

● PO - CH/NL/0525

PART A

Part. A.

CONFIDENTIAL
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Begins : 17/11/88
Ends : 23/11/88

**THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM**

PO CH | NL | 0525.
Pt. A.

Chancellor's (Lawson) Papers :
European Community Structural Funds :
Additionality .

DD's : 25 Years

[Handwritten Signature]

13/3/96

PO CH | NL | 0525.
Pt. A.



Thanks.
Review
draft ok
✓

Chancellor.

Additionality

- ① Mr Mercer's note, attached
2. I think that the problem with the Kerr amendment is that it wrongly implies that it is only if expenditure falls below 1988 levels that receipts could be jeopardised. Alternative draft in the new text, also attached.
3. I told Mr Mercer that we needed to be absolutely sure of the correct interpretation, consulting with Williamson if necessary. He said he would need to put this to Hannay, who he is seeing this morning. (He suspected that Hannay would not want to consult Williamson, for fear of pinning him down in a manner unhelpful to us). But he was sure that the interpretation in his note was correct.
- ② A new version of your minute is attached ^{over}

I assumed that you wanted to revert to your entire lot two pages, but with some titivation to the lot few lines.

③ Sir G. Hare's office have suggested a meeting, with officials, this evening. We would probably do 5.30 ish, but are stalling at this stage. Draft covering letter, ^{also} behind, suggests this is not necessary.

21

FROM: M C MERCER
DATE: 17 NOVEMBER 1988

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Sir G Littler
Mr Anson
Mr Lankester
Mr Turnbull
Mr A J C Edwards
Mr Burgner
Mr R I G Allen

STRUCTURAL FUNDS: ADDITIONALITY

You asked for advice on one aspect of the Foreign Secretary's amendments to the Chancellor's draft minute, viz the insertion of the words "below 1988 levels" in the following phrase:

"If we ever wanted to reduce such expenditure [below 1988 levels] we would disqualify ourselves from getting any further receipts from the extra structural fund appropriations".

2. I think that the insertion is correct in terms of the Williamson letter. This makes clear a) that 1988 is the base year, and b) that the need for member states to increase their structural spending would be measured by reference to increased receipts in relation to the 1988 level. Everything depends, therefore, on the extent of that increase.

3. Suppose that the expenditure line were as follows:

1988	100
1989	110
1990	115
1991	110

4. The key question is: would we lose our entitlement to receipts in 1991 because expenditure had fallen? I think that the answer depends on the extent of the increase in receipts in 1991. If receipts were only 10 units above the 1988 level, then that should be no problem; but if they were 20 units higher, then our expenditure would have fallen short.

5. It is, however, almost certain that if we reduced expenditure below their 1988 level, we would run into trouble unless, implausibly, there had been no increase in receipts over the period.

Handwritten initials

M C MERCER

pp.

But against these risks must be weighed the fact that the additionality article is offensive in principle, potentially costly in practice, and would set a disturbing precedent. Geoffrey Howe is firmly of the conclusion that, for the reasons set out above, invocation of the Luxembourg Compromise is not a viable option. If that is so, then, with the gravest misgivings, I have to accept that the least bad option is to go along with the article at Monday's Council, ^{const in the circumstances} ~~replying separately to the Williamson letter in terms which make clear the absolute priority we shall continue to attach to firm control of UK public expenditure.~~ _{to be sent to the media with a picture in the FAO on Monday}

I am copying this only to Geoffrey Howe.



FROM: J M G TAYLOR

DATE: 17 November 1988

A handwritten signature in ink, appearing to be "JMG", written over the date.

MR MERCER

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Sir G Littler
Mr Anson
Mr Lankester
Mr Turnbull
Mr A J C Edwards
Mr Burgner
Mr R I G Allen

STRUCTURAL FUNDS: ADDITIONALITY

The Chancellor was grateful for your note of today's date.

A handwritten signature in ink, appearing to be "JMG", written above the name J M G TAYLOR.

J M G TAYLOR



2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

The Rt Hon Mrs Lynda Chalker MP
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

PM

CHIEF SECRETARY	
REC.	18 NOV 1988
ACTION	Mr Bonney / Mr Mercer
COPIES TO	<i>Mr Sir P Middleton</i> Mr Anson, Mr Mack, Mr Turnbull, Mr Burgess, Mr P Allen, Mr Edwards, Mr Waller, Mr McIntosh L, Mr Call

17 November 1988

Dear Lynda

EC STRUCTURAL FUNDS REVIEW: RURAL AREAS

I have seen copies of John MacGregor's letter to you of 17 October and subsequent correspondence, including his letter of 20 October.

In the absence of agreement at the Foreign Affairs Council on 24-25 October, I understand that the outstanding issues about the selection of "rural areas" are now to be discussed further. I agree with John that, apart from the three UK areas which have in effect been accepted already (the Highlands and Islands, mid-Wales, and the Assisted Areas of Devon and Cornwall), the issue of which further areas in the UK should be designated as rural areas need not be settled now. It should be the subject of further consideration between colleagues taking account of all the implications.

Meanwhile my officials have supplied the UK team involved in the negotiations with a provisional list of additional areas in England which might be put forward, if it becomes appropriate to pursue a longer list of UK candidates. A few of these also figure on the list of eligible declining industrial regions and might in the event be satisfactorily covered in that way.

I am copying this letter to Tony Newton, Peter Walker, Tom King, Malcolm Rifkind, Norman Fowler, John Major, John MacGregor and Sir Robin Butler.

Yours sincerely
Nicholas

NICHOLAS RIDLEY



cc ps / PMG
DS / CST
Sir P. Middleton
Sir G. Little
Mr Anson
Mr Lancaster
Mr Turnbull
Mr A. Edwards
Mr Burger
Mr R. Allen
Mr Mercer
Mr Tyrie

PRIME MINISTER

STRUCTURAL FUNDS: ADDITIONALITY

17/11/88.

We need to decide before the Foreign Affairs Council (FAC) on 21 November how to handle the article on additionality in the draft regulations implementing the reform of the structural funds agreed at the February European Council.

The text of the relevant article is attached at Annex A. At Cabinet on 27 October the Foreign Secretary and I were asked to seek to negotiate amendments to the text to protect the UK's position on the (non) additionality of EC receipts. We have achieved only partial success. The Commission have declined to accept any substantial changes and all other member states are prepared to agree the text as it stands. The Germans, French and Dutch, whom we would normally expect to support us on such issues, will receive little additional benefit from the increase in the structural funds themselves and see their interests in ensuring that structural fund resources have a genuinely incremental effect in southern member states. We have however succeeded in securing from the Secretary General of the Commission, David Williamson, a letter to Sir David Hannay (Annex B) confirming that the article



in question applies only to the increase in structural fund appropriations agreed at the February Council (some 13 billion ecu, or £9 billion, cumulatively between 1989 and 1992); and that the requirement for the Commission and member states to ensure at least an equivalent increase in structural aid relates to additional receipts (by comparison with 1988) arising directly from these increased appropriations. Broad-brush estimates suggest that the additional receipts, and hence the gross public expenditure cost, might amount to around £80-100 million a year by 1992. The great bulk of the additional receipts are likely to go to Northern Ireland.

