



PM/83/94

PRIME MINISTEREsprit

1. I chaired a meeting of OD(E) on Thursday to discuss our approach to the Community's information technology research and development programme ESPRIT. The main outstanding issue is finance. The programme is intended to run for five years from 1984, and the Commission have proposed average annual expenditure by the Community of £85.5million which would involve a UK share of about £19 million. The industry itself would, under the terms of the programme, make a matching contribution. All Member States, except the United Kingdom and Germany, have now agreed on a figure of £79.8 million (UK share about £18 million). Although the Germans like ourselves have reserved their position on finance, it is generally expected that they will join the consensus at the European Council around the £79.8 million figure.

On what basis is the proportionate allocation made?

2. OD(E) reached agreement on a number of points. First, it was agreed that there should be no question of the United Kingdom accepting any figure for financing this programme before the European Council. We should maintain our position that this question could not be agreed before the European Council had made the necessary progress on the budget problem of the Community. We also agreed that we should insist on there being a review clause providing for the whole programme to be reviewed at an appropriate half-way stage with a separate Council decision on the funds necessary for the second half of the programme. As for the conditions in which we should agree to finance for the programme, this would be for decision at Athens but it would be in our interest to have cleared our own lines beforehand.



3. The Committee also agreed that ESPRIT was a worthwhile programme which merited substantial resources. Both the Trade and Industry Secretary and the Chief Scientific Adviser emphasised the need for research in information technology if British and Community industry was to catch up and compete with its Japanese and American competitors. The Chief Scientific Adviser also pointed to the high quality of the ESPRIT proposals compared to most Community research programmes. Moreover, it seems that - judging by the response to the pilot programme which has already been implemented - British industry stands a particularly good chance of benefitting from the programme and of picking up more than a "juste retour".

*which?
could we
cut them
out?*

4. We were, however, unable to agree what figure for finance we should be prepared to accept - if the circumstances are right - at Athens. Whereas the Trade and Industry Secretary argued strongly in favour of our joining the consensus around 140 mecu or £79.6 million a year, the Chancellor favoured going no further than 80 mecu or £45.6 million. The arguments on the merits of the programme seem to point towards the former figure (and the Trade and Industry Secretary also said that if the programme was too reduced in size British firms would no longer find it worthwhile to devote the managerial and research manpower necessary for their involvement, and we should lose out). However, the Chancellor felt strongly on budgetary grounds that we should press for a smaller programme. He also had doubts about the size of the programme because of possible overlap with domestic research expenditure. I believe myself that, if the major negotiation at Athens is going well, it would be in our interest to be forthcoming on ESPRIT, always bearing in mind the very great importance of the other issues on which we shall be negotiating in Athens.

*Will it
overlap with
Avery?*

5. There was also disagreement on the domestic public expenditure implications of ESPRIT. The Chancellor pointed out that spending on ESPRIT would represent an increase in spending

/on industrial



✓ on industrial support, and proposed that offsetting savings should be found from the DTI's PESC allocation for at any rate the funds flowing to British industry. He mentioned that the Treasury were about to discuss with other Departments some more wide-ranging proposals for dealing with Community expenditure programmes in this way. The Trade and Industry Secretary strongly opposed the suggestion that offsetting savings should be found by his Department when the funding for ESPRIT was part of the overall Community budget which had been agreed by the Treasury and when it would mean scrapping other DTI programmes which had already been agreed. He pointed out that ESPRIT would not substitute for any UK domestic programme, as it was expected to complement rather than replace the Alvey programme, although he would be prepared to find savings to the extent that there was any direct overlap. He regarded the Chancellor's further specific suggestion that DTI should find offsetting savings to the extent that the ESPRIT programme was actually taken up in the UK as particularly perverse. It would encourage his department to minimize the UK take-up, thus leaving other countries with the lion's share of the EC-financed ESPRIT programme, to which we should still be contributing our full share.

No point
 in duplicating
 research.

How do
 know?

6. The Chancellor's wide-ranging new proposals on the consequences of Community expenditure on departmental budgets raise important issues of principle, not only in relation to ESPRIT, on which other Ministers are vitally concerned. I believe that we shall need to discuss them at a wider meeting. I therefore propose that a meeting of E(A) might consider this issue before the European Council. Owing to our absence at CHOGM, this will be awkward, but I understand that a meeting could be organised immediately after Cabinet on 1 December. As to the size of the ESPRIT programme itself, this is a more

/straightforward

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straightforward issue which is inevitably tied up with our negotiating situation at Athens and I suggest that we could deal with this at the meeting which you are holding to discuss the preparations for Athens.

7. I am copying this minute to all members of OD(E) and to Dr R B Nicholson at the Cabinet Office.

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office
22 November 1983



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10 DOWNING STREET

From the Private Secretary

13 February, 1984

ESPRIT

The Prime Minister has read and noted the contents of the Foreign and Commonwealth Secretary's minute of 10 February.

I am copying this letter to Callum McCarthy (Department of Trade and Industry), John Kerr (HM Treasury) and to Richard Hatfield (Cabinet Office).

A. J. COLES

R. Bone, Esq.,
Foreign and Commonwealth Office

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