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ESPRIT

EUROPEAN

POLICY

November 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
28.2.84							
1.3.84							
19.3.84							
28.6.84							
<p>PREM 19/1481</p>							

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
OD(E) (83) 7	14.11.83
OD(E) (83) 3rd Meeting, Minutes	17.11.83
CC(83) 37th Conclusions, Minute 3	15.12.83
CC(84) 8th Conclusions, Minute 3	1.3.84
OD(E) (84) 4th Meeting, Minute 2	28.6.84

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed Wayland

Date 7 January 2014

PREM Records Team

BRIEF FOR THE DEBATE
ON
EUROPEAN COMMUNITY DOCUMENT 7619/83
on DEVELOPMENTS IN INFORMATION
TECHNOLOGY (ESPRIT)
House of Commons
Wednesday 21st March 1984

*Dunlop
20/3*

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ESPRIT

Background

The European Strategic Research Programme in Information Technology (ESPRIT) is designed to assist in the fulfilment of the second of six goals, outlined in the EEC's document 'A Framework Programme for Community Scientific and Technical Activities 1984-1987', promoting industrial competitiveness.

The programme has been developed in response to a growing awareness that Western Europe has been lagging behind the United States and Japan in the field of Information Technology (IT).

Co-operation between Community Member States is the most effective method of placing Western Europe in the forefront of IT in the next decade, as the high research costs involved are generally beyond the resources of one country acting alone.

Agreement was reached by the Council of Ministers in June 1982, adopting guidelines for the project. Pilot projects were set in train during 1983, following the Council's meeting in November 1982. Ministers at the Community's Research Council on 28th February 1984 came to a final agreement on the allocation of funds for ESPRIT and the workplan and management arrangements for the programme.

Initially ESPRIT will run for a period of five years from 1984, at a total cost of 1500 million ECUs, (some £850 million), although the Community will only contribute 750 ecus.

Pilot projects, working from a budget of £6.5 million, have already taken place. UK companies, notably GEC; ICL and Plessey have participated in 21 of the 36 contracts that have been awarded. In 11 of these contracts British firms have taken the leading role. The Government has given its support to the principle of the ESPRIT programme from the outset and has taken a full part in the administrative arrangements for the programme.

B. Objectives

The primary strategic objective of ESPRIT for the Community as agreed with industry and Member States is:

The achievement of technological parity with, if not superiority over, world competitors within 10 years'.

The Community is therefore aiming to attain product leadership in the next generation of IT. The high rate of obsolescence in IT has meant that scarce financial resources will be focussed on a few selected key strategic technological objectives. These objectives are based on the assumption that an increasing number of people will have to use this technology and the impact of IT on social and economic life will have to be fully taken into account.

Research will therefore concentrate on areas which enhance the following objectives.

Man-machine interface: Establish easier and more natural ways for the user to operate the machinery.

Intelligence: Increase the flexibility of the machine to cope with wider, less specific commands.

Access: Increase available access to information across a broad spectrum.

Security: As information becomes more available, so its protection from improper use must be strengthened.

Reliability: Reduce the risk of malfunction as systems become more complex.

Success of the programme would make three major contributions:

- by placing Western Europe in a better position to compete for potentially very valuable markets;
- by reducing our industrial and economic dependence on foreign technology;
- by making a major step forward in the field of European co-operation.

C. Need for Community Co-operation

It has been estimated that 80 per cent of current investment in European R & D is related to catching up on the lead established by the USA and Japan.

This has meant that the Community has only captured 10 per cent of the lucrative world IT market (valued in the region of £55 billion annually) and only 40 per cent of its own domestic markets.

In 1975 the Community had a trade surplus in IT products. By 1980 the trade deficit was \$ 5 billion and by 1982 was estimated to have reached \$10 billion.

Evidence compiled by the Commission suggests that the Community-wide effort is being blunted by a duplication of effort between Member States in R & D investment and that the volume of resources committed in Community countries individually is too small to be effective.

The potential rewards in establishing a lead in the next generation of IT products are immense. Growth in this sector is expected to continue at 8 - 10 per cent until 1990 by which time it will be one of the world's largest manufacturing sectors.

The Commission has said:

'If the market in the Community for IT products had developed at the same rate as that in the USA and Japan, supplying this additional demand would have provided perhaps 2,000,000 jobs' (COM (83)258).

D. Details of the Programme

ESPRIT will be directed towards 'pre-competitive' R & D. European industry will be able to collaborate without impeding its ability to compete for markets as none of the work will be carried to a stage where it can be directly applied commercially.

Funding. The programme will involve co-operation between governments, industry and academic institutions. Overall funding will reach 1500 million ecu spread over five years, 50 per cent being Community funds, with matching contributions from industry.

The UK share will depend on the number of contracts gained by UK companies, however, the Government estimates that the cost would be around £85 million. This level of pre-competitive R & D would represent around 6 per cent of total industrial R & D investment in Community IT, very much in line with our major competitors.

The UK Government, together with our Community partners, have looked for ways of financing ESPRIT which allowed it to proceed before the wider budgetary problem was solved.

As Mr Kenneth Baker MP, reported to the House of Commons:

'This does, however, require agreement on common priorities for Community R & D expenditure. Both the Commission and other Member States have now endorsed ESPRIT being given sufficient priority to ensure that necessary funds will be allocated to it over the next five years within the resources available to the Community' (Hansard, 29th February 1984, Col. 170).

This reflects the Government's view that a shift of resources away from the present weighting in favour of agriculture was desirable.

Scope of the Programme

ESPRIT will run for a five-year period with a review after 30 months. There is also an option to extend the period of the programme for a further 5 years in 1987. This will offer a degree of certainty for companies that will have a beneficial affect on their planning process.

Five main areas will be covered:

- 1) Advanced microelectronics
- 2) Computer integrated manufacturing
- 3) Software technology
- 4) Advanced information processing (man-machine interface)
- 4) Office systems.

Opto-electronics are also covered, as also are elaborate microchip materials.

Certain aspects of ESPRIT are complementary to the £200 million UK Alvey Programme on advanced IT, particularly in the field of software technology and man-machine interface. The development of ESPRIT will however release resources from the Alvey Programme, where the UK level is the most appropriate level to carry out the research. Participation in Alvey already enables UK firms to keep up to date in developments in IT and therefore able to participate in other collaborative ventures.

Commercial Exploitation

This scope of R & D proposed will require to be developed further before it can be exploited commercially.

Ownership and the right to exploit any information and industrial property rights resulting from the work under contract will normally reside with contractors. Companies not participating in a specific project, but who might be able to use its results will have the

opportunity to acquire rights.

Conclusion

The Prime Minister, reporting on the Athens Summit-- underlined the potential importance of ESPRIT:

'I would like there to be some room made in the agricultural budget in order to get more industrial co-operation like ESPRIT and, of course, outside the Community we have matters to consider that we are now considering such as Airbus. We shall not have aircraft and high technology industries in Europe unless we are prepared to have much more co-operation than we have at present' (Hansard, 7th December 1983, Col. 332).

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TECHNOLOGY: THE CONSERVATIVE GOVERNMENT'S RECORD

The Rt Hon Mr Kenneth Baker, the Minister for Information Technology, has said:

'The micro chip revolution has started. It will bring new opportunities and new jobs. Britain must not miss out on this. We've recognised the importance of this by increasing research and development in the new technologies; by creating new areas of investment opportunity in telecommunications and recabbling Britain, and by increasing computer training for youngsters in school.

'We are the only party that has effective policies for our future industries. The other parties have produced no new ideas or proposals for the new industries. In our second term we will build on the foundations laid in the last 4 years in supporting Information Technology'. (Technology - The Government's Record).

Achievements in Industry

Government support for the new technologies was £50 million in 1979. In 1983-4 it will be £200 million. This is provided mainly by grants for research and development carried out by companies. (see above).

- * There has been a boom in microcomputers. Over 50 companies are now designing and making computers in Britain. Sinclair is the first company in the world to sell over 1,000,000 micros. Britain has the highest penetration of micro-computers per head in the world.
- * We have provided more support - some £80 million - for a National Space Programme because Britain has a successful space industry. We are making 11 communications satellites.
- * We have provided £55 million for companies making fibre optic cable and laser equipment. This was a British invention.
- * We are providing £70 million to equip British factories with the latest robots and advanced manufacturing systems and to ensure that these are made in Britain.
- * We have provided £130 million to help small engineering firms buy the advanced machine tools they need to take advantage of the economic upturn.

New Investment

- * We are a magnet for new investment by foreign companies:

Hewlett Packard at Bristol for computer peripherals
Wang at Stirling for office equipment
IBM at Greenock for micros
Nippon Electric in Scotland for chips
National Semiconductor in Scotland for chips
Sanyo in Lowestoft for video recorders
Sony in South Wales for TV tubes
Mitel in Wales for telephone exchanges
Unimation in Telford for robots

All this is new or increased investment by international companies. Thousands of new British companies have been started, making hardware and software for the new technologies.

New Opportunities

- * By ending BT's monopoly we have stimulated British manufacturers to design and make new telephone equipment.
- * We have licensed 2 companies to provide mobile telephone services from January 1985. By the end of the decade this could provide an extra 10,000 jobs.
- * We have given a licence to the private company Mercury to establish an additional business telephone network to compete with BT.
- * We have given the go-ahead for an early start on cabling Britain to provide a broad range of new communication services including entertainment. This is a great opportunity for British equipment and manufacturers as well as programme makers.

Research

- * We have launched the largest collaborative research programme since the war - the Alvey Programme. It makes available £350 million over 5 years; and involves companies, universities and Government in designing and developing the next generation of computers.
- * We are spending £37 million on developing products and techniques for computer aided design and helping British companies adopt them.
- * We have allocated £25 million to put Britain among the leaders in the development and commercial exploitation of biotechnology.