The net expenditure cost could be rather lower than the gross cost since we would be able to take account of any planned increase in expenditure on structural aid. It is difficult to be certain that there will be such an increase since there is no agreed definition of structural aid, and much of the relevant spending is undertaken by local authorities and public corporations. However at first sight it seems that we should be able to demonstrate additionality to an extent which would satisfy the Commission, in respect of expenditure on programmes covered by the regional fund and the agricultural guidance fund. But national expenditure on programmes covered by the social fund is planned to fall sharply



over the next few years. Taking the three funds together (as the Commission are likely to do) it should be possible for us to demonstrate some underlying additionality, though we cannot be sure how much.

Even so, the gross cost could be expected to grow further after 1992. And, more fundamentally, the regulation could undermine our ability to control the total level of UK expenditure on structural aid. If we ever wanted to reduce such expenditure, we could disqualify ourselves from getting any further receipts from the extra structural fund appropriations. This would of course involve public expenditure costs (though the operation of the Fontainebleau mechanism would limit the latter to 34% of the receipts foregone); but perhaps even more important is the fact that the Commission would have a lever on the totality of UK "structural" spending. So although David Williamson's letter indicates that the article would apply only at the margin, the full consequences could go wider. And we cannot rule out the possibility that, having established a precedent, the Commission might propose further legislation after 1992 to extend explicit additionality to all structural fund receipts.



In view of these factors Geoffrey Howe and I have considered carefully whether there is anything we can do to prevent the Council from adopting a common position on the regulation at next Monday's FAC. It is doubtful whether further lobbying would help, in which case the only real alternative would seem to be to invoke the Luxembourg Compromise. This is not of course a step to be taken lightly:

- it would be portrayed as an indication that we were opposed to structural spending and/or that we intended to cut back our regional aid;
- it is not certain that successful invocation would enable us to get the necessary changes to the text. The Commission might refuse to budge and claim that, given the legal void, they had a duty to implement the new structural funds regime;
- local authorities and others could seek to benefit from the UK's public discomfiture by challenging the basis of our whole policy on the treatment of EC receipts.

But against these risks must be weighed the fact that the additionality article is offensive in principle, potentially costly in practice, and would set a disturbing precedent.



However, in addition to the problems with the Compromise referred to above, Geoffrey Howe is firmly of the view that the Presidency would ignore the veto and insist on taking the vote . He believes that:

- many member states regard this regulation as simply implementing decisions of the European Council and the basic framework regulation, for which unanimity was required (and obtained);
- all the southern member states who might normally support us (Greece, Ireland and Portugal) have large financial interests at stake, while potential northern supporters (France and Denmark) attach importance to the additionality provision.

Geoffrey Howe's conclusion, therefore, is that we could not secure the support of enough member states to block the Regulation. That being so, then, with the gravest misgivings I have to accept that the least bad course in the circumstances is to settle the matter without publicity in the FAC on Monday, replying separately to the Williamson letter in terms which make clear the absolute priority we shall continue to attach to firm control of UK public expenditure.

I am copying this only to Geoffrey Howe.

[Handwritten signature]

PP [N.L.]
17 November 1988

[Approved by the Chancellor
and signed in his absence]

Additionality (Article 9(2))

"In establishing and implementing the Community support frameworks, the Commission and the member states shall ensure that the increase in the appropriations for the Funds provided for in Article 12(2) of Regulation (EEC) No 2052/88 has a genuine additional economic impact in the regions concerned and results in at least an equivalent increase in the total volume of official or assimilable (Community and national) structural aid in the member state concerned, taking into account the macro-economic circumstances in which the funding takes place."

(A)



The Secretary General

(B) n/10

Brussels, 9 November 1988
DFW/40 03088/D/12645

- 1. R. coming to Mr. Harter: H.M.T.
Mr. Howell: Cassin, etc.
JOK. PS. 1. R. [unclear]
- 2. Mr. Arthur / Mr. Powell. 2. Mr. [unclear]

Report by telegram 2.6
Jones = J.K.
R. [unclear]

Dear David

[Handwritten signature]

R. [unclear]

Reform of the Structural Funds : additionality

We discussed this point at your request on 3 November. I am glad to confirm my explanation of the basis on which the Commission, in consultation with member states, intends to implement the provisions of Article 9 (2) of the horizontal regulation on the Structural Funds.

This Article applies to the increase in structural fund appropriations provided for in Article 12 of Regulation 2052/88. As a result of the decisions of the Brussels European Council that increase amounts cumulatively to 13 billion ecu (1988 prices) over the period between 1989 and 1992. The requirement for the Commission and member states to ensure at least an equivalent increase in structural aid relates to additional receipts by the member state arising directly from these increased appropriations. For the purpose of calculating any such additional receipts the base year will be 1988. By way of illustration, if receipts in that year were 100 units and in 1989 rose to 110 units as a result of the increase in the structural fund appropriations, the Commission and the member state concerned would need to ensure that official structural aid in the member state had also been higher than in 1988 by 10 units.

I hope that this makes the position clear.

Yours sincerely,

[Handwritten signature]

D.F. Williamson

His Excellency
Sir David H.A. Hannay, KCMG,
Ambassador and United Kingdom
Permanent Representative to
the European Communities,
Rond-point Schuman 6,
B - 1040 Brussels.

~~Mr Chamberlain
Mr R.G. Man
Mr Turnbull
Mr Evans
Mr Edwards~~

+
Sir G. Butler
Mr Bankster
Mr Austin
Mr A.S.C. Edwards
Mr [unclear]
Mr Tignor
Mr Call

1988



*Large sheet of paper not from
archive*

CH/EXCHEQUER	
REC.	18 NOV 1988
ACTION	Mr Mercer
COPIES TO	PS/CST PS/PMG SIR P. Middleton SIR G. Lottler MR ANDON MR Lankester MR Turnbull MR A-J Edwards MR Burgner MR R.I.B. Allen.

