



FCS/85/60

CHANCELLOR OF THE EXCHEQUER

ESPRIT

1. I was concerned to receive a copy of Norman Tebbit's letter to you of 27 February about further problems that have arisen over the ESPRIT programme.
  
2. I was under the impression that what was agreed in EA last week was that we should give the green light to this programme at the Research Council on 28 February so long as we received assurances from the Commission that the Community's R and D spending in 1985 would not go beyond a bracket 600 mecu - 670 mecu. Since then there has been some confusion among officials about what constituted R and D expenditure and this led to DTI and Treasury officials revising the objective. Kenneth Baker was asked to achieve to the lower end of the bracket. I have no objection to his doing his very best to get agreement on that basis, but I do not think it would be right for us to block agreement in isolation in Brussels if the assurances we could get came above that figure but still fell within the bracket we agreed. As Norman Tebbit says, the pressure we would then come under and the damage to our Community policies would be quite disproportionate.
  
3. As to the PESC (EC) baseline for R and D, a problem will only arise for Norman if not only is the assurance we get from Davignon above the 600 mecu allowed for by Treasury officials, but the figure actually entered in the 1985 Community Budget also exceeds 600 mecu, which is a great deal less likely since both within the Commission and in the Budget Council opening figures are invariably reduced and this will be all the more likely in a tight year like 1985. I hope you can assure Norman that if the 1985 budget figure for R and D exceeded 600 mecu but was less than 670 mecu you would be prepared to move the baseline. Meanwhile,



Kenneth Baker tomorrow and the rest of us in the Community's 1985 budget process would seek to ensure that that did not happen.

4. I hope very much that you can give Kenneth Baker the flexibility which Norman Tebbit sought to enable him in the last resort to accept assurances from the Commission to keep R and D spending below 670 mecu.

5. I am copying this minute to the Prime Minister, the Secretary of State for Trade and Industry and Sir Robert Armstrong.

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

GEOFFREY HOWE

Foreign and Commonwealth Office  
27 February, 1984