Training

- * Every secondary school now has at least 1 microcomputer as a result of our micros-in-schools scheme. Already 10,000 of our primary schools have them as well.
- * Colleges of Further Education will be receiving new British computer controlled machine tools.
- * An extra £100 million over 3 years has been allocated for Information Technology training at Universities and Polytechnics.
- * We are setting up a national network of Information Technology centres to train unqualified and unemployed youngsters in the computer and electronic skills. By the end of 1983 there were 150 with over 5,000 trainees.

The Compassionate Face of Technology

- * We are financing the development of a wide range of high technology aids for the disabled, the elderly and for children with learning difficulties and physical handicaps.
 - special telephones for the deaf and blind, whose interests are specifically safeguarded by the Telecommunications Bill;
 - portable reading aids for the blind;
 - special computer keyboards and software to allow handicapped children to use computers; and
 - computer systems to allow the handicapped to have normal jobs working from home.

* In the treatment of the sick, we have introduced a number of major initiatives in medical electronics and £ for £ help to doctors and dentists to use microcomputers in their surgeries to improve the quality of health care.

Conservative Research Department
32 Smith Square LONDON SW1P 3HH

AD/CR
19.3.84



10 DOWNING STREET

Prime Minister ②

To note the understanding reached on Esprit. In the event Mr Baker did not need to go above 600 mecu

AT

28/2

ms



10 DOWNING STREET

From the Private Secretary

28 February 1984

ESPRIT

The Prime Minister has seen your Secretary of State's letter of 27 February to the Chancellor, and the replies from the Chancellor and the Foreign Secretary. The Prime Minister took the view that Mr. Baker should argue at the Research Council for a limit of 600 mecu in 1985 for Community research and development in Chapter 73, but that if it would secure agreement, he could, as a last resort, agree to a figure up to 670 mecu. This view was communicated this morning to Mr. Baker in Brussels. The Prime Minister has noted, however, that in the event this did not prove necessary as an understanding was reached on a limit of 600 mecu.

I am copying this letter to John Kerr (HM Treasury) and Roger Bone (FCO).

Andrew Turnbull

Callum McCarthy, Esq.,
Department of Trade and Industry.

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SIR C HICKELL
MR HANNAY
MR ADAMS
MR THOMAS JC

RESIDENT CLERK

PLUS FCO

ED/EOD (I) (S)
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CABINET OFFICE

MR D WILLIAMSON
MR G STAPLETON
MISS S J LAMBERT
MR J C MACKENNEY
MR NICHOLSON

DTI (ASHDOWN HSE)
DOE

MR G DICK
MR J INGRAM
MR K BINNING
MR O KEMMIS (SPL)
RM232 ASHDOWN HOUSE

PLUS OGDS

No. 10 D.S.K.

H M TREASURY

MISS J E COURT
MR UNWIN
MR FITCHEW

MR A BERRY, ECIP(2)
PS/MR BAKER
MISS LACKEY
MR WALICER (ALVEY)

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TELEGRAM NUMBER 701 OF 28 FEBRUARY
INFO ROUTINE PARIS BONN

IMMEDIATE
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RESEARCH COUNCIL : 28 FEBRUARY 1984
ESPRIT

1. MR BAKER CALLED ON DAVIGNON, RIESENHUBER (FRG) AND FABIUS (PRESIDENCY) BEFORE THE COUNCIL.
2. MR BAKER TOLD DAVIGNON THAT HE CONTINUED TO BE EXTREMELY CONCERNED ABOUT THE BUDGETARY POSITION IN 1985. HE NEEDED A PRIVATE ASSURANCE THAT PAYMENTS IN THAT YEAR WOULD NOT EXCEED 600 MECU. DAVIGNON REPLIED THAT EXPENDITURE ON R AND D WAS CLEARLY RELATED TO WHAT THE BUDGET WOULD ALLOW AND THAT THE INCREASE IN 1985 WOULD BE VERY SLIGHT. BUT HE WOULD NOT RULE OUT THE POSSIBILITY OF FUNDS BEING TRANSFERRED WITHIN THE BUDGET FROM AREAS OF LESSER PRIORITY. HIS BID WAS FOR 1.2 BILLION ECU FOR RESEARCH FOR R AND D IN 1984/1985, BUT THIS COULD NOT BE ACHIEVED IF SECTORAL CEILINGS LIMITED FLEXIBILITY.
3. MR BAKER POINTED OUT THAT DAVIGNON'S OBJECTIVE OF 700 MECU IN 1985 (GIVEN 500 MECU IN 1984) WOULD UNDOUBTEDLY BE PARED DOWN. EXPERIENCE SHOWED 600 MECU TO BE A REALISTIC MAXIMUM. DAVIGNON SAID THAT HE WOULD NOT EXCLUDE 'A PRIORI' THAT HIS COLLEAGUES WOULD AGREE TRANSFERS FROM OTHER SOURCES IN FAVOUR OF R AND D. BUT WHILST HE MIGHT HOPE FOR MORE. HE DID NOT EXPECT PAYMENTS IN 1985 TO EXCEED

mf

TRANSFERS FROM OTHER SOURCES IN FAVOUR OF R AND D. BUT WHILST HE MIGHT HOPE FOR MORE, HE DID NOT EXPECT PAYMENTS IN 1985 TO EXCEED 600 MECU AND CONFIRMED THAT R AND D ACTIVITIES IN THAT YEAR WERE CAPABLE OF BEING MANAGED WITHIN SUCH A PAYMENTS TOTAL. HE COULD LIVE WITH 600 MECUS. MR BAKER SAID THAT DAVIGNON'S NEGOTIATIONS WITH HIS COLLEAGUES WERE A SEPARATE ISSUE. HE WELCOMED DAVIGNON'S STATEMENTS AND CONSIDERED THAT ESPRIT COULD PROCEED ON THIS BASIS, AT A LEVEL OF 750 MECU OVER FIVE YEARS IF OTHER MEMBER STATES AGREED.

4. IN SUBSEQUENT DISCUSSION WITH RIESENHUBER, MR BAKER OUTLINED THE BASIS OF HIS AGREEMENT WITH DAVIGNON AND SAID THAT WE WERE NOW CONVINCED THAT R AND D EXPENDITURE COULD BE MANAGED WITHIN AN OVERALL LEVEL OF 600 MECU. RIESENHUBER WARMLY WELCOMED THIS AND SAID THAT CHANCELLOR KOHL ATTACHED IMPORTANCE TO ESPRIT GOING AHEAD TODAY. DISCUSSION IN OPEN COUNCIL WOULD BE COUNTERPRODUCTIVE, BUT WE SHOULD AIM TO ENFORCE IT IN THE FUTURE THROUGH THE RESEARCH AND BUDGET COUNCILS. HE READILY AGREED TO MR BAKER'S SUGGESTION THAT UK AND GERMAN OFFICIALS SHOULD WORK TOGETHER SO AS TO ENSURE THAT 600 MECU WAS NOT EXCEEDED. THE MINISTERS ALSO AGREED THAT AGREEMENT MIGHT BE REACHED ON THE ENVIRONMENT PROGRAMME AND THE JRC GOVERNING BOARD AS WELL AS ESPRIT AT THIS COUNCIL, BUT ON NOTHING ELSE. THEY CONSIDERED THE COMMISSION'S PROPOSALS ON BIOTECHNOLOGY TO BE OVER-AMBITIOUS.

5. FABIUS WELCOMED THE PROSPECT OF AGREEMENT ON ESPRIT AT THIS COUNCIL AND DID NOT DISPUTE THAT THE COMMISSION SHOULD BE ABLE TO LIVE WITH MAXIMUM PAYMENTS OF 600 MECU IN 1985.

6. ESPRIT WAS SUBSEQUENTLY AGREED AT THE COUNCIL WITH FUNDING OF 750 MECU.

COMMENT

7. RIESENHUBER'S READY AGREEMENT TO WORK FOR A LIMIT OF 600 MECUS IN 1985, COMBINED WITH PROBABLE FRENCH WILLINGNESS TO COOPERATE, SHOULD ENSURE THAT NOT MORE THAN THIS FIGURE GOES INTO THE COUNCIL'S DRAFT BUDGET, EVEN IN THE RELATIVELY UNLIKELY EVENT OF DAVIGNON GETTING THE COMMISSION TO GO SLIGHTLY ABOVE IT.

FCO ADVANCE TO:

FCO - HANWAY, FAIRWEATHER
CAB - WILLIAMSON, STAPLETON, MISS LAMBERT, NICHOLSON
DTI - PS/MR BAKER, MISS LACKEY, INGRAM, WALKER (ALVEY)
TSY - UNWIN, FITCHEW

NO.10

BUTLER

NNNN



FCS/85/60

CHANCELLOR OF THE EXCHEQUER

ESPRIT

1. I was concerned to receive a copy of Norman Tebbit's letter to you of 27 February about further problems that have arisen over the ESPRIT programme.

2. I was under the impression that what was agreed in EA last week was that we should give the green light to this programme at the Research Council on 28 February so long as we received assurances from the Commission that the Community's R and D spending in 1985 would not go beyond a bracket 600 mecu - 670 mecu. Since then there has been some confusion among officials about what constituted R and D expenditure and this led to DTI and Treasury officials revising the objective. Kenneth Baker was asked to achieve to the lower end of the bracket. I have no objection to his doing his very best to get agreement on that basis, but I do not think it would be right for us to block agreement in isolation in Brussels if the assurances we could get came above that figure but still fell within the bracket we agreed. As Norman Tebbit says, the pressure we would then come under and the damage to our Community policies would be quite disproportionate.

3. As to the PESC (EC) baseline for R and D, a problem will only arise for Norman if not only is the assurance we get from Davignon above the 600 mecu allowed for by Treasury officials, but the figure actually entered in the 1985 Community Budget also exceeds 600 mecu, which is a great deal less likely since both within the Commission and in the Budget Council opening figures are invariably reduced and this will be all the more likely in a tight year like 1985. I hope you can assure Norman that if the 1985 budget figure for R and D exceeded 600 mecu but was less than 670 mecu you would be prepared to move the baseline. Meanwhile,



Kenneth Baker tomorrow and the rest of us in the Community's 1985 budget process would seek to ensure that that did not happen.