CONFIDENTIAL

PM/88/056

PRIME MINISTER

Structural Funds: Additionality

1. I have seen Nigel Lawson's minute of 17 November, and confirm that it is my strong view, reinforced by a private talk with David Williamson this morning, that there is no way in which we can - eg by attempting to invoke the Luxembourg Compromise - successfully block the Structural Fund Horizontal Regulation in Monday's Foreign Affairs Council. Williamson's judgement, like mine, is that we should have no support whatsoever, except perhaps from the Danes. I am sure that the right course must be, as Nigel recommends, for us to send a firm reply to Williamson's letter of 9 November reaffirming the absolute priority we shall continue to attach to firm control of UK public expenditure.

2. I am copying this minute to the Chancellor of the Exchequer.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
18 November 1988

CONFIDENTIAL

CONFIDENTIAL

NB about Sir G Howe's minute, behind.



Foreign and Commonwealth Office

London SW1A 2AH

18 November 1988

M C Mercer Esq
HM Treasury

Jew Rice,

Ch. This is a pretty extraordinary development at this stage. Nothing that Williamson has said before has indicated this - indeed his letter indicated the reverse. If true, it does make a big difference to the arithmetic (this not the principle). But I would want to see it in writing.

*18/11
Gwen
Office
advice
WJ*

STRUCTURAL FUNDS: ADDITIONALITY

1. As agreed, I write to confirm that Mr Williamson has today told me that the Commission will not, in interpreting the additionality provision at Article 9(2) of the Horizontal Regulation, be looking for an "at least equivalent" increase in national structural aid analogous to EAGGF, Social Fund, and ERDF expenditure, taken together. They will instead be looking only at national expenditure analogous to ERDF expenditure, and that is how the requirement in respect of "the total volume ... of structural aid in the member state concerned" should be construed.

2. Mr Williamson explains that, though the additionality provision appears in the Horizontal Regulation, the Commission have already accepted and announced that it cannot apply to EAGGF funding, on which decisions still have to be made by the Agriculture Council. As for the Social Fund and ERDF, since the Commission will operate objective by objective, they will not be grossing up their own expenditure. National expenditure analogous to Social Fund programmes would also be difficult to define. In short, the additionality provision at Article 9(2) will in practice apply, Mr Williamson now reveals, only to the ERDF.

3. This new information clearly changes the picture described in the third paragraph of the Chancellor's minute, and thus the risks inherent in the additionality provision. Since we expect to be able to demonstrate additionality to an extent which should satisfy the Commission in respect of ERDF programmes, and the Commission will not after all be taking the 3 Funds together, our (agreed) risk analysis was clearly unnecessarily black.

4. We agreed that this further Williamson news should be brought to the attention of Private Secretaries. Mr Williamson has confirmed that he would be content that our new understanding, as in para 1 above, should be ^{put} in writing in a reply to his letter of 9 November.

J O Kerr
J O Kerr

cc Mr Lavelle, Cabinet Office

CONFIDENTIAL



10 DOWNING STREET

Chancellor

I discussed this
with Jonathan Taylor,
and he agreed that
it was probably the
best we can do
in the circumstances.

Charles

JT
NHS.
WSP



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

CH/EXCHEQUER	
REC.	21 NOV 1988
ACTION	Mr MERCER
COPIES TO	PS/ST, PS/PAG, Sir P. MIDDLETON, Sir G. LITTLER, Mr ANSON, Mr LANKESTER, Mr TURNBULL, Mr A.J.C. EDWARDS, Mr BURNER, Mr R.I.G. ALLEN.

20 November 1988

Dear Alex,

STRUCTURAL FUNDS: ADDITIONALITY

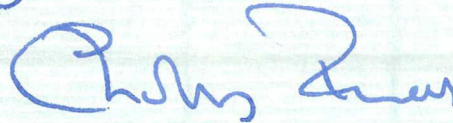
The Prime Minister has considered very carefully the Chancellor's minute of 17 November. She has also taken into account the further information about the Commission's intentions conveyed in John Kerr's letter of 18 November to Mike Mercer in the Treasury (about which I have also spoken to Jonathan Taylor).

The Prime Minister shares the Chancellor's concern that the proposed regulations could undermine our ability to control the total level of UK expenditure on structural aid and the dangerous precedent which it creates. She points out that it might mean that we end up paying twice: first through our enormous net contribution to the EC, and then through our inability to reduce our existing national expenditure on structural aid.

At the same time, the latest information about the Commission's intentions conveyed by Mr Williamson does go some way to meet our concerns, in that there now appears to be no immediate risk of us incurring additional public expenditure as a result of adoption of the new regulations. But in the Prime Minister's view we need to extend that assurance about the Commission's intentions as far as possible into the future, so that our agreement to the regulations now does not expose us to a wider interpretation by the Commission at some point in the future. She would like this point covered in a further exchange of letters with Mr Williamson. This should record not just our understanding of the interpretation given to the regulations by Mr Williamson, but his confirmation that this is correct and that the Commission will not seek to impose a different interpretation during the life-time of the regulations - I imagine it is impracticable to expect a commitment going beyond that - which would undermine our ability to extend firm control over UK public expenditure. Provided Mr Williamson is prepared to give an assurance that an exchange of letters on these lines will be forthcoming, we can agree to the regulations tomorrow.

I am copying this letter to Lyn Parker (Foreign and Commonwealth Office) and Roger Lavelle (Cabinet Office).

Yours sincerely,

A handwritten signature in blue ink that reads "Charles Powell". The signature is written in a cursive style with a large initial "C".

CHARLES POWELL

A.C.S. Allan, Esq.,
Treasury

FROM: M C MERCER
DATE: 21 November 1988

MR TAYLOR

cc PS/Chief Secretary
PS/Paymaster
General
Sir P Middleton
Sir G Littler
Mr Anson
Mr Lankester
Mr RIG Allen
Mr Turnbull
Mr Burgner
Mr Evans
Mr Towers
Mr Tyrie

Ch. See esp. Mr Heener's
ms. note, attend. Very good - but I
understand that Williamson will write to
confirm this. (If he does not, FCO will
have a great deal of explaining to do,
given No 10's instruction 'X' on Pouch letter)

21/11

STRUCTURAL FUNDS: ADDITIONALITY

This is to record developments over the weekend.

2. On Friday evening Mr Kerr (FCO) delivered the attached letter in which he reports the Secretary-General of the Commission (Williamson) as having told him that, in interpreting Article 9(2) of the Horizontal Regulation, the Commission would look only at national structural aid analogous to ERDF operations (ie effectively ignoring the social fund and the agricultural guidance fund).

3. As you know, I was dubious about this eleventh hour declaration of peace in our time (for the reasons summarised in the attached note) and took the view that we should ask Williamson to send a letter to Sir David ^{Hannay} confirming what he was said to have said. I also told you that if such confirmation was forthcoming, we could relax a little: our preliminary assessment of the impact of Article 9(2), reflected in the third paragraph of the Chancellor's minute to the Prime Minister, suggested that we should be able to demonstrate additionality to the Commission's satisfaction in respect of ERDF programmes, but would probably not be able to do so for ESF programmes, where national expenditure is planned to fall quite sharply in the next few years.

