



Ref. A086/1079

PRIME MINISTER

Cabinet: Community Affairs

The Chancellor of the Exchequer may mention the effects of currency realignments within the European Exchange Rate Mechanism which were agreed last weekend. The changes were triggered off by a French request for an 8 per cent devaluation against the Deutschmark. In the end a package, including a smaller effective devaluation of the French franc, was agreed without undue difficulty (French franc -3%, German mark +3%, Danish krone, Belgian and Luxembourg francs and Dutch guilder +1%). One consequence is an increase in the negative monetary compensatory amounts for France in the agricultural sector. This will provide scope for France in the negotiations on the 1986 price fixing to provide its farmers with a small increase in domestic currency terms even if there is a freeze in common prices. This may reduce the chance of the French allying themselves with the Germans over agricultural prices and increases the chance of the Commission being able to maintain its proposals for a broad freeze. The United Kingdom monetary compensatory amount stands at 6.6 per cent, which also allows us - like the French - scope to make some correction of our green currency if we wished to do so.

2. The Secretary of State for Trade and Industry may refer to the meeting of the Research Council on 8 April at which the Minister for Information Technology, Mr Pattie, represented the United Kingdom. The principal item was the first consideration of the Commission's framework programme for research and development for the 5 years 1987 to 1991. The Commission has proposed that the sum of 10.35 billion ecu should be allocated. At the Council France, Germany and the Netherlands all supported



us in arguing that the Commission's bid was unrealistically high. The chances of this alliance holding together are better than usual. We stressed the need for a "bottom-up" approach, rather than a programme based on a global figure plucked out of the air, and asked the Commission to identify for each of the main components of the framework programme the proposed benefits of action at a Community level. A broad consensus is already developing in line with our view that energy research and development should take a decreasing share of finance and increased priority must be given to research and development which will aid industrial competitiveness. Final decisions on the size, cost and broad scope of the framework programme will have to be made during the United Kingdom presidency. The future of the Joint Research Centre (JRC) - at Ispra in Italy - was also tackled in a more sensible manner than in the past. Under pressure from the French, the Dutch and ourselves for a critical look at the JRC the Commission are to consider setting up an external committee, which would include industrialists, to examine the future role of the Centre.

3. There is an informal meeting of Ministers for Development on 16 April to be followed by a Development Council on 17 April. 30 April seems likely to be the date for the hearing of the Council's case against the European Parliament on the 1986 budget. In addition to taking our own cases against the Parliament, the French, the Germans and the United Kingdom have each intervened in support of the Council's case.

RTA

ROBERT ARMSTRONG

9 April 1986