4. I hope very much that you can give Kenneth Baker the flexibility which Norman Tebbit sought to enable him in the last resort to accept assurances from the Commission to keep R and D spending below 670 mecu.

5. I am copying this minute to the Prime Minister, the Secretary of State for Trade and Industry and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office
27 February, 1984



JH 966

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

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27 February 1984

The Rt Hon Nigel Lawson MP
 Chancellor of the Exchequer
 HM Treasury
 Parliament Street
 London SW1

D. Nigel.

ESPRIT

Kenneth Baker is leaving tonight for tomorrow's meeting of the Community's Research Council, at which ESPRIT will be the main item. He will stand firm in insisting on an undertaking from Davignon that expenditure on ESPRIT, together with the rest of Community R&D in Chapter 73 and any appropriations in Chapter 100 that are earmarked for Chapter 73, can all be accommodated within an envelope of 600 MECU during 1985. This reflects the agreement reached on Friday between our officials that the PESC(EC) baseline for R&D will not be less than the envelope agreed in Brussels for such Community R&D expenditure.

2 I hope, of course, that Davignon will give such an undertaking. If he does not, Kenneth Baker will seek the support of other Member States, but I am not optimistic about his securing it, even from the Germans. There is a real possibility that at the end of the day we shall find ourselves isolated in blocking ESPRIT because we cannot secure the undertaking we seek on the envelope for all R&D expenditure.

3 I think we need to decide whether in that event Kenneth Baker should be authorised to settle for a somewhat higher figure - up to a maximum of 670 MECU. If he does, it must be on the understanding that the PESC(EC) baseline for R&D will move up to the same figure, so that I am not faced with a demand for off-setting savings from the DTI's own programmes.

4 I believe we should be prepared, in the last resort, to go as far as this. If we do not, in the circumstances I have outlined, we shall be exposed to immense pressure, at home as well as from other Member countries, following the Research Council's failure to agree. We might well find it politic then to give way, in the interests of our other negotiations in the Community; but we should then be seen to have been defeated on a



question of containing expenditure, and we should have meanwhile incurred much ill-will to no purpose.

5 If Kenneth's instructions are to be changed, he will need to know by mid-morning (Brussels time) tomorrow. I should therefore be very grateful to have your views as soon as possible.

6 I am sending copies of this letter to the Prime Minister and the Foreign Secretary, and to Sir Robert Armstrong.

of
Norman

NORMAN TEBBIT

What worries me is the point in para 4. Given a little negotiating room K. B. may be able to do a deal between 600 and 670 MEcu. If we block the deal by sticking at 600 we may find that in a few weeks, as part of a broader settlement we are pushed into an agreement at a higher figure — at a cost to credibility as well as cash!

N



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

27 February 1984

The Rt. Hon. Norman Tebbit MP
Secretary of State for Trade and Industry

New Secretary of State,

with ✓

Thank you for your letter earlier today about ESPRIT.

Your officials and mine have recommended that we should press the Commission for a firm assurance - whether given publicly or privately - that the R & D expenditure in Chapter 73 of the Community Budget will be contained within the limit of 600 mecu in 1985. That still seems to me to be the right objective, and one that should not be difficult to defend. Expenditure in the 1984 Community Budget in this chapter totals only 505 mecu. Accordingly, even after allowing for the estimated increase in expenditure on ESPRIT in 1985, a 600 mecu limit will already provide for an increase of some 7½ per cent on other R & D projects in a year when the Community's resources will be very tightly stretched. Our previous joint proposal to E(A) was that the upper limit of 670 mecu for 1984 and 1985 should apply to Chapters 70-73 of the Budget, ie. that it should also cover energy demonstration projects. I see no reason for us now to agree to go beyond 600 mecu for Chapter 73 expenditure on its own. Provided the Community takes a suitably firm line on non-priority projects, there is no reason why a ceiling of 600 mecu should be infringed. I hope therefore that Kenneth Baker will continue to press for the 600 mecu ceiling, as recommended by your officials and mine.

It follows that I do not think a further addition to the PES baseline for Community R & D expenditure in 1985 would be justified.

Copies of this letter go to the other recipients of yours.

*Yours ever,
Nigel Lawson*

pp. NIGEL LAWSON

Mr. Turnbull.

PRIME MINISTER

I have told Mr.

ESPRIT

Baker's P.S. in Brussels.

A.F.C. 25/2

The minutes of E(A) indicated that, at the next Council of Ministers (Research) the UK could settle for an Esprit programme so long as this could be accommodated within a ceiling of around 600-670m ecu for Community R and D. Mr. Tebbit has written to the Chancellor - see attached - seeking agreement for Mr. Baker to open at 600 mecu, with authority to settle up to a maximum of 670 mecu, though it is not certain that this flexibility would be needed in full.

Though this appears to be within the E(A) agreement, the Treasury are disputing it. They argue that the 600 mecu figure was intended to cover not just expenditure in Chapter 73 but expenditure in Chapter 71 - 72 as well, while Mr. Tebbit is seeking to apply the 600 mecu, or possibly 670 mecu to cover Chapter 73 alone. The effect of this in Treasury eyes would be to allow an additional 70 mecu in the other Chapters of which our share is about £9m. The Chancellor may argue that the higher figure should be agreed only if the UK's share of the excess is matched by offsetting savings from Mr. Tebbit's programmes. This Mr. Tebbit refuses to contemplate. *Chancellor's letter has not arrived but argues 600 is enough for Chapter 73 alone.*

The Foreign Office are supporting DTI, arguing that it is not worth holding out for this small amount as it is likely to be conceded anyway in the wider settlement at the Summit. In their view, we would have succeeded only in incurring ill will.

There is thus a choice:

- i) Backing the Chancellor with the risk that Esprit might not be settled before the Summit;
- ii) }} Backing Mr. Tebbit and the Foreign Secretary in order to settle Esprit before the Summit.

MT

Which course do you wish to follow?

HT
(ii)
MT

Andrew Turnbull
27 February 1984



Dub
15/2

CABINET OFFICE

Mr Barclay

With the compliments of

D F Williamson

15 February 1984

70 Whitehall, London SW1A 2AS
Telephone 01 233

CONFIDENTIAL

Mr Barclay



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 7256

Qz.03590

15 February 1984

Miss M J Lackey CBE
Department of Trade and Industry
1 Victoria Street
London SW1

Dear Miss

ESPRIT

In order to avoid any misunderstanding, I thought that I should clarify one point referred to in the record of the Prime Minister's meeting with Mr Davignon on 13 February. Some Departments have queried the reference to the budget problem in the last sentence of the seventh paragraph of Mr Barclay's letter of 13 February to Mr Bone. As I was present at the meeting and with Mr Barclay's agreement, I should make clear that the Prime Minister, stressing that there should be more attention to priorities in Community research and development programmes, said that she would certainly need to be satisfied that the finance would be available for ESPRIT and that the budget situation was very relevant to the funding of the proposed programme. In short, the United Kingdom had to be satisfied on the financing of ESPRIT. Subject to this, however, the Prime Minister did not rule out a decision on ESPRIT before the whole post-Stuttgart package on the financing of the Community had been decided and put into place.

I am sending copies to Brian Unwin (Treasury), Sir Crispin Tickell and David Hannay (FCO) and to the recipients of David Barclay's letter of 13 February.

Yours sincerely,

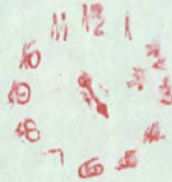
David Williamson

D F WILLIAMSON

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Education - New Blood for Research Nov. 67

JAN
5 1984





TMP

10 DOWNING STREET

From the Private Secretary

MR. WILLIAMSON
CABINET OFFICE

Thank you for your minute of today's date enclosing a draft letter to Miss Lackey in the Department of Trade and Industry about the Prime Minister's comments on ESPRIT.

I am entirely content for you to write as you propose.

MR. D. BARCLAY

15 February 1984

MR



CONFIDENTIAL

Qz.03591

MR BARCLAY

--- We spoke about the Prime Minister's discussion with Mr Davignon about ESPRIT on 13 February. United Kingdom Ministers are being invited to take a decision at E(A) on 21st February about the funding of ESPRIT. It would be preferable that no Department should try to take as a hostage the last sentence of the seventh paragraph of the record which you sent to Roger Bone on 13 February. If you agree, therefore, I thought I should send the attached letter to Miss Lackey (DTI).

I should perhaps add that I have confirmed with the Commission that they expect the public intervention stock of skimmed milk powder to exceed 1 million tonnes and the public intervention stock and publicly aided stock of butter to exceed 1 million tonnes within about 6 weeks. The current stocks are approaching these levels and on 9 February were 970,642 tonnes of skimmed milk powder and 874,012 tonnes of butter (of which 765,101 tonnes were public intervention stock and 108,911 tonnes were the publicly aided stock).

D F WILLIAMSON

15 February 1984

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CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 7256

Qz.03590

15 February 1984

Miss M J Lackey CBE
Department of Trade and Industry
1 Victoria Street
London SW1

ESPRIT

In order to avoid any misunderstanding, I thought that I should clarify one point referred to in the record of the Prime Minister's meeting with Mr Davignon on 13 February. Some Departments have queried the reference to the budget problem in the last sentence of the seventh paragraph of Mr Barclay's letter of 13 February to Mr Bone. As I was present at the meeting and with Mr Barclay's agreement, I should make clear that the Prime Minister, stressing that there should be more attention to priorities in Community research and development programmes, said that she would certainly need to be satisfied that the finance would be available for ESPRIT and that the budget situation was very relevant to the funding of the proposed programme. In short, the United Kingdom had to be satisfied on the financing of ESPRIT. Subject to this, however, the Prime Minister did not rule out a decision on ESPRIT before the whole post-Stuttgart package on the financing of the Community had been decided and put into place.