4. You told me yesterday that in replying to the Chancellor's minute, No.10 were, inter alia, likely to ask for a letter from Sir David Hannay to Williamson seeking confirmation of the ERDF point. I accordingly drafted the attached letter and agreed it with Messrs Kerr and Lavelle and with Sir D Hannay.

They did so.

5. Mr Kerr will deliver the letter to Williamson before this morning's FAC begins. I gather than he will seek only verbal confirmation at that stage but ask for a letter to be sent as soon as possible.

M.C. Mercer

M C MERCER

Kerr has just reported from Brussels that Williamson has confirmed the letter "without qualification"

M.C. Mercer
2/11

TEXT OF A LETTER FROM SIR DAVID HANNAY TO DAVID WILLIAMSON

Thank you for your letter of 9 November about the basis on which the Commission intends to operate Article 9(2) of the Horizontal Regulation on the structural funds.

You subsequently explained that the Commission, in looking for an increase in the total volume of spending on official structural aid (Community and national) in the member state concerned "at least equivalent to" the additional receipts by that member state, will in practice consider only EC and analogous national spending arising directly from the increase in ERDF appropriations.

You also confirmed that the Commission does not intend, during the lifetime of the regulation, to change this basis of operation. [It is on this understanding that the UK will today lift its one remaining reserve on the regulation.]

NOTE FOR THE RECORD

MR KERR'S LETTER ON ADDITIONALITY OF 18 NOVEMBER

I am surprised for a number of reasons:

- i) Williamson did not betray the merest hint of what he is now reported as saying when Sir David Hannay and I discussed the matter with him a fortnight ago. This is especially odd because he went to some length to try to convince us that the regulation was modest in scope;
- ii) Williamson's letter to Sir David Hannay of 9 November says that the increase in structural fund appropriations to which the regulation applies totals 13 billion ecu cumulatively over the period 1989 to 1992. This of course is the aggregate figure for the three funds. Why did Williamson not take the opportunity of that letter to allay our fears?
- iii) Mr Kerr reports Williamson as saying ^{that} one of the reasons why the social fund has dropped out of the reckoning is that national expenditure analogous to social fund programmes would be difficult to define. But Mr Burgner's preliminary analysis of the numbers after our meeting with the Chancellor on 14 November suggested that expenditure in ERDF-related areas was much more difficult to identify and measure than ESF-related expenditure. "Infrastructure" is a more amorphous concept than "training" or "help for the long term unemployed";
- iv) in his round-table discussions on Friday with senior UK officials (including Mr R I G Allen and Mr Burgner) Williamson left the clear impression that the Commission would be taking the three funds as a whole;
- v) we have not been able to trace any announcement by the Commission that the regulation would not apply to the agricultural guidance fund. We were aware that certain

expenditure under objective 5b would take place outside the so-called "Community Support Frameworks" to which Article 9(2) applies. But this is much narrower than what Williamson is reported to have said, and we have in any case already taken it into account in our risk assessment;

- vi) each of the funds has its own implementing (or "vertical" regulation). If the additionality provision is relevant only to the ERDF why has it been included in the "horizontal" regulation?

W. C. L.

FROM: C B EVANS
DATE: 21 NOVEMBER 1988

1. MR MERCER
2. MR J TAYLOR

*approved
in draft
21/11*

*Ch. content?
21/11*

cc: PS/CST
PS/PMG
Sir P Middleton
Sir G Littler
Mr Anson
Mr Lankester
Mr R I G Allen
Mr Turnbull
Mr Burgner
Mr Towers
Mr Segal
Mr Tyrie

STRUCTURAL FUNDS: ADDITIONALITY

behind
Further to Mr Mercer's minute of earlier today, I attach a briefing note for use in case the question of additionality and the structural funds comes up at Prime Minister's questions tomorrow. If you are content, perhaps, you could arrange for Parliamentary Section to pass it on to No10.

2. I have not provided a background note as the issues have been rehearsed fully in recent correspondence. But when it arrives I shall let you have - for onward transmission to No10 - a copy of the telegram reporting on the latest developments including the outcome of today's Foreign Affairs Council.

Chris Evans

C B EVANS

BRIEFING FOR PM'S QUESTIONS - 22 NOVEMBER 1988

EC STRUCTURAL FUNDS: ADDITIONALITY

Why has the UK now accepted the Commission proposal?

We have considered the detailed implications of the proposed regulation and are satisfied that it will not require us to change the basis of our public expenditure management in relation to receipts from the Community's structural funds.

But doesn't the regulation require additional public expenditure?

Receipts from the Community budget have always enabled the UK's public expenditure to be kept at higher levels than would otherwise have been the case. So our public expenditure plans already take account of increased EC receipts.

Will the regulation weaken the UK's public expenditure control?

No - it does not run counter to the priority which we attach to firm control of public spending.

How will the regulation affect public spending in Northern Ireland [or other parts of the UK]?

The provision applies to each member state as a whole. It is for the member state itself to decide how its overall public spending should be allocated to different part of the country.

22x188

ADVANCE COPY

CONFIDENTIAL
FM UKREP BRUSSELS
TO DESKBY 212200Z FCO
TELNO 3486
OF 212006Z NOVEMBER 88
INFO PRIORITY EUROPEAN COMMUNITY POSTS, STRASBOURG

FRAME STRUCTURAL
FOREIGN AFFAIRS COUNCIL : 21 NOVEMBER : STRUCTURAL FUNDS

SUMMARY

1. ALL RESERVES LIFTED AND COUNCIL AGREEMENT REACHED ON THE FOUR STRUCTURAL FUND REGULATIONS AFTER A BRIEF DEBATE. COMMISSION, UNDER PRESSURE FROM UK AND GERMANY, UNDERTOOK TO APPROVE MAJORITY OF OUTSTANDING PROGRAMMES BY THE END OF THE YEAR. COMMON ORIENTATION OF THE COUNCIL ON THE EUROPEAN SOCIAL FUND AND AGRICULTURAL FUND REGULATIONS WILL BE THE SUBJECT OF CONCILIATION WITH THE EUROPEAN PARLIAMENT ON 22 NOVEMBER. THE HORIZONTAL REGULATION AND REGIONAL DEVELOPMENT FUND REGULATION WILL BE SUBJECT TO THE COOPERATION PROCEDURE AND THE COUNCIL'S COMMON POSITIONS ADOPTED TODAY WILL NOW BE TRANSMITTED TO THE EUROPEAN PARLIAMENT.

