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PRIME MINISTER

E(A), 20 NOVEMBER - EC R&D FRAMEWORK PROGRAMME

We are due to discuss with colleagues in E(A) on Thursday our attitude to the proposed EC R&D Framework Programme. This proposal poses substantial domestic public expenditure problems for my Department, which we need to resolve now, so that we can decide on our national and Presidency position in advance of the 9 December Research Council.

2 The European Secretariat's paper (E(A)(86)54) discusses the main issues in terms reflecting the differing views among Departments about both substance and tactics for the Council. I think it is however important that you and colleagues should be aware, before the meeting, of how difficult these decisions are for my Department. My main concerns are with redistribution of the EUROPE'S baseline, and with the size of the Framework Programme. The wrong decisions on either would present me with severe public expenditure problems.

Redistribution

3 The allocation of EUROPE'S baselines was set in 1984. However as the European Secretariat's paper states the new Framework Programme will involve a completely different pattern of spend. Expenditure under even a 5 becu programme will significantly exceed baselines, requiring offsetting savings on Departments' budgets. The issue of redistribution is essentially a question of how this should be allocated amongst Departments.

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4 Redistributing baselines would mean that the overspend would be allocated pro rata to expected expenditure on programmes. This approach is logical and equitable, and is fully supported by the Treasury as well as ourselves. Since in line with the Government's negotiating objectives, the new Framework Programme will concentrate more on industrially relevant programmes, DTI would still be left with the greatest overspend over the 5 year programme. While I recognise that the Department of Energy would face particular difficulties in the early years, there can be no argument for allowing them to retain 37 per cent of the baseline against an expected share of the new Programme of only 23 per cent, with DTI holding only 19 per cent compared with an expected share of 53 per cent. This would distort the disciplines that EUROPES is intended to impose on all Departments, and have the paradoxical effect of forcing DTI to argue, against current policy, for reducing the industrial relevance of the eventual programme in order to reduce our liability to find offsetting savings. A failure to redistribute the baselines would leave DTI with a further bill of over £200m on a 5 becu programme with virtually no cost at all to any other Department. This would necessitate a major cut back in our support for domestic R&D where the budget already shows no increase in real terms over the PES years.

5 I am afraid that I could not, therefore, accept even a 5 becu programme at the 9 December Council unless E(A) takes a firm decision to redistribute on the basis set out at Annex B of the Secretariat paper.

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A programme above 5 becu

6 The Secretariat paper recognises that settlement at 5 becu will be difficult to achieve at the Council. Some colleagues may therefore argue that we should be prepared to go somewhat beyond, to get a settlement. This would provide even more difficulties for my budget which I could not countenance. My firm view, which I understand the Treasury share, is that we should not go higher than 5 becu. In any case I am not convinced that the UK Presidency will provide an opportunity for the lowest possible settlement on a Framework Programme, recognising the pressures that our Presidency inevitably places on us to compromise. And so long as France and Germany support us, future Presidencies will not readily see off the arguments for a smaller programme, as budgetary constraints become more apparent.

Conclusion

7 For these reasons, I consider it essential that E(A) decides now on a redistribution of EUROPE'S baselines, as set out in the Secretariat paper. Without this I could not agree even to a 5 becu programme at the 9 December Research Council. I also believe that we should confirm that 5 becu remains our negotiating limit, even if this proves insufficient to achieve a settlement. We need to settle these questions quickly, so that Geoffrey Pattie knows where he stands in his bilateral Presidency contacts with other Member States later this month.

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8 I am copying this to other Members of E(A), to Geoffrey Howe and to Sir Robert Armstrong.

P.C.

PAUL CHANNON

18 November 1986

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