

NBPM



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CHANCELLOR OF THE EXCHEQUER

Community Expenditure on R and D

1. In the aftermath of Fontainebleau we need to ensure that we are seen to be following up the ideas we have put forward for the development of the Community in areas of real interest to us. As a result of the tensions of recent months, there is a tendency for the French and Germans to intensify their collaboration within the Community, in part because they profess to believe that we are not prepared to move ahead at the same rate. This is absurd in view of the proposals we have put forward for the development of the internal market and in other areas. But we do need to take steps to correct a development which is potentially damaging for the UK. We shall not achieve this if we are seen to be going back on commitments taken.
2. In the new policies section of the Brussels European Council's conclusions, which were endorsed at Fontainebleau, it was agreed that the proportion of Community resources devoted to financing priority Community R & D should be increased. This followed commitments on R & D made at the February 1983 Research Council when we agreed that the Joint Research Council should continue to play a central role; and at the June 1983 Research Council when we agreed on the need to increase Community spending on R & D.
3. It is important that our attitude to Community expenditure on R & D should be consistent with these commitments, which were entered into because they suited the UK. Compared with other fields of non-obligatory expenditure, let alone the CAP, expenditure on R & D must have a relatively high priority for the UK. An increase in R & D expenditure should indeed be to our advantage:





- (a) recent developments in Community research (the location of JET at Culham, the cancellation of the Super Sara project and the adoption of the Research Framework Programme) have moved the whole Community effort in this sector in a direction favourable to the UK;
- (b) the Community's research effort is pre-competitive; an expanded programme could help fill the gap between pure academic research and product related research at less expense than expansion of our national programmes;
- (c) the UK enjoys a comparative advantage over our partners because of the excellence of our research "industry". The financial return for the UK is now I believe comparable to that we currently receive from the ERDF and is likely to prove more enduring and the extra research activity strengthens our capability still further.

These benefits will be all the greater if we succeed in improving the cost effectiveness of Commission proposals and their relevance to UK interests, reducing their bids where necessary. A greater readiness to inject UK research priorities at the stage of formulation is particularly desirable.

4. The arrangements we agreed last February to control Community expenditure and to set up PESC (EC) are of great importance. We must ensure that UK public expenditure is not increased by the proliferation of new Community spending programmes and that we are able to assess the priority of new Community expenditure proposals in comparison with one another and with domestic public expenditure programmes. But these arrangements need to be applied in a manner compatible with our post-Fontainebleau objectives. At the moment there are problems:





- (a) We chose as a baseline for financial control, the payments in the 1984 budget. These did not take into account the new and useful research activities contained in the Framework Programme (1984-87) to which we subscribed in July 1983. With the benefit of hindsight we should, I think, have taken a view on these before establishing the baseline which is not adequate for the fulfilment of our commitments after 1985.
- (b) The permissible annual increase to the baseline (equivalent to the projected increase in UK public expenditure) is significantly lower than the natural buoyancy of own resources let alone the maximum rate of increase of non-obligatory expenditure.
- (c) The combination of a low baseline and a low growth rate removes, in practice, the scope for flexibility which we agreed. Community R & D expenditure can only rise if departments find offsetting savings within their own budgets. Faced with the need to choose, departments will naturally opt for national programmes, rather than give any funding up to accommodate Community expenditure. As both have intrinsic value to the UK, we should make adequate provision for them to co-exist without the presumption that one shall always be at the expense of the other.
- (d) Departments naturally are particularly unwilling to find savings which would enable programmes of interest to other Member States to go forward. But we shall not secure our own priorities unless we sometimes concede those of others, having sought to limit them through negotiation.





5. I do not foresee major difficulties in 1985 when financial stringency will curtail research activities. But these factors could constitute a serious obstacle to our agreeing to Community R and D priorities for 1986 and beyond, when the research programmes stemming from the Framework Programme will need to move ahead. Some of these programmes ought to be adopted in the coming months so as to allow the initial, inexpensive, groundwork to be laid during 1985; and to provide some guarantee of continuity in areas where previous programmes are up for renewal.

6. We need, I think, to consider how the flexibility which you and Norman Tebbit built into your joint memorandum of 20 February 1984 should be exercised. The PESC-EC process and the Brussels negotiating and decision making cycles do not operate on the same timescale. For this reason it is difficult for departments plausibly to make a bid for offsets from the public expenditure programme as a whole (one of the options you agreed) when this is impossible from their departmental budgets. For the same reason the Treasury would presumably have difficulty entertaining such a bid if it were made, say, in July. These factors, together with the uncertainties inherent in agreeing expenditure programmes several years ahead make it very difficult for transfers within PESC-EC to be made with confidence that the PESC limits will be respected.

7. We need to decide upon a new baseline figure and a new rate of growth which together will ensure that our commitments can be honoured in the years ahead. I suggest that the review of arrangements which you proposed for when we had a budget settlement should now take place. Officials should be asked to examine the projections for Community R & D expenditure and consider what is realistic in negotiating terms. They should also report on the means of accommodating these figures within the system of financial control and on





whether the budgetary system should affect our attitude to Community R and D programmes.

8. Budgetary discipline must remain the principal objective. But it is also our objective to ensure that there is a shift of resources away from agriculture and towards policies which are likely to benefit the United Kingdom. After the emphasis we have placed on this, for us to take a line which would mean that the Community could not honour the commitment to increase expenditure on R & D would be damaging. I suggest that we should consider at Ministerial level the result of the review by officials of the PESC(EC) arrangements as they apply to R & D and to take a decision on how the baseline for R & D expenditure might be increased to enable us to play a positive role in determining the future direction of the Community's R and D effort, in accordance with our interests.

9. I am copying this to OD(E) colleagues.

A handwritten signature in black ink, appearing to be 'G. Howe'.

GEOFFREY HOWE

Foreign and Commonwealth Office

18 July, 1984