DETAIL

2. PANGALOS (PRESIDENCY) SAID THAT THE COUNCIL HAD TWO DOCUMENTS TO CONSIDER: DOCUMENT 9503 CONTAINING THE HORIZONTAL REGULATION AND THE THREE FUND REGULATIONS ON THE EUROPEAN SOCIAL FUND (ESF), THE AGRICULTURAL GUIDANCE (FEOGA) FUND AND THE EUROPEAN REGIONAL DEVELOPMENT FUND (ERDF). THIS HAD BEEN AGREED BY JURISTS/LINGUISTS. THE SECOND DOCUMENT, 9504, CONTAINED STATEMENTS RELATING TO THE FOUR REGULATIONS. COREPER II HAD ALREADY REACHED AGREEMENT ON THE ESF AND ERDF REGULATIONS AND THERE WAS A WIDE MEASURE OF AGREEMENT ON THE HORIZONTAL REGULATION. TWO RESERVES REMAINED ON FEOGA. HE HOPED THAT OVERALL AGREEMENT COULD BE REACHED BEFORE THE MEETING WITH THE PARLIAMENT ON 22 NOVEMBER.

3. ADAM SCHWAETZER (GERMANY) WAS GENERALLY SATISFIED WITH THE TEXT WHICH TOOK ACCOUNT OF A NUMBER OF GERMAN SUGGESTIONS BUT WANTED ASSURANCES ON TWO POINTS. FIRST, ARTICLE 4 OF THE HORIZONTAL REGULATION CONTAINED CUMULATIVE CRITERIA WHICH HAD THE EFFECT OF RULING OUT SOME AREAS SUCH AS THE EIFFEL REGION OF GERMANY WHICH MERITED ASSISTANCE WHILE ALLOWING IN OTHER, LESS DESERVING, AREAS. COULD THE COMMISSION MAKE A STATEMENT OF CLARIFICATION? SECONDLY, WOULD THE COMMISSION APPROVE BY THE END OF THE YEAR APPLICATIONS FOR FUND ASSISTANCE WHICH HAD ALREADY BEEN SUBMITTED.

4. LENIHAN (IRELAND) REGRETTED THAT THE COMMISSION HAD NOT APPROVED HIGHER GRANT RATES FOR THE SOCIAL FUND FROM 1 JANUARY 1989. WITHOUT THEM HIS GOVERNMENT WOULD HAVE TO INCREASE NATIONAL EXCHEQUER EXPENDITURE TO MAKE UP THE DIFFERENCE IN A WAY THAT WOULD RUN COUNTER TO IRELAND'S POLICY - AND THE COMMUNITY'S - OF TIGHT CONTROL OVER PUBLIC FINANCE. HOWEVER, IN THE INTERESTS OF REACHING A COMMON POSITION HE WAS PREPARED TO WITHDRAW HIS RESERVE ON CONDITION THAT THE COMMISSION GAVE AN ASSURANCE THAT ANY SHORTFALL IN FUNDING DURING 1989 WOULD BE MADE UP IN SUBSEQUENT YEARS. HE ALSO HOPED THAT THE COMMISSION WOULD COME FORWARD SOON WITH PROPOSALS TO REFORM THE FEOGA GUIDANCE REGULATION IN THE LIGHT OF STRUCTURAL FUND REFORM.

5. CRESSON (FRANCE) SAID THE CRITERIA FOR DEFINING ELIGIBLE RURAL ZONES UNDER OBJECTIVE 5B SHOULD BE TIGHTER AND, IN CONFIRMITY WITH OBJECTIVES 1 AND 2, SHOULD REFER TO COMMUNITY AVERAGES. OTHERWISE FUNDS WOULD BE SPREAD TOO THINLY TO THE DISADVANTAGE OF THE MOST NEEDY AREAS. ON NON QUOTA PROGRAMMES, SHE WANTED AN ASSURANCE THAT FUNDS WOULD CONTINUE TO BE MADE AVAILABLE UNTIL THE PROGRAMME WERE COMPLETED.

6. MANZOLINI (ITALY) LIFTED ITALIAN RESERVES ON FEOGA GUIDANCE AND THE DEADLINE OF 31 MARCH 1989 FOR THE SUBMISSION OF PLANS.

7. VAN VOORST (NETHERLANDS) WANTED A COMMISSION RESPONSE TO STATEMENT XX WHICH CONTAINED A POUR MEMOIRE ENTRY ON THE QUESTION OF NON QUOTA FUNDING. ON THE SOCIAL FUND, HE HOPED THAT THE COMMISSION WOULD PROVIDE A SATISFACTORY FORMULA ON THE CONTRIBUTION RATES FOR OBJECTIVES 3 AND 4.

8. VARFIS (COMMISSION) SAID THAT ON THE GERMAN POINT ABOUT PROGRAMMES THE COMMISSION WOULD NOT DISCRIMINATE AGAINST THEM AS LONG AS THEY WERE SUBMITTED BY THE END OF THE YEAR. ON THE QUESTION OF THE ZONES TO BE COVERED UNDER OBJECTIVE 5B THE COMMISSION WOULD MAKE A DECLARATION ALONG THE FOLLOWING LINES,

'THE COMMISSION WILL IMPLEMENT THE CRITERIA IN ARTICLE 4.2 SO THAT IF MAY MAKE A USEFUL CONTRIBUTION TO RURAL DEVELOPMENT IN THE REGIONS AFFECTED BY THE RESTRUCTURING OF THE COMMON AGRICULTURAL POLICY''.

IN ANSWER TO MME. CRESSON HE SAID THAT THE CRITERIA IN ARTICLE 4 WOULD BE APPLIED CUMULATIVELY. THIS WOULD ACHIEVE A DEGREE OF CONCENTRATION WHILE LEAVING SOME ROOM FOR REFERENCE TO COMMUNITY AVERAGES. ON LENIHAN'S POINTS HE WAS GRATEFUL FOR RECOGNITION THAT AS THE EXISTING ESF GUIDELINES REMAINED EXTANT, THE CURRENT GRANT

RATES SHOULD CONTINUE. IF HOWEVER THERE WERE A PROBLEM, THE COMMISSION WOULD ENDEAVOUR TO MAKE UP ANY SHORTFALL. HE WELCOMED ITALY'S WILLINGNESS TO WITHDRAW THEIR RESERVES. ON ERDF NON QUOTA PROGRAMMES THE COMMISSION WOULD MAKE A MINUTES STATEMENT TO THE EFFECT THAT IT WOULD FACILITATE THEIR COMPLETION AFTER MARCH 1989 TO THE EXTENT THAT THEY WERE ELIGIBLE UNDER THE NEW REGULATIONS AND WERE INCLUDED IN MEMBER STATES' PLANS.