I am sending copies to Brian Unwin (Treasury), Sir Crispin Tickell and David Hannay (FCO) and to the recipients of David Barclay's letter of 13 February.

D F WILLIAMSON

CONFIDENTIAL



FUE

27

10 DOWNING STREET

From the Private Secretary

13 February, 1984

ESPRIT

The Prime Minister has read and noted the contents of the Foreign and Commonwealth Secretary's minute of 10 February.

I am copying this letter to Callum McCarthy (Department of Trade and Industry), John Kerr (HM Treasury) and to Richard Hatfield (Cabinet Office).

A. J. COLES

R. Bone, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

Lo



CONFIDENTIAL

Prime Minister

A.F.C. 107
/2.

PM/84/28

PRIME MINISTER

ESPRIT

in meeting folder

1. I have seen a final draft of the brief agreed by officials for your use with Davignon on 13 February. I have also just received Nigel Lawson's minute of 9 February. *TPM?*

2. I am very pleased that we are all now agreed that we should back the approach to Community R & D proposed by the Germans at the January Foreign Affairs Council (ie, to agree to ESPRIT on condition that the Community concentrates on three priorities, cuts back on programmes of lower priority, and, so long as the 1% ceiling applies, ensures that all Community R & D is financed within a financial envelope of the order of 600 mecu per annum). I will take this line myself when I see Davignon on Monday, stressing the need for the Commission to provide a clear idea of how the priority programmes in the German proposal are to be financed and the implications for other programmes, as a necessary basis for agreement at the 28 February Research Council. I would indicate that our approach at the February Research Council will be strongly influenced by whether the Commission can demonstrate convincingly that there will be strict control of total Community R & D expenditure and concentration on the priority programmes, above all ESPRIT.

3. I propose to take a similar line with the Select Committee when I give evidence on 15 February, if as is likely, they ask about ESPRIT.

4. Nigel Lawson is obviously right to point out that we shall be unable to resolve the attribution problem before Davignon's visit. I would just like to underline the importance of our being in a position to agree ESPRIT at the Research Council on 28 February. If we are unable to do so and find ourselves

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/blocking



blocking the programme in isolation, it would damage our overall negotiating position and confirm the suspicion that our approach to the Community is almost wholly subordinate to the Budget, even where the programme is supported by and favourable to the research efforts of British industry. A further point to take into account is the increasing political embarrassment at home. You may have seen that in the White Paper debate on 26 January Robin Cook attacked our position on ESPRIT vigorously and, although Ian Stewart did well in his reply, pointing out inter alia that there is a provision in the Budget for the early stages of ESPRIT, for which he had himself voted in the Budget Council, I do not believe that our defence is entirely convincing. Our position is also not understood by British industry, which is fully in support of this programme (you will be aware, for example, of the views of Walter Goldsmith of the Institute of Directors, on this subject). It would be an unhappy achievement if we united left and right against us on this issue.

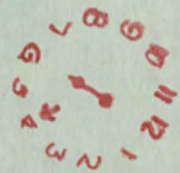
5. I am copying this minute to Norman Tebbit and Nigel Lawson and to Sir Robert Armstrong and Dr Nicholson.

GEOFFREY HOWE

Foreign and Commonwealth Office

10 February 1984

Education : Avery Revue Nov 82



110
1984



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

FOREIGN AND COMMONWEALTH SECRETARY

Prime Minister.

To be aware.

ESPRIT

A.J.C. 10/2.

We talked on Tuesday evening about the German proposal for an "envelope" of about 600 mecu a year for R&D programmes. I told you that I agreed that this was helpful, and that I would be content for the UK to support the Germans, subject to clarification of the figures and a clear understanding with the Commission about the Council's conditions. In particular, we should need to be sure that there would be a cut-back in the level of commitments on the R&D programmes which were assigned a lower priority, and that payments in the later years would not exceed the agreed "envelope" level.

2. So far as ESPRIT is concerned, however, there still remains the outstanding question of the public expenditure handling of our contribution to the programme. It is unfortunate that Norman Tebbit's absence makes it impossible for us to get together, as you had suggested, to discuss this matter before Davignon's visit. But we would not in any case have been able to say anything substantive to Davignon before the E(A) discussion on 15 February. I hope it will be possible for us then to reach solutions both on the wider attribution issue and on the particular problem of ESPRIT. That should be in good time for the 28 February Research Council.

3. I am sending copies of this minute to the Prime Minister, the Secretary of State for Trade and Industry, Sir Robert Armstrong and Dr Nicholson.

N.L.

8 February 1984

EDUCATION : Amey
Nurse



CABINET OFFICE

~~Central Policy Review Staff~~

70 Whitehall, London SW1A 2AS Telephone 01-233 7089

W.0103

6 February 1984

PS/Secretary of State for Trade and Industry
1 Victoria Street
London SW1

A.S.C. $\frac{6}{2}$.

La-

Dear Private Secretary,

ESPRIT

On 3 February I received a telephone call from M. Yves Farges who is the member of the Cabinet of Fabius responsible for preparing the European Community Presidency's position on ESPRIT for the next Research Council on 28 February. He asked if I could informally bring him up to date with the UK's position on ESPRIT.

2. I said that no decision had been put to Ministers since before the last Research Council on 13 December when, as he would remember, the UK's position was broadly in line with that stated by Germany.

3. Since that time we had heard with interest the German proposal made at the Foreign Ministers' Council a couple of weeks ago to limit R & D spending to its current level but to include the ESPRIT programme within that expenditure instead of low priority items. Officials were trying to obtain further details of the German proposal so that the position could be put before Ministers. So far officials had had some difficulty in obtaining the details and it was not clear whether the next step lay with Germany or with the Commission.

4. I said that although, for the reasons given above, the matter had not yet been put to Ministers, I thought it was possible that there would be some interest in the German proposal since it appeared

to meet the British view that ESPRIT should have a high priority amongst Community R & D spending programmes, but that it should not be used to expand the overall expenditure.

5. I reminded Farges that Vicomte Davignon was due to visit the Prime Minister, Sir Geoffrey Howe and Mr Tebbit in the week beginning 13 February and I thought it was unlikely that Ministers would wish to come to any firm decision about ESPRIT before that visit. (In making this comment I had in mind that the next discussion on attribution is to take place shortly after Davignon's visit and, saving any prior agreement amongst Ministers about ESPRIT, it is clear that no definite statement about the British position can be made until after the attribution discussion.)

6. In summary I said nothing more than Ministers have already said at Research Council meetings, but I report the conversation because it is clear that we shall be under continuing pressure from the French Presidency to indicate our likely line on ESPRIT for the Research Council meeting on 28 February as soon as possible.

Yours sincerely,
Robin Nicholson

ROBIN B NICHOLSON
Chief Scientific Adviser

cc: PS/S/S Foreign & Commonwealth Affairs
→ Mr Coles, No 10
Mr Hatfield
Mr Gregson
Mr Williamson
Mr Oakley, DTI
Mr Roith, DTI
Mr Lovell, HMT
Mr Blatherwick, DCO
Mr Courtney
Mrs Ransom

ow
JOHN COLES ✓



With the compliments of

THE PRIVATE SECRETARY

ROGER BOWE.

FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH

CONFIDENTIAL

ESPRIT; Briefing Note

ESPRIT good programme. Help Community catch up with Americans/Japanese in information technology. Industry finances on equal basis with Community. British industry enthusiastic, played full part in pilot programme in 1983. Probably brings useful net benefit to UK. We have publicly stated our support. Notably at Stuttgart and in our Other Policies paper.

After Athens European Council reserved our position on ESPRIT. Needed to be sure that agreement did not imply increase in own resources. Germans took even tougher line.

Situation now changed. At Foreign Affairs Council on 23 January Germans deserted us. But proposal they put forward - that ESPRIT should be agreed in principle subject to a number of conditions affecting public expenditure aspects - suits us well.

Situation in which find ourselves brings a risk and an opportunity.

Risk. If ESPRIT not agreed at 28 February Research Council because UK holding out alone against the programme, we would strengthen suspicion that our preoccupations in the Community are exclusively budgetary. Could be damaging in post-Stuttgart negotiation context. Moreover, would discourage our industry, which actively interested in the programme, putting at risk a probable net benefit. Wrong to suppose veto on ESPRIT a level against community eg on budget.

Opportunity. Germans suggest that ESPRIT, JRC and the fusion programme should be established as priority programmes within existing budgetary ceilings of around 600 MECUS per annum for Community R & D as a whole. This ceiling would apply for as long as 1% VAT limit in place. Lower priority R & D programmes would be sacrificed.

CONFIDENTIAL

/R & D

R & D priorities are realistic in the circumstances. German proposal would put a cap on Community R & D in 1984 and 1985, meeting our main concern that agreement to ESPRIT should not imply an increase in own resources.

Sure therefore that we should support the German proposal. Hope we can say so to Davignon on 13 February.

Also sure that we should not let attribution issue stand in the way of doing so. Hope can reach agreement in Whitehall which will enable us to give the programme the go-ahead while still safeguarding our position on own resources and public spending.



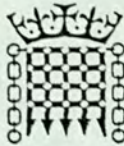
With the compliments of

THE PRIVATE SECRETARY

22.12.83

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FOREIGN AND COMMONWEALTH OFFICE
SW1A 2AH



HOUSE OF COMMONS
LONDON SW1A 0AA

Pa
Dubs
22/12

December 21st

Sir Geoffrey Howe
Secretary of State for Foreign
and Commonwealth Affairs
Foreign Office
Whitehall
London SW1

Ack
② EEC (i) for diff reply for
sts asap!
PS
PS/ Mr Lifford
PS/Pus
R C Tickell
Mr Hannay
CD(E)
RED
N Houston

Dear Sir Geoffrey,

I am writing to you to reconsider your veto on the EEC's ESPRIT programme to strengthen EEC information technology. I believe it to be wrong to postpone decisions on this vital area or tie them to a successful resolution of the budget problem. Whilst you are right to claim that funds could be made available without increasing "own resources" if the CAP could be brought under control, I see no reason why the go ahead for ESPRIT cannot now be given as one way of shifting the EEC's near exclusive concern with agriculture.

