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FOREIGN AND COMMONWEALTH SECRETARY

COMMUNITY EXPENDITURE ON R AND D AND EURO-PES ARRANGEMENTS

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Thank you for your minute of 18 July about Community expenditure on R and D and the Euro-Pes and PESC(EC) arrangements for controlling Community expenditure.

2. I am grateful for your recognition of the importance of the PESC(EC) arrangements. In my view this will be even greater after the Fontainebleau settlement than it was before. Our supporters in the House attach the highest priority to our securing effective control of Community expenditure following the agreement to raise the VAT ceiling to 1.4 per cent. Without such control we shall have the greatest difficulty in ensuring that our net contribution remains within reasonable bounds, even with the 66 per cent abatement. The effective implementation of the budget discipline principles agreed at Fontainebleau will, of course, be one of our objectives in the next few months. But the Euro-Pes procedures represent the other blade of the scissors. There can be no question of blunting it in current circumstances.

3. I was therefore concerned to read your proposals for amending the arrangements barely 6 months after we agreed on them last February in E(A). I cannot accept your suggestion that the baseline was set at too low a level. I agreed to provide, if necessary as an addition to the baseline, for the full cost of Esprit as well as for energy demonstration projects. I also agreed that we should put in a figure of 600 mecu for the 1984 baseline into Chapter 73.

4. Moreover I do not agree that the permissible rate of increase in the baseline is too low. The whole point of the Euro-Pes arrangements is that departments should have to consider additions to Community expenditure for R and D on the same footing as equivalent domestic expenditure. The provision that the Euro-Pes baseline should increase in line with domestic public expenditure as a whole is therefore entirely appropriate.



5. Nor can I accept any of your suggestions for changing the Euro-Pes framework. We are, of course, committed to look at the details of the Euro-Pes arrangements in the light of the Fontainebleau agreement and my officials will be putting a paper on this to PESC(EC) in the autumn. But I must tell you now that I see no reason why the Fontainebleau agreement should lead to any fundamental changes in the system. The only major question for consideration is whether the Fontainebleau 66 per cent abatement formula affects the detailed calculation to be made in evaluating our gross and net contributions to and benefits from individual Community programmes.

6. More generally I am very concerned about where we are going on R and D. We have, as you say, committed ourselves to accept a Community framework programme. We have also agreed that the share of Community budget devoted to R and D expenditure should be increased, though that in itself can and should be mainly achieved by bearing down on expenditure on agriculture in the budget, and certainly does not entail net additions to expenditure. But the Commission's proposal of a 5-year figure of 3750 mecus at 1982 prices for the framework programme is absurdly high and we have never accepted it. Moreover, the rates of increase of R and D expenditure implied by it are quite incompatible with the Fontainebleau agreement on not exceeding the maximum rate in the budgetary procedure, not least bearing in mind other expenditure commitments which we have regrettably felt ourselves obliged to accept, such as "significant increases in real terms" in the structural funds.

7. I believe that the time has come to make it clear to the Commission that their figure for the framework programme is simply unacceptable and to force the Research Council to consider its priorities within a much lower ceiling. Indeed in the context of the budget discipline arrangements I believe we may have to go further and establish that any multi-annual programme figures agreed by specialist Councils can only be of an indicative nature and may have to be cut back within the budgetary procedure. My officials will be taking this point up in the High Level Group on budgetary discipline.

8. As a first step we need to discuss amongst ourselves what would be an acceptable figure for the R and D framework programme. I propose that officials should establish what size of programme and over what period is likely to be compatible with the development of the Euro-Pes baseline. If Norman Tebbit and other colleagues with interests in the framework programme consider that a higher



figure than this is needed, then it is open to them to put forward additional bids, together with their proposals for offsetting savings either in the Euro-Pes baseline or in domestic programmes. That is the correct procedure which we agreed on in February in E(A). We should then decide on our objective for the size of the programme and on our priorities within it well in advance of the next Research Council, and try to see if we can reach a common line with like-minded member States.

9. I am sending copies of this minute to our OD(E) colleagues and, in view of the previous E(A) discussions, to the Prime Minister, and to Sir Robert Armstrong.

A handwritten signature in dark ink, consisting of a stylized 'N' followed by a dot.

N.L.

30 July 1984

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