9. IN VIEW OF THE AMBIGUITY OF VARFIS' RESPONSE TO THE GERMAN QUESTION ABOUT PROGRAMMES, MRS CHALKER SAID THAT A NUMBER OF THE UNITED KINGDOM'S INTEGRATED OPERATIONS AND PROGRAMMES HAD BEEN WITH THE COMMISSION FOR SOME TIME AND ASKED FOR AN UNDERTAKING THAT THEY WOULD BE APPROVED BY THE END OF THE YEAR.

10. LENIHAN NOTED THE COMMISSION'S COMMENT ON THE ESF THAT IF THERE WAS A SHORTFALL AFTER 1 JAN 1990, THEY WOULD TRY TO MAKE IT UP LATER. HE COULD ALSO WITHDRAW HIS RESERVE ON FEOGA GUIDANCE REGULATION.

11. SOLBES (SPAIN) WAS NOT ENTIRELY HAPPY WITH THE COMMISSION STATEMENT ON OBJECTIVE 5B AND ASKED TO SEE THE TEXT. THIS OBJECTIVE SHOULD NOT BE TREATED ANY DIFFERENTLY FROM THE OTHERS.

12. VARFIS RESPONDING TO MRS CHALKER ASSURED HER THAT BY THE END OF THE YEAR THE COMMISSION WOULD HAVE EXAMINED ALL PROGRAMMES ALREADY SUBMITTED TO THEM AND WOULD HAVE APPROVED A LARGE MAJORITY OF THEM BY THIS DATE. TO SOLBES HE SAID THAT THE COMMISSION INTENDED TO CONCENTRATE THEIR RESOURCES SO THAT THERE WOULD BE A REAL IMPACT AND THEY WOULD TAKE PARTICULAR ACCOUNT OF THOSE REGIONS AFFECTED BY CAP REFORM.

13. PANGALOS ASKED WHETHER ALL MEMBER STATES COULD NOW AGREE THE TEXTS IN THE FOUR REGULATIONS AND THE MINUTES STATEMENTS. NO-ONE COMMENTED AND HE CONCLUDE THAT ALL FOUR REGULATIONS HAD BEEN APPROVED. PANGALOS INVITED THE EUROPEAN INVESTMENT BANK (BRODER) TO MAKE A STATEMENT. BRODER BRIEFLY OUTLINED THE ROLE OF THE BANK, PARTICULARLY OVER INFRASTRUCTURE FUNDING: ITS ROLE WAS TO COMPLEMENT NOT CROWD OUT OTHER SOURCES OF FUNDING.

14. PANGALOS, SUMMING UP, SAID THAT ON THE ESF AND FEOGA GUIDANCE REGULATIONS A JOINT APPROACH WOULD BE MADE TO THE PARLIAMENT IN ACCORDANCE WITH THE CONCILATION PROCEDURE. FOLLOWING THAT PROCEDURE THEY WOULD ADOPT A POSITION ON THE TWO FUND REGULATIONS SO THAT THE TEXTS COULD BE APPROVED TOMORROW AFTERNOON. HE OMITTED TO ADD THAT

ON THE HORIZONTAL REGULATION AND THE REGIONAL DEVELOPMENT FUND REGULATION THE COUNCIL'S COMMON POSITIONS WOULD BE ALSO TRANSMITTED TO THE EUROPEAN PARLIAMENT UNDER THE COOPERATION PROCEDURE.

COMMENT

15. IN THE MARGINS OF THE COUNCIL THE UK RESERVE ON ARTICLE 9 (ADDITIONALITY) WAS LIFTED FOLLOWING FURTHER CLARIFICATION OF COVERAGE AND IMPLEMENTATION OF THE REGULATION IN AN EXCHANGE OF LETTERS WITH THE SECRETARY GENERAL (TEXTS OF LETTERS FAXED SEPARATELY TO ARTHUR, FCO AND MERCER, HMT: THEIR EXISTENCE SHOULD UNDER NO CIRCUMSTANCES BE REVEALED UNTIL SUCH TIME AS FULL GUIDANCE ON OUR APPLICATION OF THE REGULATIONS HAS BEEN CIRCULATED). IN REPLY TO ANY QUESTIONS HERE, WE WILL MAKE IT CLEAR THAT THE INTENTION OF ARTICLE 9 IS TO ENSURE THAT COMMISSION RECEIPTS ARE MATCHED BY PROJECT DISBURSEMENTS. THIS HAS NEVER PRESENTED DIFFICULTY FOR US. MORE GENERALLY IT HAS BECOME CLEAR THAT THE PROVISION IS CONSISTENT WITH THE ABSOLUTE PRIORITY WHICH WE ATTACH TO MAINTAINING STRICT CONTROLS OVER OVERALL PUBLIC EXPENDITURE IN THE UK.

HANNAY

YYYY

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ADVANCE 25

.FRAME STRUCTURAL
PS/MRS CHALKER
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MR C R BUDD CABINET OFFICE
MR D LOVE RM 471 VIC ST DTI
MR M. MERCER, H M TREASURY
MR R ALLEN TREASURY

MR LAVELLE CAB OFFICE
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MR WELLS DTI
MR CARDEN MAFF
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MR CALDER SCOTTISH OFFICE
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MR HAMILTON CENSEC N.IRELAND

NNNN

BRIEFING FOR PRESS OFFICE

EC STRUCTURAL FUNDS: ADDITIONALITY

GUARDIAN ARTICLE 22 NOVEMBER 1988 (attached)

1. The article is correct in saying that agreement was reached yesterday. All reserves were lifted and Council agreement was obtained on the four structural fund regulations. The views of the European Parliament on the regulations are now being sought.

2. The article also correctly quotes the Government line, attributed to the Foreign Secretary, namely that under this agreement we anticipate no problems arising for UK public expenditure control procedures.

3. The article is however incorrect or misleading in a number of respects:

- i) we have never known where the figure of £6 billion - first quoted by the Guardian on 26 October - came from. It has no basis in reality;
- ii) the relevant part of the draft regulation has always dealt with the increase in the structural funds agreed at the February European Council, rather than with total structural fund expenditure. The draft regulation has not been changed in this respect, as the article implies;
- iii) we do not recognise the figure "just short of £1 billion" which is now quoted as the cost to the UK of the new regulation;
- iv) the Treasury will not "lose" the increased spending commitment in its "contingency reserves". The point is that receipts from the Community budget have always enabled the UK's public expenditure to be kept at higher levels than would otherwise have been the case. So our public expenditure plans already take account of increased EC receipts;
- v) contrary to what the article implies, the Government has



always paid its share of EC-assisted projects, and will continue to do so. Projects cannot go ahead unless member states pay their share of the money. For Northern Ireland, incidentally, EC grants may in future meet up to 75% of the cost of projects (not 20% as the article, interpreted literally, implies).

