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Private Secretary to the
Prime Minister
No 10 Downing Street
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22 April 1980

Dear Michael,

SUPPLEMENTARY COMMUNITY PAYMENTS TO THE UNITED KINGDOM

The Chancellor's letter of 27 February to the Foreign and Commonwealth Secretary enclosed a note by officials about the Commission's suggestion that additional Community spending in the UK under an Article 235 Regulation might form one element of a solution to our budgetary problem. The note outlined the Commission's ideas on expenditure programmes which might be suitable for Community support, and what the UK's objectives should be. It also indicated the lines on which it was proposed that our officials should speak to Commission officials so that progress could be made before the European Council on many of the detailed issues arising out of the Commission's proposals. On 3 March you confirmed that the Prime Minister was content with these arrangements.

Full briefing is being provided separately for the European Council but the Prime Minister may now find it helpful to have a report on the current state of play on the Article 235 discussions. It is now clear from the discussions at the informal meeting of EC Finance Ministers in Sicily and from the Finance Council today in Luxembourg that all our partners now accept that a supplementary expenditure programme under Article 235 will be one of the two main elements in a settlement. That makes the talks with the Commission very relevant.

In the three meetings that have taken place between UK and Commission officials, good progress has been made in identifying the form and content of the various programmes which the Commission require. A draft programme for the

/North-West



North-West Region, and an outline for Northern Ireland, have been given to the Commission officials, and the former has been fully discussed with them. Further draft programmes for Scotland and Wales and other English regions will follow, together with an example of a sectoral programme covering expenditure to relieve urban decay in East London.

These exchanges have already produced one tangible benefit in the form of the following statement contained in the Commission's latest communication of 20 March to the Council (COM(80)147 Final):-

"From the work which the Commission has undertaken on possible programmes, it is already evident that whatever resources the European Council may decide for this purpose could be fully used in accordance with the principles and criteria set out".

This is a useful statement since we shall be able to quote it back at the Commission if either they or representatives of other Member States raise difficulties about particular programmes that we suggest. The onus is now on the Commission as well as on us to find enough programmes to implement the European Council's decision on amount.

The Commission have continued to show some nervousness about additionality since they fear that some elements in the administrations of Germany, the Netherlands and Denmark will raise objection to Community finance for projects which 'the British would have undertaken anyway'. But they have been co-operative in helping us to find forms of words that will reduce the chance of this becoming an issue.

The main risk now seems to be that the French may seek to reduce the number of eligible types of expenditure; if they cut out too many possibilities we might have difficulty in making up a sufficiently large set of programmes to get all the money that we will need. For this reason the brief for the European Council (on page 5) stresses the need to ensure that the remit to the Commission to prepare a draft regulation enables the Commission to include within its scope all the possibilities for expenditure which were mentioned in the Commission document dated 5 February, COM(80)50.

The other important outstanding problem concerns consultation in the Council machinery. The Commission deliberately used a vague form of words in their latest paper, COM(80)147: 'A consultative procedure would be developed under which the /Council would

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Council would be formally associated with the examination of each programme' (paragraph 13). Their intention is that the programmes should be reviewed by the Regional Policy Committee which has only an advisory role. However, the French Minister of the Economy indicated at the Finance Council on 21 April that they will want the criteria to be settled in advance by the Council, and the actual expenditure to be authorised by the Council on the basis of Commission proposals. We must do what we can to ensure that the expenditure in the UK now envisaged by the Commission is not frustrated by the erection of procedural obstacles.

Commission officials have privately discussed with us details of their draft regulation and we hope that, as a result, they will be making changes helpful to us. The fact that they have consulted us is not known to other Member States and some would be likely to protest if they found out. All the Commission have admitted publicly is that they have consulted us about the details of possible programmes. The Commission would be embarrassed if the full extent of the consultations became public knowledge.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, to other members of OD and OD(E), to the Secretaries of State for Industry, Employment, Environment, Scotland, Wales, Northern Ireland, Social Services, Energy, Education and Science and to the Ministers of Agriculture and Transport; also to Sir Robert Armstrong.

yours ever

John Wiggins

J WIGGINS
Private Secretary



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