Everyday that you continue to delay the implementation of this programme is another day of opportunity for the American and Japanese industries to consolidate their increasing hold on the European market. As you must well know the EEC information technology sector has a depressing 10% share of the world market and even within the EEC holds only 40%. Such shares clearly have not allowed the industry to adequately fund sufficient research to counter the increasing penetration by the Americans and Japanese.

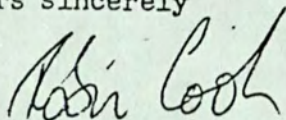
It is not acceptable that an American multinational like IBM should be allowed such a dominant market position that their European revenues almost total all its principal local competitors put together. Such a commanding position achieved by one firm, in the absence of agreed European technical standards, allows it to impose its standards, particularly in computer networking. Whilst the Labour Party believes strongly in aid to British industry, we also believe that particularly in sectors requiring such high investment in research and development, there is an important role for EEC wide co-operation such as set out in the ESPRIT programme. It represents an important attempt to break from an agriculture dominated EEC.

...../

R/C
22/12

Moreover I cannot see how the use of a veto in this context will assist in pressing Britain's case. There is, rightly, very considerable enthusiasm for the programme throughout Europe, and for Britain to be seen to block its launch will cause political resentment out of all proportion to the sums involved. I urge you to reconsider the negative stance which the government has adopted towards this exciting programme.

Yours sincerely

A handwritten signature in cursive script that reads "Robin Cook". The signature is written in dark ink and is positioned below the typed name.

Robin Cook MP

Labour Spokesman on European and Community Affairs



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

JU204

Secretary of State for Trade and Industry

13 December 1983

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Prime Minister.

A strong letter.

A & C. 13/12.

D. Nigel,

RESEARCH COUNCIL, 13 DECEMBER: ESPRIT AND OTHER R&D PROGRAMMES

- with AT?

We spoke this morning about your letter of 12 December.

2 As I told you, I was surprised in the extreme that you find it impossible to accept the choice (iii) without adding conditions which, as I made clear in my letter to Geoffrey Howe yesterday, I should find totally unacceptable. The conclusions of E(A) Committee were that there should be "an effective mechanism" to ensure that Community expenditure did not add to domestic public expenditure. But the conclusion was equally that the issues were complex and "needed further study by officials before final decision could be taken". I should make clear that I do not regard this conclusion as accepting the principle of offset or attribution. Yet your proposal is clearly based upon establishing the principle of offset, in a way which, if accepted, would pre-empt what must properly be decisions to be taken by E(A) and, if necessary, Cabinet. I find this unacceptable. I should also make clear that I should find it toally unacceptable if the EFLs of the nationalised industries for which I am responsible were set, not by reference to the needs of those nationalised industries, but rather by reference to other, and totally unrelated, programmes. Yet this is what you are proposing.

3 I therefore must make clear, as I did on the telephone this morning, that, unless option (iii) is agreed to without the conditions put forward in your letter, I shall ensure that we proceed on the basis set out in my earlier letter today, namely that we should espouse option (ii) described as the nil solution. I have therefore instructed David Trippier to inform the Presidency and the Commission that the UK will be unable to agree to the Esprit programme today, and that if they are taken to a



decision today the United Kingdom would be forced to veto the proposal. I hope it will prove possible to postpone discussion. If not, Esprit will be blocked. I have told Geoffrey Howe, with whom I have discussed this on the telephone, of the line at the Council to which your conditions have led.

4 I am copying this letter to the Prime Minister, other members of OD(E), Peter Walker, and to Sir Robert Armstrong.

cf
Norman

NORMAN TEBBIT

EDUCATION: Alvey Nov 1982

13 DEC 1982

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13 DEC 1982

PRIME MINISTER

Mr. Tebbit prefers the minimalist option (iii) but only if he does not have to find offsetting savings. Otherwise he would go for the nil option (ii).

The Chancellor agrees (iii) provided the UK contribution is attributed to DTI and offsetting savings found. As a concession he will accept savings on DTI's EFLs.

Mr. Tebbit may well refuse - leaving an impasse.

Would you prefer

- (i) Mr. Trippier to have to argue for nil option?
- (ii) Mr. Tebbit to make offsetting savings (about £6 million).

If offsetting savings are not forthcoming, we shall have to go for the nil option. Although it would be harmful

I assume you would not want Esprit to be agreed before offsetting savings at home are identified. *Correct.*

AT



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Secretary of State for Trade and Industry

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

12 December 1983

The Rt Hon Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

A & C. 1/2
h-a-

D Geoffrey

ESPRIT

attached

I have seen the Cabinet Office minute to you of 9 December (Qz.03481) about the problem of handling discussion on this item at The Research Council on 13 December.

2 Of the three options which it describes, I would accept that choice (iii) is the least damaging in the current circumstances - provided that it is clearly accepted that there will be no requirement placed upon my Department to find offsetting savings in its PES either for payments made during 1984 under the ESPRIT programme or for commitments authorized under the programme in 1984 for payment in later years.

3 Should this not be acceptable - or should the Commission be unable to meet the conditions placed upon it in option (iii) - then I fear we have no alternative but to espouse option (ii), described as the nil solution, so long as I am asked to find equivalent savings from my domestic programme. I recognize that the history of our support for ESPRIT together with the provision already made by the Budget Council for at least a modest launch will put our spokesman in an invidious position at an unwelcome time. I fear however that I would have no alternative.

4 I am sending copies to those who received the Cabinet Office minute.

NORMAN TEBBIT

EDUCATION: Research
Kueny



10 2 DEC 1993



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

12 December 1983

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON SW1

Stan Norman

RESEARCH COUNCIL, 13 DECEMBER: ESPRIT AND OTHER R & D PROGRAMMES

I have seen the note by the Cabinet Office prepared in the light of the discussion between officials on 8 December.

In my view there is a case for simply digging our heels in on all new policies in the aftermath of the Athens Council. There are certainly cases e.g. parts of the R & D framework programme where we may well want to take this position. But I recognise that there will be strong pressures from elsewhere in the Community to let the ESPRIT programme start and that in this particular case for us to block it entirely might be counter-productive in the wider context. I am therefore prepared to accept what is described as the minimum solution in the Cabinet Office note, i.e. that the programme can be got underway using the 45 mecu for payments already in the Community Budget for 1984. We should not, however, go beyond a figure of around 90 million ecu for commitments in 1984 (irrespective of what the European Parliament puts into the Budget), since there can be no certainty that a higher commitments figure would be financeable within the 1 per cent ceiling. My agreement to the minimum solution is subject to this point and to the further conditions set out in paragraph 4 below. As regards the level of the programme in future years, we will have to make it clear that that can only be determined in the light of the resources available when the Budgets are drawn up. (I should add that, as I understand it, expenditure of 45 mecu would not in any way compromise the provision for our 1983 refunds which is already within the 1984 Budget).

./... As regards



As regards the implications for domestic public expenditure I made it clear in June that I would be looking for savings on the DTI programme to offset the cost of ESPRIT. E(A) Committee agreed on 1 December that there must be an "effective mechanism" to ensure that Community expenditure did not add to domestic public expenditure. It is no longer, therefore, an open question whether the cost of this programme should be offset: and DTI is clearly the Department with prime programme responsibility for ensuring that it is.

That said, I accept that the arrangements for applying the E(A) conclusions have still to be settled in detail. I can therefore agree exceptionally that you need not offset the UK ESPRIT contribution for 1984-85 only from within your own Departmental programme: any balance you are unable to offset in this way can on this occasion be found by reductions in the EFLs of the nationalised industries for which you are responsible. This is, of course, a wholly exceptional way of dealing with the problem, and I look to you to accommodate the cost of the UK contribution for subsequent years within your agreed programme in accordance with the precise arrangements to be set up following the E(A) discussion.

I understand that the Research Council will also be asked to consider a number of other R & D programmes which have yet to be approved. The most important of these programmes is that for non-nuclear energy R & D. Since there is only minimal provision for this in the 1984 Budget, we must seek to limit the programme to a figure as near as possible to the existing level of expenditure, which I understand to be about 26 mecu a year. And whatever is agreed must be subject to the proviso that it can be financed within the funds available in the 1984 Community Budget and subsequently. If necessary, as in the case of ESPRIT, we should limit the financing decision to one year only at this stage. As regards offsetting the cost to the UK, Departmental responsibility rests with the Department of Energy and I would expect the principle agreed by E(A) on 1 December to be applied in this case in accordance with whatever mechanisms are finally decided upon.

I am sending copies of this minute to the Prime Minister, the Foreign Secretary, colleagues in OD(E), the Secretary of State for Energy, and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Nigel Lawson', written in a cursive style.

NIGEL LAWSON

cc NO

Education: Alvey

(2)

CONFIDENTIAL



Prime Minister.

This answers some of the questions you posed this morning.

FCS/83/264

SECRETARY OF STATE FOR TRADE AND INDUSTRY

A.S.C. $\frac{12}{2}$

ESPRIT

attached

1. You will have seen the European Secretariat's note of 9 December about the line on ESPRIT which we should take at the 13 December Research Council and on how the domestic financial arrangements might be treated.

