM
PUBLIC EXPENDITURE (E(A)(84) 12)

This question is on the agenda of the Sub-Committee on Economic Affairs of the Ministerial Steering Committee on Economic Strategy at its meeting on 21 February at 5pm. A brief for the Prime Minister was submitted on 13 February. I am glad to report that further discussions between the Chancellor of the Exchequer and the Secretary of State for Trade and Industry seem likely to lead to an agreement (or a large measure of agreement) between them both on the public expenditure control of the United Kingdom share of Community expenditure and specifically on ESPRIT. Texts are being submitted by officials for consideration over the weekend and we shall know on Monday whether the agreement has been reached. If so, the two Ministers will circulate to E(A) a note recording their agreed view.

2. My advice is that the agreement, as it is emerging, is very satisfactory. On public expenditure control it is likely to be a slightly modified version of option 3 in E(A)(84) 12. It should make it possible to reach agreement in E(A) on the following points:-

- (i) there will be a "Forward Look" at Community expenditure;
- (ii) existing arrangements on the United Kingdom share of Community expenditure (structural funds, agricultural guarantees and Community aid) will be unchanged and this will apply also to the non-quota section of the Regional Fund. This does not mean that these programmes are excluded from our overall consideration of priorities. (The Treasury and the Department of Trade

/and

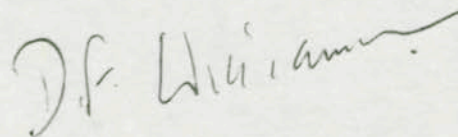
CONFIDENTIAL

CONFIDENTIAL

Industry are still in dispute about the public expenditure treatment of the "triggering payments" for the non-quota section of the Regional Fund but this does not seem a fundamental point);

- (iii) the new arrangements in relation to the United Kingdom share of other Community expenditure (the Treasury has been asked to define this accurately in any note by the Chancellor of the Exchequer) would be, as in option 3 in E(A)(84) 12, the establishment of a block programme within PESC Programme 2.7 (a mini-Euro PESC programme), with rules applicable to any savings or overspendings. The Chancellor of the Exchequer and the Secretary of State for Trade and Industry are likely to agree that the baseline PESC figure should be the figures in the Community's 1984 budget and that they would rise in future years only in line with the general rate of increase in total United Kingdom planned public expenditure. The Chancellor of the Exchequer would also agree to the United Kingdom share (about £18 million a year for 5 years) of Community expenditure on ESPRIT, provided that the other conditions on ESPRIT were met;
- (iv) we should agree to the ESPRIT programme (United Kingdom share of the cost about £18 million a year for 5 years, without taking account of receipts by United Kingdom industries) on condition that there was a ceiling on Community research and development expenditure. Within this ceiling priority would be given to ESPRIT, to agreed joint research centre programmes and the fusion programme; expenditure on other programmes would have to be contained within what was left.

3. I am sending a copy to Sir Robert Armstrong.



D F WILLIAMSON

17 February 1984