HM Treasury

22 November 1988

THE GUARDIAN
22/11/88

Britain wins concessions on Community costs

John Palmer, European
Editor in Brussels

THE GOVERNMENT and the European Commission yesterday reached a compromise on "structural funding" — the cost of EEC regional development and social projects in Britain.

However, at British Government insistence, the European Commission has softened its demand that Britain should match all EEC spending — a move which could have pushed up government spending by £6 billion between now and 1993.

After four weeks of intense lobbying, it has been agreed that the extra UK money will only be required for future net increases in structural expenditure rather than total structural fund spending.

While the planned increase in EEC regional and social spending comes to more than £9 billion to the end of 1992, the British entitlement — and therefore the level of new government spending — will be much less.

Depending on details still to

be worked out, Whitehall may have to find just short of £1 billion — one-sixth of what was originally feared in London.

Last night the Foreign Secretary, Sir Geoffrey Howe, said he did not yet possess any detailed figures on the volume of "additional" UK expenditure.

But he went on: "I can say that under this agreement we anticipate no problems arising for UK public expenditure control procedures."

This appears to mean that in its forward planning the Treasury will be able to "lose" the increased spending commitment in its contingency reserves.

But the exact figures will only be known when details are given of projects, for instance in Northern Ireland — where the UK Government has to match EEC spending on a 80:20 basis and in other regions and inner-city areas where the ratio will be 50:50.

When the new rules governing the Common Market's structural funds were unveiled last month the Treasury was alarmed that it would lead to a

massively greater volume of public spending than it had planned during the next four years.

Alarm increased when it became known that the other EEC governments could push the tougher rules on matching national spending through on a majority vote under the Single European Act.

In theory the British Government has always been expected to match EEC expenditure in Britain pound for pound, but in practice the Treasury has reshuffled public spending commitments and pocketed the money to reduce the public sector borrowing requirement.

This has caused increasing bitterness in Northern Ireland, Scotland, and the other development regions which, as a result, have not benefited by the full impact of higher public spending.

Intense lobbying by Whitehall over the past four weeks and warnings that the move could trigger a further loss of political confidence in Brussels led to a watering down of the regulations finally adopted.

John Palmer

FROM: C B EVANS
DATE: 22 November 1988

MR J TAYLOR 12/2

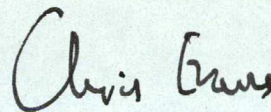
cc PS/Chief Secretary
PS/Paymaster
General
Mr Lankester
Mr RIG Allen o/r
Mr Turnbull
Mr Segal
Mr Mercer o/r

STRUCTURAL FUNDS: ADDITIONALITY

Further to the note I sent you yesterday, I now attach a copy of the telegram reporting on the Foreign Affairs Council discussion on the structural funds regulations. The relevant paragraphs are the first and the last. You will note that the telegram itself is confidential because of the background information on the additionality question.

2. I also attach a copy of an article in today's Guardian on the question of the structural funds and additionality, and a short note commenting on the points made in it. I have already discussed these points with Mr Segal.

3. I leave it to you and Press Office to judge whether either of the attachments need to be sent to No.10. It may be that the general note I sent you yesterday will suffice.



C B EVANS

FROM: M C MERCER
DATE: 23 NOVEMBER 1988

Separate copies:

MR J TAYLOR
MISS C EVANS

cc: PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Sir G littler
Mr Anson
Mr Lankester
Mr R I G Allen
Mr Turnbull
Mr Burgner
Mr Evans
Mr Towers
Mr Tyrrie

STRUCTURAL FUNDS: ADDITIONALITY

I attach a speaking note which, at the FCO's request, I have provided for the Foreign Secretary's use at Cabinet tomorrow when he reports on the outcome of last Monday's FAC.

2. The note is designed to elicit no more than a nod from the Chancellor and the Chief Secretary: there is a danger that a wider discussion could trigger attempts by spending Ministers to undermine existing policy on (non) additionality. We shall be submitting separately to the Chief Secretary on the possibility of his making a pre-emptive strike in a letter to colleagues before the weekend.

m.c. Mercer

M C MERCER

READING
NOTE
(FOR
SEC)
1988

**DRAFT SPEAKING NOTE FOR USE BY THE FOREIGN SECRETARY AT
CABINET, 24 NOVEMBER**

In the light of discussion at Cabinet on 27 October the Chancellor of the Exchequer and I have considered the detailed implications of Article 9(2) of the horizontal regulation on the structural funds. There have also been further, valuable consultations with the Commission. In the light of this, it was decided that we should lift our reserve at the 21 November FAC, having satisfied ourselves that the regulation would not require a change in the UK's existing public expenditure treatment of EC receipts; and would not compromise our ability to maintain strict control of public expenditure.

pm

FROM: C B EVANS
DATE: 23 NOVEMBER 1988

- 1. MR MERCER *it would be as well to get your retaliation in first*
- 2. CHIEF SECRETARY *in first*

T.M. B/C/S

On 2/11

- cc:
- PS/Chancellor
 - PS/Paymaster General
 - Sir P Middleton
 - Sir G Littler
 - Mr Anson
 - Mr Lankester
 - Mr R I G Allen
 - Mr Burgner
 - Mr Turnbull
 - Mr Towers

(
with Mr
Melville to
Melville to PM
no copy
last
-

EC STRUCTURAL FUNDS: ADDITIONALITY

As you will be aware, on Monday the UK accepted - with the Prime Minister's agreement - the article in the draft EC structural fund regulation dealing with the impact of increased receipts from the funds on total public expenditure on "structural aid" in member states. This followed assurances from the Commission (in the attached Hannay/Williamson correspondence) which meant that the provision was in practice unlikely to lead to an increase in our public expenditure above planned levels. The regulation concerned and three other related regulations on the structural funds were duly agreed by the Council.

2. Spending Departments are likely to seize the opportunity to argue for a relaxation in the current rules on (non-)additionality. We have heard that the Secretaries of State for the Environment and Northern Ireland respectively are already planning to do so. We think it might be a good idea if you were to make a pre-emptive strike by sending an early letter to colleagues which would

- explain the background to our eventual acceptance of the Commission proposal;
- give the gist of the Hannay/Williamson correspondence;

- point out that on the basis of that correspondence, and of our estimates of future public expenditure, we should be able to meet the Commission's requirements without any increase over planned levels of public expenditure;
 - mention that it was explicitly on that basis that the Prime Minister agreed that the reserve on the Commission proposal should be lifted; and
 - make clear that - although we shall have to give some thought to how our public expenditure arrangements and plans are presented in order to meet the Commission's requirements - there should be no need as a result of the new provision to change the basic rules which we currently operate in ensuring non-additionality.
3. I attach a draft letter accordingly.