2. I agree that the first option set out in the note (agreement to the full five year programme) is not appropriate in the aftermath of the Athens European Council: we should not agree to the Community entering into commitments for which it may not have the resources. I entirely agree that the second option (to block the programme altogether) would have serious drawbacks and would in my view have a very damaging effect on our prospects of achieving our negotiating objectives within the Community. Funds are available in the 1984 budget and we would undoubtedly be isolated if we tried to argue in the face of that fact. We must clearly be very careful to ensure that we do not manoeuvre ourselves into a position of opposing in isolation a Community programme which we have consistently supported and which it is in our interests (and in the interests of UK industry) to see go ahead as soon as possible. Moreover we must avoid provoking the European Parliament into taking punitive action against our 1984 budget (including our refunds) two days after the Research Council. Reports in the European press blaming Britain for blocking the ESPRIT programme could all too easily give the Parliament a pretext for making trouble. The sums at stake (£435 million) are much greater than those involved in Mr Williamson's third option (agreement to an interim, one year programme).



3. Under these circumstances I think the balance of argument points clearly towards David Trippier taking the line set out in the third option of the note. This would be in line with the position that the Prime Minister and I adopted at Athens - of avoiding any suggestion of hostility to the ESPRIT programme as such, while keeping any argument on the scale of the programme as a card to be played only when a satisfactory overall outcome was in sight. Such a solution would not take us beyond the 1% ceiling (see paragraph 2 of John Coles' letter of 12 December): the 45 mecu expenditure is already in the 1984 budget and the conditions that Mr Williamson proposes would make it clear that offsetting savings on other lower priority programmes must be found to finance both payments and commitments within the ceiling. On the question of our 1983 refunds (paragraph 3 of John Coles' letter of 12 December) there is already provision in the 1984 EC budget for them: money will of course be tight, but our agreement to ESPRIT, for which 45 mecu has already been earmarked, would not jeopardise our refunds. Indeed, for the reasons in paragraph 2 above. I believe that a decision by us to refuse the legal base which would enable money already in the budget for ESPRIT to be spent would significantly increase the risk of the Parliament making trouble.

4. On the question of attribution, I could agree to either of the arrangements suggested by the Cabinet Office. It is clearly important to protect the position of the Treasury and the other Departments concerned pending the outcome of the examination by officials commissioned at EA.

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5. This minute goes to all members of OD(E), to Private Secretary to the Prime Minister and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
12 December 1983

CONFIDENTIAL

Edue: Nov 82: Alvey

12 DEC 1982

12 1 2 3
0 11 10 9 8 7 6 5 4

LB



10 DOWNING STREET

cc HMT NIO
MAFF CO
LPSO Mr Williamson
AGO. CO.
DTI

From the Private Secretary

12 December 1983

ESPRIT

Since a decision is needed early this week, I thought it right to show to the Prime Minister over the weekend Mr. Williamson's minute of 9 December.

The Prime Minister has commented as follows. She would not wish to envisage any solution going beyond the minimum solution in paragraph 2(iii) of the minute. But she has asked whether that solution would take us beyond the 1 per cent VAT ceiling.

Mrs. Thatcher has further enquired whether there is provision in the 1984 EC budget for refunds to the United Kingdom and whether the further expenditure proposed for ESPRIT would make the question of our refunds more difficult.

I am copying this letter to the Private Secretaries of other members of OD(E) and also to Richard Hatfield and Mr. Williamson (Cabinet Office).

A. J. COLES

Roger Bone Esq
Foreign and Commonwealth Office

ME

Mr Coles

No more than
Council (iii) - but would
that take us over the top
of 12.5%?

Qz.03481

Any provision
for us for refunds
in 1984 budget?
Would this

CONFIDENTIAL

The Prime Minister.

You should know of this minute
to the Foreign Secretary. A decision is
needed by Sunday. The minimum
solution seems right to me. Would
you like me to tell the Foreign
Secretary that that is your view?

FOREIGN AND COMMONWEALTH SECRETARY

ESPRIT

further expenditure
make our refunds
more difficult.
no

A.J.C. 9/12

The European Community's programme for research in information technology (ESPRIT) which was discussed at OD(E) on 17 November and at the Prime Minister's meeting on 1 December, was one of the questions which did not come to decision at the Athens European Council. ESPRIT will now be on the agenda of the Council of Ministers (Research) on 13 December. The United Kingdom's line for that Council meeting was discussed by officials of the Department of Trade and Industry, Treasury and Foreign and Commonwealth Office at a meeting under my chairmanship yesterday. There was a divergence of view and I was asked to minute you as Chairman of OD(E) to put to Ministers the possible courses of action.

2. There are three alternative courses which the United Kingdom might adopt at the Council of Ministers (Research) on 13 December:-

- (i) the maximum solution. The United Kingdom would agree to the five year programme averaging about 140 million ecu a year (UK share, before receipts, of about £18 million a year) subject to a mid-term review with a separate Council decision on the funds necessary for the second half of the programme and to the overall condition that funds must be available within the Community budget, if necessary by displacement of other programmes. At my meeting some officials supported this course but, without further Ministerial discussion and decision, it is open to the near fatal objection that the Trade and Industry Secretary has made quite clear that he is not prepared to find equivalent savings on his

CONFIDENTIAL

domestic programmes and the Chancellor of the Exchequer has made equally clear that he will not agree without such a commitment;

- (ii) the nil solution. The United Kingdom could take the line that we would not agree to any funding at all for ESPRIT. Within the Community this would probably be seen as a decision by the United Kingdom government to maximise the difficulties following the European Council in Athens. There are two reasons specific to the ESPRIT programme which would make it difficult for the Parliamentary Under Secretary, Department of Trade and Industry (Mr Trippier) to sustain a nil solution: first, at the scientific and technical level the United Kingdom has consistently maintained that the ESPRIT programme is better than some other Community research and development programmes, which would point to going ahead with ESPRIT and cutting back on some other Community expenditure. Secondly, the draft 1984 budget, which was sent forward by the Council of Budget Ministers, makes provision for a modest start to be made on ESPRIT in 1984;

No - this is an attempt to bounce us.

Need - but we have to decide what should be cut back

- (iii) the minimum solution. The United Kingdom should not block the ESPRIT programme but should agree only to the funding already included in the 1984 draft budget. The United Kingdom share of the payments provision in the 1984 draft budget is about £6 million. The United Kingdom share of the commitments provision in the 1984 draft budget would be about £20 million, some of it being payable later. We should need to make it a condition of our agreement that the Commission could finance not only the payments but also the commitments within the 1% VAT ceiling and that, if

CONFIDENTIAL

necessary to respect the ceiling, they would find offsetting savings on other lower priority programmes. The United Kingdom contribution to ESPRIT payments and commitments made under the present draft 1984 budget provision would not require cuts in the Department of Trade and Industry's domestic programmes. This means that the funds could be found either within Programme 2.7 as part of the United Kingdom's overall net contribution to the Community or by access to the contingency reserve. This decision would be free-standing. It would not prejudice the wider decision which Ministers will be invited to take later about "attribution" and non-additionality which was discussed in E(A) on 1 December. It would not prejudice the public expenditure treatment of any further expenditure on ESPRIT, if Ministers were to decide upon it (for example, following successful negotiation of a budgetary safety-net).

What provision is made in the 1984 budget (on reserves left) for refunds to us as a result of 2 refunds? Will this ESPRIT programme affect that?

3. As a decision on these questions is needed in time for the Council of Ministers (Research) on 13 December, it would be helpful if members of OD(E) could let you know their reactions by mid-day on Monday 12 December and, in particular, whether they could accept course (iii).

4. I am sending copies to members of OD(E), Sir Robert Armstrong, Robin Nicholson and John Coles (10 Downing Street).

D F Williamson

D F WILLIAMSON

Cabinet Office

9 December 1983

PRIME MINISTER

Esprit

I agreed to find out more on the share of the Esprit programme which UK firms had secured. So far 38 projects have been agreed and UK firms will participate in 21 of them and be the lead firm in 11. This compares with Germany, participating in 25 and leading in 8 and France, participating in 20 and leading in 5. Of the 12 major companies involved 3 - GEC, Plessey and ICL - are British.

It is not possible at this stage to translate this involvement into money terms but it seems clear from the above that UK participation will be significantly above the 22% which we contribute to the costs of the programme.

AT

1 December 1983



JU98

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

MS

30 November 1983

CONFIDENTIAL

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister ⁽²⁾

You asked for more information
on Esprit. This is attached, though
of course I deals with our payments
to Esprit, whereas you wanted
receipts from. DTI will provide
further information.

Dear Andrew,

ESPRIT

Thank you for your letter of today's date, setting out a number
of questions the Prime Minister had on the Foreign & Commonwealth
Secretary's minute of 22 November about Esprit. I enclose a
background note prepared by the Department to cover these points.

AT 30/11

2 I am sending a copy of this letter to the Private Secretaries
to the Members of OD(E) and to Dr Nicholson (Cabinet Office).

Yours ever

Colin McCarthy

M C McCARTHY
Private Secretary



How is the UK Contribution to Esprit Calculated?

The Commission proposal is for a programme of 1500 mecu over 5 years funded 50% by the Community. At the exchange rate of 1 ecu = £0.57, this would give an average annual Community expenditure of £85.5m. The UK contribution to the Community budget is approximately 22%, which would give an annual contribution of £18.8m.

ESPRIT and other community R&D programmes

The significance of ESPRIT is that industry has been involved in the detailed planning of the programme as well as in its implementation. The programme has been the subject of considerable work; it is practical and influenced by the needs of the market place not by the ideas of Community bureaucrats. It is also in an area where industry wants to collaborate with its peers in other Member States. Some of the Commission's other proposals for R&D do not take such account of the needs of industry, nor whether there is a real need for Community action. Three examples are:

R&D for developing countries (38 mecu over 1984/87)

Designed to improve the indigenous capacity of developing countries to carry out research. It is not clear that this would be efficacious, nor that it is appropriate for Community rather than national aid programmes.

Environmental programmes (66 mecu over 1984/87, including the less worthwhile work at ISPRA referred to below)

A collection of disparate projects, dealing with pollution, which have been added on to Community obligations under two international conventions. They have no obvious Community objective underlying them.

Nuclear Safety

Although the objectives of research into nuclear safety are worthy of support, much of the work at ISPRA is of very low calibre: but the Italians are very resistant to efforts to discontinue it.

