

Prime Minister ②

His alternative is at para AT 30/11
12. Far from opposing
extension of attribution, FCO
are seeking to use this debate
to withdraw it in aid field

PM/83/96PRIME MINISTER

European Community Expenditure Programmes and the Control of
UK Public Expenditure

1. At EA on 1 December we shall be examining a paper by the Chancellor of the Exchequer designed to ensure that the UK share of Community expenditure is as far as possible contained within existing public expenditure ceilings and replaces, rather than adds to, national expenditure. We shall also have before us a paper by the European Secretariat of the Cabinet Office summarising departmental reactions to the Treasury proposals and, I understand, there may be a further paper by Norman Tebbit.
2. I fully support, of course, Nigel's objective of controlling the growth of public expenditure, whether national or in the European Community. As far as overall levels of Community spending are concerned, we have a particularly strong incentive to insist on restraint because of the size of our net contribution. Indeed effective control of Community spending overall is one of the conditions we have set before we would be prepared to consider any increase in the Community's own resources. (I believe we are beginning to make real progress on this. The latest French paper, proposing strict controls on both agricultural and other spending, is very encouraging.)
3. In addition to overall control of Community spending we have also made it a priority to try to ensure the cost-effectiveness of individual programmes as well as to derive a net benefit from them whenever possible.

/4. As regards



4. As regards the bulk of Community spending, there are three broad categories of programme:

- (i) programmes which effectively take the place of or contribute to the financing of a domestic programme;
- (ii) programmes which supplement existing UK programmes;
- (iii) programmes which in effect create new areas of activity for the United Kingdom

5. All these programmes should be subject to the general constraints I have outlined. But I do not believe they are susceptible to the blanket application of the non-additionality rule, which is what attribution, as proposed by the Chancellor, would amount to. I part company with Nigel on two aspects of his proposal: firstly, his view that each and every piece of Community spending must produce savings in domestic expenditure, and secondly, that attribution is a system that can always be made to work.

6. In many cases, of course, it will. For example, where Community spending clearly takes the place of an existing national programme, it is right that the existing non-additionality rules should apply. But there are many instances where it would not be realistic to expect to make offsetting national savings in response to Community programmes. For example, some Community spending will be in new areas where we have decided that we can best fulfil our national requirement by Community action. That was for instance the case with the JET programme for fusion research.

7. I can see no way in which it makes sense to require offsetting savings for programmes of this kind. They would not be replacing an existing UK project or programme. We should only have agreed to them because of a conscious decision on our part that they are in an area which can better be dealt with at Community rather than at national level. In these cases the Community programme would have been decided because we thought it a better way of proceeding than with a



national programme of some kind. There is no parallel UK saving that can automatically be made. To cut some other programme of proven value would be at best arbitrary and at worst damaging.

8. There are other programmes where Community action supplements and complements national action. ESPRIT is a good example. Although we have an existing UK programme in this field (the Alvey programme), there is no evidence that there will be substantial overlap between the two. To judge from the pilot programme, in which British industry has participated, we are likely to derive significant benefits from the scheme. Despite these benefits, which are recognised by both the DTI and our own industry, the DTI would be bound to reconsider our support for ESPRIT if offsetting savings were required from the Alvey programme.

9. There is another difficulty that would arise if we tried to apply the logic of attribution in such a case. It would run directly counter to one of our main aims, namely that of maximising our receipts from the Community. Taking the ESPRIT programme again as an example, if the DTI were required to find offsetting savings only to the extent that the programme was taken up in the UK, they would be under intense pressure to minimise rather than maximise the UK take-up. This would be an entirely perverse result. For it would leave other countries with the lion's share of the programme. But we, of course, should still be contributing our normal full share of the cost of the programme.

10. The position would be quite different, of course, in the case of a Community programme that was designed to replace, or to finance in whole or in part an existing national programme. In such a case the non-additionality

/rule should



rule should clearly apply, ex hypothesi. So far this has been almost the general rule, since so many Community spending programmes have been deliberately (but artificially) designed as a way of providing us with our Budget refunds. But as, hopefully, we move away from this way of reducing our net contributions, this kind of case should become increasingly unusual.

11. The Aid Programme, for which I am responsible, deserves a separate mention. Nearly half Community aid is outside the Budget altogether (the EDF) and is not therefore subject to the overall restraints which the own resources ceiling imposes on other forms of Community spending, and the remainder is not part of the allocated budget, which is the basis for the calculation of our net contribution. None of this expenditure, therefore, has a bearing on the size of our net contribution. Because the Community aid programme stands, in this way, in a world of its own it is also more subject to unforeseen and unavoidable increases than are other programmes. We are often unable to prevent the Parliament increasing Community aid schemes which we would not choose to finance; and we risk disproportionate damage to our interests in third countries if we block proposals in the Council on which we are isolated. In these circumstances, attribution is the main reason why the multilateral part of our aid programme continues to expand - from 25 per cent to 38 per cent over the five years to 1982. As a result, we have been obliged to curtail our bilateral programmes, to the disadvantage of political and commercial objectives which we regard as important. I am sure that this deserves consideration in its own right along the lines suggested in the Cabinet Secretariat paper.

12. In short, therefore, I believe our policy should be:

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- (i) to continue to work in Brussels for effective controls on Community spending as well as for cost-effectiveness in individual programmes;
- (ii) to apply to individual programmes a discriminating approach depending on whether those programmes effectively replace national programmes, in which case it would make sense to look for offsetting savings, or on whether they involve supplementary spending or completely new areas of Community spending in which case attribution would not be appropriate. Attribution is not consistent with the only approach which makes practical sense; nor has it yet been shown that it can be made to work in new areas;
- (iii) to consider urgently the possibility of a new procedure at home which would consist of taking a forward look at likely Community expenditure in fields where overlap with UK expenditure is possible; a kind of mini-PESC for EC spending;
- (iv) to provide for treatment of the aid programme along the lines suggested in the Cabinet Secretariat paper.

/13. I am

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12. I am copying this minute to other members of E(A) and to Sir Robert Armstrong.

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

GEOFFREY HOWE

29 November 1983

Foreign and Commonwealth Office