Chris Evans

C B EVANS

DRAFT LETTER TO LORD YOUNG

EC STRUCTURAL FUNDS: ADDITIONALITY

As you will know, on 21 November the United Kingdom lifted its reserve on Article 9 of the draft horizontal regulation on the EC structural funds, according to which the increased receipts arising from the expansion of the funds would be expected to give rise to at least an equivalent increase in total nationally- and Community-funded "structural aid" in the member state concerned. The Foreign Affairs Council subsequently reached agreement on 21 November on the horizontal regulation and the three other structural fund implementing regulations.

2. The reserve was lifted following clarification by the Commission of how they intend to apply the new provision. Briefly, the Commission has made clear that it will focus on the UK's extra receipts in future years from the increased appropriations for the European Regional Development Fund (ERDF), by comparison with its ERDF receipts in 1988; and will be looking for an equivalent increase over 1988 expenditure levels in total expenditure in the UK financed either by the ERDF itself or by analogous national programmes.

3. Whilst it is difficult to be precise about such forecasts, our current best estimates - compiled with the help of your Department and others - are that future

increases in overall UK public expenditure in the broad fields aided by the ERDF (in particular, central government, local authority and public corporation infrastructure) are likely to exceed any increase in UK receipts from the ERDF. So we are likely to be able to demonstrate additionality to the Commission's satisfaction.

4. Article 9 of the new horizontal regulation should not therefore lead to any increase over planned levels in our public expenditure, or compromise the Government's ability to maintain firm control over public expenditure. It was on that basis that the Prime Minister agreed to the UK's reserve being lifted.

5. Consequently I do not propose that we should make any substantive changes, as a result of the new regulation, in the way we manage our public expenditure as regards receipts from the Community's structural funds. We shall of course need to consider in due course how best to present our public expenditure arithmetic to the Commission. But there should be no need to change the basic rule which we have operated hitherto, namely that, since EC receipts are taken into account when overall public expenditure plans are set ("global additionality"), such receipts cannot then be treated as additional to the planned level of public expenditure.

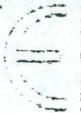
CONFIDENTIAL

6. I am copying this to Geoffrey Howe, Tom King, Malcolm Rifkind, Peter Walker, Nicholas Ridley, Norman Fowler, John MacGregor and Sir Robin Butler.

JOHN MAJOR

- 3 -

CONFIDENTIAL



The Secretary General

Brussels, 9 November 1988
DFW/tp CB(ES)D/12645

Adel 4/10/88

Reported by telegram to J.L. ...

1. *Reponse to Mr. ...*
The ...
EOK. PS.

2. Mr. Arthur / Mr. Powell.

1. ...
2. ...

Dear David,

D.F. Williamson

R. ...

Reform of the Structural Funds : additionality

We discussed this point at your request on 3 November. I am glad to confirm my explanation of the basis on which the Commission, in consultation with member states, intends to implement the provisions of Article 9 (2) of the horizontal regulation on the Structural Funds.

This Article applies to the increase in structural fund appropriations provided for in Article 12 of Regulation 2052/88. As a result of the decisions of the Brussels European Council that increase amounts cumulatively to 13 billion ecu (1988 prices) over the period between 1989 and 1992. The requirement for the Commission and member states to ensure at least an equivalent increase in structural aid relates to additional receipts by the member state arising directly from these increased appropriations. For the purpose of calculating any such additional receipts the base year will be 1988. By way of illustration, if receipts in that year were 100 units and in 1989 rose to 110 units as a result of the increase in the structural fund appropriations, the Commission and the member state concerned would need to ensure that official structural aid in the member state had also been higher than in 1988 by 10 units.

I hope that this makes the position clear.

Yours sincerely,

D.F. Williamson

D.F. Williamson

His Excellency
Sir David H.A. Hannay, KCMG,
Ambassador and United Kingdom
Permanent Representative to
the European Communities,
Rond-point Schuman 6,
B - 1040 Brussels.

*ps/Chamberlain
a Mr RIG Man
Mr Turnbull
Mr ...
Mr ...*

198



OFFICE OF THE UNITED KINGDOM
 PERMANENT REPRESENTATIVE
 TO THE EUROPEAN COMMUNITIES
 ROND-POINT ROBERT SCHUMAN 4
 1040 BRUSSELS

FROM THE PERMANENT REPRESENTATIVE

Mr D F Williamson
 Secretary General
 Commission of the European Communities
 200 Rue de la Loi
 Brussels

1. Ref to
 Mr Arthur : ECD I
 Mr Pares : HMT.
2. cc JOC.
3. Mr Plouman : for UK rep file.

TELEPHONE 230 62 05

JDL.
 21/11

21 November 1988

Dear Secretary-General,

Thank you for your letter of 9 November about the basis on which the Commission intends to operate Article 9(2) of the horizontal Regulation on the Structural Funds.

You subsequently explained that, in looking for increases in the total volume of spending (Community and National) in the Member State concerned "at least equivalent" to additional receipts by that Member State, the Commission will in practice consider only total ERDF and analagous national spending, and receipts arising directly from the increase in ERDF appropriations.

You also confirmed that the Commission do not intend to change this basis of operation during the life-time of the Regulation.

It is on this basis that the United Kingdom will today lift its one remaining reserve on the Regulations.

The Secretary
David Hannay
 D H A HANNAY

1. Mr. Wags 22/11 p.m. cf. (copy) Mr. D...
2. Mr. Mece

WML
22/11



COMMISSION
OF THE EUROPEAN
COMMUNITIES

The Secretary General

Brussels, 20 November 1988
SG(88)D/10207 DEW/bp

The Director
of the...
The...
JOK.

Handy copy of
policy...
At 22/11

D. David

STRUCTURAL FUNDS: ARTICLE 9 OF DRAFT
HORIZONTAL REGULATION.

Thank you for your letter of 21 November. I confirm
that in practice the position with respect to the United
Kingdom is as set out in your letter.

Yours sincerely,

David Williamson

D.F. Williamson

His Excellency
Sir David H.A. Hannay, KCMG,
Ambassador and United Kingdom
Permanent Representative to
The European Communities,
Rond-point Schuman 6,
B-1040 Brussels.

Mr J. Taylor As requested, the exchange of letters referred
to in UKREP Telno 3486 of 21 November (Para 15).

Chris Evans
22/11/88

cc PS/CST
PS/PNG
Mr Lankester
Mr Allen o/r
Mr Turnbull
Mr Meyer o/r
+ Mr Northover (23/11)

406
11