Overlap between Alvey and Esprit

Approximately two fifths of the Esprit programme (the office automation and computer-integrated manufacture sections) has no counterpart in Alvey. Even where Esprit and Alvey cover the same overall technologies, some of the strategic objectives of Esprit, such as the promotion of European collaboration and agreeing European standards, are not - and could not be - part of Alvey.



Further, the Esprit programme is bound to take account of the interests of other Member States. As a result its detailed technical objectives will not be identical with those of Alvey in the same area, either in content or, equally importantly, timescale. In addition, the benefits to the UK from an individual ESPRIT project may be very much less than from a corresponding Alvey project. There is no UK participation, and they will not normally be free to disclose the details to other UK firms.

How can we work to prevent duplication?

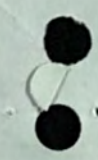
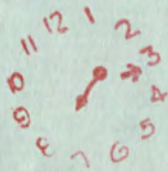
While the UK has complete control over Alvey, we do not own Esprit. And in both programmes, the choice of projects will ultimately depend on industry's willingness to put up their share of the costs. For these reasons we cannot guarantee to prevent all cases of overlap. Nevertheless neither industry, the Commission nor the UK wants wasteful duplication and there are steps that can be taken to this effect.

- (a) Where we believe the UK's needs on a particular topic are being met by Esprit, we shall not support the same work under Alvey.
- (b) When the UK has supported work under Alvey we will use our influence with the Commission and our position on the Management Committee to oppose any duplication. Both the annual workplan and the larger individual projects have to be approved by the Management Committee (by qualified majority). This gives us a significant say, but not a power of veto.
- (c) UK industry is heavily involved in the preparation and planning of Esprit. They will be working at the detailed technical level to steer Esprit away from work that has already been started in the UK but rather to build on it.

Would we have provided as much for Alvey if we had known about Esprit?

not on this scale
We did know about Esprit. The Alvey programme was based on a detailed study of the UK needs in information technology. Esprit has objectives relating to the whole Community. It is not a substitute for Alvey. The Alvey Committee took full account of the plans for Esprit, but final details were not then available. When the Government approved the Alvey programme it was already obvious that the Commission's proposals for Esprit would be substantial. It was however not clear what scale of programme would eventually be approved in the Community.

30 NOV 1985





10 DOWNING STREET

From the Private Secretary

30 November 1983

ESPRIT

CPK
The Prime Minister has seen the Foreign and Commonwealth Secretary's minute of 22 November and has asked a number of questions on it. You have agreed to put in a note by close of play tonight answering the following:-

- (i) How has the UK's share of the ESPRIT programme (£18 million out of £79.8 million) been determined?
- (ii) What are the weaker Community research programmes referred to and what are the obstacles to cutting them back?
- (iii) How far does ESPRIT overlap with domestic research expenditure, in particular the Alvey programme?
- (iv) To what extent is it the case that the Government would not have put so much into Alvey had the size of ESPRIT been known?

I am copying this letter to the Private Secretaries to the members of OD(E) and to Dr. Nicholson (Cabinet Office).

ANDREW TURNBULL

Callum McCarthy, Esq.,
Department of Trade and Industry.



~~CE NO.~~

NBPM

AT 30/11

W.0805

30 November 1983

MR TURNBULL

ESPRIT

with AT?

I have seen a copy of your minute of 30 November to Callum McCarthy. Although I understand the Alvey Directorate is providing the answers to your questions, several of them relate to other advice which I have given to the Prime Minister in the last day or two, and I thought it might be helpful to have some cross-referencing to this.

(i) The answer to this question is that the UK share of overall Community expenditure is estimated at 22 per cent.

(ii) Much of the weakest Community research is carried out in the Joint Research Centre which is the subject of my brief for the Prime Minister for the Athens Summit, "Science and Technology Aspects of New Policies". For convenience I attach a copy of this brief which I think makes clear that the principal obstacles to cutting back weak Community research have been political.

Overlap

(iii) I deal with this question in my minute to the Prime Minister of 28 November, W.0792.

(iv) I believe the answer to this question is that the Government was already aware of the likely size of the ESPRIT programme when the Alvey decision was made. Certainly officials were aware although to be fair, it had probably not been considered by Ministers outside DTI.

I am copying this minute to the Alvey Directorate and the European Secretariat.

RBN

ROBIN B NICHOLSON
Chief Scientific Adviser

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(A)(83)

COPY NO

29 November 1983

EUROPEAN COUNCIL, ATHENS

4/6 DECEMBER, 1983

SCIENCE AND TECHNOLOGY ASPECTS OF "NEW POLICIES"

Brief by Cabinet Office

OBJECTIVE

1 To start the process of redirecting EC R & D resources to more efficient and relevant programmes; to cut out waste in the Joint Research Centre of the EC; to control the overall cost of the Commission's proposals.

POINTS TO MAKE

2 If R & D in Europe is to be successfully exploited, the internal European market for high technology products must be a genuine common market. The proposals in the Commission paper to remove obstacles which currently prevent this are welcome.

3 R & D in European private sector industry must be competitive with that in Japan and the USA. In some industries this will require collaborative private sector research which can be stimulated by the EC as in the ESPRIT programme.

4 The Community's R & D resources must be used more efficiently. Experience shows that large joint European laboratories are only effective if they have a clear single task of limited lifetime which is beyond the capability of individual Member States. Other research research is best carried out by 'indirect' action and 'concerted action' programmes in the best available laboratories in Member States and resources should be shifted from 'direct action' towards these. Initial steps should be taken to redirect current spend. Any increase in budget should only be agreed when demonstrable progress of more efficient use of resources has been made.

5 Measures to improve the mobility of scientists in Europe will bring a European dimension to the laboratories of Member States and further enhance the effectiveness of 'indirect action' and 'concerted action' programmes. The proposals to improve mobility deserve serious examination.

BACKGROUND

6 The European Community has not been effective in using its scientific and technological capability to build up competitive high technology industries. As a result the EC has a large and growing trade deficit with the USA and Japan in high technology products.

7 The main reasons for this failure are:-

(a) The absence of a genuine common market in Europe for high technology products because of hidden tariffs, differing national standards and protectionist public procurement policies.

(b) The fragmented nature and small scale of much European private sector R & D.

(c) The low quality and poor focus of much of the EC R & D programme.

8 Some of the actions necessary to solve these problems are proposed in the Commission paper, viz:

the development of the internal market;
the removal of obstacles to the proper collaboration
between private (and public) sector companies.

9 However, the proposals on "Research and development and advanced technologies" are only partially supportive of the right solutions. The ESPRIT programme will, if successful, help to generate an advanced and competitive European Information Technology industry. Similar (but smaller) programmes in areas like telecommunications and biotechnology might also be valuable but the Commission is not yet proposing programmes on the ESPRIT model.

10 The major difficulty is the Joint Research Centre which currently consumes 150 Mecu pa or 30 per cent of EC R & D resources. These four laboratories which were diversified when their original Euratom role was no longer sufficient to justify their size, have failed to produce research of high quality or of relevance to the EC.

11 Research in the JRC is called 'direct action'. The EC also has programmes of 'indirect action' (projects centrally managed by the Commission but contracted out to research organisations in the Member States on a cost-sharing basis) and 'concerted action' (projects co-ordinated by the Commission but carried out and financed by organisations in Member States).

12 Experience has shown that 'direct action' is only efficient and effective for major focussed projects which are beyond the capability of individual Member States and which have a finite lifetime; JET is a good example. For all other work 'indirect action' and 'concerted action' in the best available laboratories in Europe are to be preferred. There is therefore a need to put any new resources into 'indirect action' and 'concerted action' and to shift existing resources away from 'direct action'. This will cause closures and redundancies in the JRC laboratories in Italy

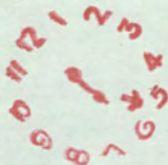
(especially), Germany, Belgium and Holland and/or the transfer of these laboratories to their respective national budgets.

13 Concurrent with reducing JRC laboratories, the best laboratories of Member States need to acquire a European dimension if the full benefit of Europe's skills in science and technology are to be felt. This can be accomplished by increased mobility of scientists and technologists between laboratories in different Member States. Both France and the Commission have proposals to promote mobility.

Cabinet Office

29 November 1983

30 NOV 1983



28 November 1983

PRIME MINISTER

ESPRIT

*Communications
satellites? What we
do we do same things?*

I believe the ESPRIT programme is the most important R & D proposal which has yet come from the EEC.

2. The world market for IT equipment is estimated at about £100 bn next year with a growth rate of 10-15 per cent per year. For comparison the civil airliner market is about one-tenth the size and one-half the growth rate.

3. Europe's current performance in this staggeringly large market is abysmal. It has only 10 per cent of the world market and a 40 per cent share of its own indigenous market. Europe already has a £7 bn trade deficit in IT. Japanese and American firms increasingly dominate.

4. The technology is changing with great rapidity and the industrial structure of the mature IT market has yet to be formed. Thus Europe, with its great scientific and technological resources, still has an opportunity to play a major role in what must become the major industry of the 21st century. ESPRIT is a collaborative research programme designed to give European industry the opportunity of playing this role.

5. ESPRIT is a collaborative research project which has programmes in three of the enabling technologies -

- advanced microelectronics
- software technology
- advanced information processing

and in two application areas -

- office systems
- computer integrated manufacturing.

6. European private sector industry has had a major part in planning the R & D programme and, of course, is proposing to fund half the cost.

This is a radical and welcome step in European R & D which has previously been funded overwhelmingly from EEC funds alone.

7. The pilot phase of ESPRIT has been highly successful with keen industrial competition for R & D contracts. UK industry responded rapidly with high quality proposals and played a part in 21 of the 36 pilot projects. Our industry strongly supports the main ESPRIT programme.

