



From the Minister of State for Industry

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215

GTN 215)5186

(Switchboard) 01-215 7877

THE HON PETER MORRISON MP

The Hon Peter Brooke MP
Minister of State
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CJP
20/11

27 November 1985

See P. 2

EUROPEAN REGIONAL DEVELOPMENT FUND (ERDF): UK RECEIPTS

When Ian Gow wrote to me on 14 November about the proposed final set of non-quota measures under the ERDF he touched upon wider issues relating to the EC Budget in relation to the ERDF.

I said in my letter of 30 September to Malcolm Rifkind that the chances of securing changes in the Commission proposals for the quota ranges under the ERDF after the accession of Spain and Portugal were not good. The discussions in the Regional Policy Working Group and the COREPER have confirmed this judgement. We have been stressing the need to deal with the problems of industrial decline, and will continue to do so in these discussions so long as the Greeks and the Irish press for the Commission proposals to be changed to their advantage. However there is no realistic prospect of achieving a material improvement in what is now on offer, and we can hardly block or hold up Spanish and Portuguese accession on this basis.

Commission officials have told us privately that they will seek to minimise the extent to which the UK will be net contributors to the ERDF. We shall be writing at Ministerial level to press the Commission about this, but it is unlikely that they would be prepared to give any such assurance in writing. In any case the proportionate share of the ERDF is virtually certain to be less than our marginal contribution to the Community Budget, and so increases in the Fund are likely to involve a net financial loss to the UK. I therefore agree with Ian's conclusion that our interest

MONAXI



for the foreseeable future is to resist increases in the size of the Fund. It should be recognised though that this policy involves considerable presentational difficulties and will bring criticism of the Government from many directions.

He also referred to the high hopes expressed at Fontainebleau, and reflected in the Fontainebleau Communiqué, that the long term solution to the problem of the UK's deficit lay in the development of EC spending policies. It seems to me that that sentiment represented a triumph of hope over experience, particularly in the light of the relatively high proportionate UK contribution to the Budget. The ERDF is the largest item of Community expenditure outside agriculture, and we certainly can no longer count on a net contribution towards the solution of our budgetary problem from it in future, and this has been evident for some time.

He also commented that the proposed final set of non-quota measures should ensure us a return from the Fund slightly greater than could be expected were we to rely solely on the Fund's normal operations, and added that this would not be without its disadvantages in public expenditure costs. The point which I think that he had in mind was that in the case of the non-quota measures there is no requirement that departments reduce their expenditure by the amount of the ERDF receipts passed to the private sector, for example under the Business Improvement Service Package of Schemes. However the present intention is that such a requirement should normally apply in respect of future Community programmes. I think it fair to point out that the objective of maximising receipts from the ERDF so as to get as near as possible to the top of our quota range may imply adopting policies, or accepting Commission influence which otherwise we would not have done. Conversely, of course we may choose not to change our policies in this way, and the result might then be lower receipts from the ERDF for the Exchequer, or for UK recipients as a whole, than would otherwise have been the case. This trade-off is not, and cannot be, an exact science, but nonetheless it is likely to be there.

I am copying this letter to the recipients of the earlier correspondence.

A handwritten signature in black ink, consisting of a stylized 'P' and 'M' followed by a flourish.

PETER MORRISON

Europal-Budget:
PE30

