

Mr. Turnbull.

PRIME MINISTER

I have told Mr.

ESPRIT

Baker's P.S. in Brussels.

A.F.C. 25/2

The minutes of E(A) indicated that, at the next Council of Ministers (Research) the UK could settle for an Esprit programme so long as this could be accommodated within a ceiling of around 600-670m ecu for Community R and D. Mr. Tebbit has written to the Chancellor - see attached - seeking agreement for Mr. Baker to open at 600 mecu, with authority to settle up to a maximum of 670 mecu, though it is not certain that this flexibility would be needed in full.

Though this appears to be within the E(A) agreement, the Treasury are disputing it. They argue that the 600 mecu figure was intended to cover not just expenditure in Chapter 73 but expenditure in Chapter 71 - 72 as well, while Mr. Tebbit is seeking to apply the 600 mecu, or possibly 670 mecu to cover Chapter 73 alone. The effect of this in Treasury eyes would be to allow an additional 70 mecu in the other Chapters of which our share is about £9m. The Chancellor may argue that the higher figure should be agreed only if the UK's share of the excess is matched by offsetting savings from Mr. Tebbit's programmes. This Mr. Tebbit refuses to contemplate. *Chancellor's letter has not arrived but argues 600 is enough for Chapter 73 alone.*

The Foreign Office are supporting DTI, arguing that it is not worth holding out for this small amount as it is likely to be conceded anyway in the wider settlement at the Summit. In their view, we would have succeeded only in incurring ill will.

There is thus a choice:

- i) Backing the Chancellor with the risk that Esprit might not be settled before the Summit;
- ii) | Backing Mr. Tebbit and the Foreign Secretary in order to settle Esprit before the Summit.

MT

Which course do you wish to follow?

AT (ii) MT

Andrew Turnbull
27 February 1984