8. Alvey and ESPRIT are complementary R & D programmes. Alvey was essential if the fragmented UK IT industry was to develop the technological and industrial muscle to compete in Europe (presently our largest IT company, GEC ranks No 18 in the world!). ESPRIT is essential if European companies and partnerships are to compete with Japan and America.

9. There is a danger of technical overlap between Alvey and ESPRIT but this can be avoided by private sector involvement (they won't pay twice for the same programme!) and by good management, especially of the Alvey programme.

10. There is also a danger of losing our technology to Europe. But if we're sensible, we can also gain technology from Philips, Siemens and the other high quality European IT companies. Without European collaboration the likelihood is of a small, technically excellent UK IT industry which fails to develop world-competitive products and eventually can no longer sustain its own technical base.

11. In the past the EEC has taken on many poor R & D programmes because of a political unwillingness to take harsh action. In the last 5 years, the UK has striven to change the situation and replace the mediocre and the unimportant with the excellent and the relevant. In particular we have sought to involve private sector industry. ESPRIT is the first outcome of our efforts. It is vastly superior to most of the rest of EEC R & D. We should support it strongly at the £79.6 m a year figure as the Foreign Secretary suggests in his minute to you of 22 November. (I do accept, of course, that our tactics on the budgetary situation may require us to take a different position in the initial negotiations.)

RBN.
ROBIN B NICHOLSON
Chief Scientific Adviser

Cabinet Office
28 November 1983

*But we
wouldn't have
put so much
into Alvey
had we known
this programme
was to be so large*

Which?

What?

ETIQUETTE

Murray
New

28 NOV 1983

1
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10

The first phase of the project was to develop a...
The second phase of the project was to develop a...
The third phase of the project was to develop a...
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The ninth phase of the project was to develop a...
The tenth phase of the project was to develop a...

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PRIME MINISTER

MS

ESPRIT

These issues are, as suggested by the Foreign Secretary, being dealt with in two stages. First, there is to be a meeting of E(A) immediately after Cabinet on Thursday, 1 December. This will take papers by the Chancellor and by officials and will consider the general question of attribution of expenditure on European programmes. Later in the day there will be a separate meeting to discuss the specific size of the ESPRIT programme which the UK will seek at the European Council.

AF

See also note by D. Nicholson

23 November 1983



PM/83/94

PRIME MINISTEREsprit

1. I chaired a meeting of OD(E) on Thursday to discuss our approach to the Community's information technology research and development programme ESPRIT. The main outstanding issue is finance. The programme is intended to run for five years from 1984, and the Commission have proposed average annual expenditure by the Community of £85.5million which would involve a UK share of about £19 million. The industry itself would, under the terms of the programme, make a matching contribution. All Member States, except the United Kingdom and Germany, have now agreed on a figure of £79.8 million (UK share about £18 million). Although the Germans like ourselves have reserved their position on finance, it is generally expected that they will join the consensus at the European Council around the £79.8 million figure.

On what basis is the proportion allocated? Finance still relevant

2. OD(E) reached agreement on a number of points. First, it was agreed that there should be no question of the United Kingdom accepting any figure for financing this programme before the European Council. We should maintain our position that this question could not be agreed before the European Council had made the necessary progress on the budget problem of the Community. We also agreed that we should insist on there being a review clause providing for the whole programme to be reviewed at an appropriate half-way stage with a separate Council decision on the funds necessary for the second half of the programme. As for the conditions in which we should agree to finance for the programme, this would be for decision at Athens but it would be in our interest to have cleared our own lines beforehand.



3. The Committee also agreed that ESPRIT was a worthwhile programme which merited substantial resources. Both the Trade and Industry Secretary and the Chief Scientific Adviser emphasised the need for research in information technology if British and Community industry was to catch up and compete with its Japanese and American competitors. The Chief Scientific Adviser also pointed to the high quality of the ESPRIT proposals compared to most Community research programmes. Moreover, it seems that - judging by the response to the pilot programme which has already been implemented - British industry stands a particularly good chance of benefitting from the programme and of picking up more than a "juste retour".

*which?
could we
cut them
out?*

4. We were, however, unable to agree what figure for finance we should be prepared to accept - if the circumstances are right - at Athens. Whereas the Trade and Industry Secretary argued strongly in favour of our joining the consensus around 140 mecu or £79.6 million a year, the Chancellor favoured going no further than 80 mecu or £45.6 million. The arguments on the merits of the programme seem to point towards the former figure (and the Trade and Industry Secretary also said that if the programme was too reduced in size British firms would no longer find it worthwhile to devote the managerial and research manpower necessary for their involvement, and we should lose out). However, the Chancellor felt strongly on budgetary grounds that we should press for a smaller programme. He also had doubts about the size of the programme because of possible overlap with domestic research expenditure. I believe myself that, if the major negotiation at Athens is going well, it would be in our interest to be forthcoming on ESPRIT, always bearing in mind the very great importance of the other issues on which we shall be negotiating in Athens.

*Will it
overlap with
Avery?*

5. There was also disagreement on the domestic public expenditure implications of ESPRIT. The Chancellor pointed out that spending on ESPRIT would represent an increase in spending

/on industrial



✓ on industrial support, and proposed that offsetting savings should be found from the DTI's PESC allocation for at any rate the funds flowing to British industry. He mentioned that the Treasury were about to discuss with other Departments some more wide-ranging proposals for dealing with Community expenditure programmes in this way. The Trade and Industry Secretary strongly opposed the suggestion that offsetting savings should be found by his Department when the funding for ESPRIT was part of the overall Community budget which had been agreed by the Treasury and when it would mean scrapping other DTI programmes which had already been agreed. He pointed out that ESPRIT would not substitute for any UK domestic programme, as it was expected to complement rather than replace the Alvey programme, although he would be prepared to find savings to the extent that there was any direct overlap. He regarded the Chancellor's further specific suggestion that DTI should find offsetting savings to the extent that the ESPRIT programme was actually taken up in the UK as particularly perverse. It would encourage his department to minimize the UK take-up, thus leaving other countries with the lion's share of the EC-financed ESPRIT programme, to which we should still be contributing our full share.

No point
 in duplicating
 research.

How do
 know?

6. The Chancellor's wide-ranging new proposals on the consequences of Community expenditure on departmental budgets raise important issues of principle, not only in relation to ESPRIT, on which other Ministers are vitally concerned. I believe that we shall need to discuss them at a wider meeting. I therefore propose that a meeting of E(A) might consider this issue before the European Council. Owing to our absence at CHOGM, this will be awkward, but I understand that a meeting could be organised immediately after Cabinet on 1 December. As to the size of the ESPRIT programme itself, this is a more

/straightforward

CONFIDENTIAL



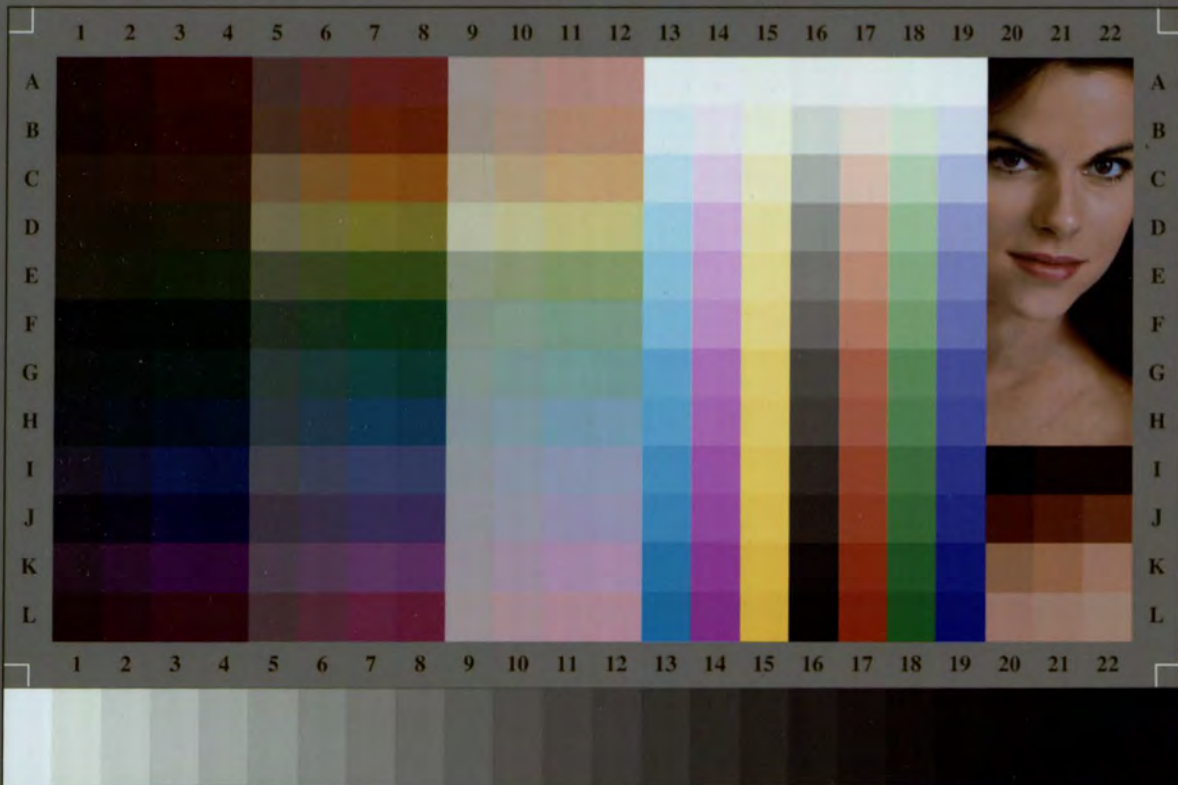
straightforward issue which is inevitably tied up with our negotiating situation at Athens and I suggest that we could deal with this at the meeting which you are holding to discuss the preparations for Athens.

7. I am copying this minute to all members of OD(E) and to Dr R B Nicholson at the Cabinet Office.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
22 November 1983



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