



JF4986

Prime Minister ②

AT 30/11

CONFIDENTIAL

PRIME MINISTER

EUROPEAN COMMUNITY EXPENDITURE AND THE CONTROL OF UK PUBLIC
EXPENDITURE

E(A) is to discuss this issue on 1 December. I have seen Geoffrey Howe's report of the OD(E) discussion on Esprit, where this issue was raised in an acute form, and the official note circulated as E(A)(83)18. I understand Nigel Lawson is also to circulate a paper, but have not yet seen this.

2 My concern is simple. In relation to Esprit, I am faced with the prospect, according to which version of the Treasury argument is applied, of having to find from my Departmental PESC either the total contribution of the UK to the Community Budget for Esprit, or that part of this budget which is actually spent in the UK. (I was not clear from the discussion at OD(E) which approach would be favoured by the Treasury and, as I have said, I have not yet seen the Treasury paper). On either basis, the implications for the UK are bad. On the former basis, my - and others' - Departments would be penalised for having shaped a Community programme in a way which matches British objectives; on the latter, the UK would be directly penalised to the extent to which British firms take up the available budget. Either approach would act as a severe disincentive to what we are



trying to do in the Community, namely to shape programmes to our advantage; to make sure the UK takes up available Communities monies; and to take a positive stance. I should be compelled either to oppose the Esprit programme root and branch (and hence oppose a Community initiative which is generally of the sort we should like to see become more important among the various Community programmes); or to stop British participation therein (thereby excluding our gaining any benefit from the programme). I have posed the argument in the context of Esprit, but it applies more widely, as E(A)(83)18 makes clear.

3 There are other objections to what is proposed. First, the Treasury proposals presume that Community and national programmes are interchangeable or top up each other - this has been claimed for Esprit and Alvey. Since this interchangeability cannot be demonstrated in this instance and is rarely the case, offset must disrupt coherent Departmental policies and programmes. Second, to calculate offset on the basis that the 'benefit' to Departmental policies can be nicely calculated in advance would be at variance with our experience of the inescapable fluctuations of major Community spending in the course of a year. Third, the Whitehall procedures needed to implement the Treasury proposals would involve complex bureaucratic exercises, themselves of dubious



cost-effectiveness (Esprit, for example, may be deemed to benefit several Departments, and their PESC provisions would have to be penalised to differing extents).

4 For all these reasons, I believe the application of the "attribution" doctrine is misguided, and will harm our interests. Instead, I believe we should adopt a different approach: We should insist that each Community programme is cost-effective in its own right. We should ensure, with our fellow Member States, a proper overview of priorities within total spend, not just random accumulation of projects. We must continue to look for effective management of Community spending within the United Kingdom. And we must have our own priorities for Community spending - not least to secure a maximum 'take' for the United Kingdom from such spending; and a maximum increment for our own industrial base.

5 There are already developments on all these on which we can build. I believe we could do so even more effectively if we resolved to treat programme 2.7 as standing outside the present programme of Departmental budgetary procedures and if we recognised thereby that effective control of Euro-expenditure must proceed from a separate base. I believe this would bring us nearer to effective control and management of our expenditure whether at home or in the



Community - which is the goal to which we are all committed - and would bring to an end an argument which has paralysed our negotiators in Brussels for the sake of a formula which I believe is misleading. Specifically, I would urge that we should now reach agreement that the Treasury's proposals would not apply to Esprit and the ERDF Non-Quota section so that negotiations can go forward with no further uncertainties.

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

A handwritten signature in blue ink, consisting of the letters 'N' and 'T' with a long horizontal stroke underneath.

N T

29 November 1983

Department of Trade and Industry