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27 February 1984

The Rt. Hon. Norman Tebbit MP
Secretary of State for Trade and Industry

New Secretary of State,

with ✓

Thank you for your letter earlier today about ESPRIT.

Your officials and mine have recommended that we should press the Commission for a firm assurance - whether given publicly or privately - that the R & D expenditure in Chapter 73 of the Community Budget will be contained within the limit of 600 mecu in 1985. That still seems to me to be the right objective, and one that should not be difficult to defend. Expenditure in the 1984 Community Budget in this chapter totals only 505 mecu. Accordingly, even after allowing for the estimated increase in expenditure on ESPRIT in 1985, a 600 mecu limit will already provide for an increase of some 7½ per cent on other R & D projects in a year when the Community's resources will be very tightly stretched. Our previous joint proposal to E(A) was that the upper limit of 670 mecu for 1984 and 1985 should apply to Chapters 70-73 of the Budget, ie. that it should also cover energy demonstration projects. I see no reason for us now to agree to go beyond 600 mecu for Chapter 73 expenditure on its own. Provided the Community takes a suitably firm line on non-priority projects, there is no reason why a ceiling of 600 mecu should be infringed. I hope therefore that Kenneth Baker will continue to press for the 600 mecu ceiling, as recommended by your officials and mine.

It follows that I do not think a further addition to the PES baseline for Community R & D expenditure in 1985 would be justified.

Copies of this letter go to the other recipients of yours.

*Yours ever,
Nigel Lawson*

pp. NIGEL LAWSON



JH 966

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D. Nigel.

ESPRIT

Kenneth Baker is leaving tonight for tomorrow's meeting of the Community's Research Council, at which ESPRIT will be the main item. He will stand firm in insisting on an undertaking from Davignon that expenditure on ESPRIT, together with the rest of Community R&D in Chapter 73 and any appropriations in Chapter 100 that are earmarked for Chapter 73, can all be accommodated within an envelope of 600 MECU during 1985. This reflects the agreement reached on Friday between our officials that the PESC(EC) baseline for R&D will not be less than the envelope agreed in Brussels for such Community R&D expenditure.

2 I hope, of course, that Davignon will give such an undertaking. If he does not, Kenneth Baker will seek the support of other Member States, but I am not optimistic about his securing it, even from the Germans. There is a real possibility that at the end of the day we shall find ourselves isolated in blocking ESPRIT because we cannot secure the undertaking we seek on the envelope for all R&D expenditure.

3 I think we need to decide whether in that event Kenneth Baker should be authorised to settle for a somewhat higher figure - up to a maximum of 670 MECU. If he does, it must be on the understanding that the PESC(EC) baseline for R&D will move up to the same figure, so that I am not faced with a demand for off-setting savings from the DTI's own programmes.

4 I believe we should be prepared, in the last resort, to go as far as this. If we do not, in the circumstances I have outlined, we shall be exposed to immense pressure, at home as well as from other Member countries, following the Research Council's failure to agree. We might well find it politic then to give way, in the interests of our other negotiations in the Community; but we should then be seen to have been defeated on a



question of containing expenditure, and we should have meanwhile incurred much ill-will to no purpose.

5 If Kenneth's instructions are to be changed, he will need to know by mid-morning (Brussels time) tomorrow. I should therefore be very grateful to have your views as soon as possible.

6 I am sending copies of this letter to the Prime Minister and the Foreign Secretary, and to Sir Robert Armstrong.

NORMAN TEBBIT

What worries me is the point in para 4. Given a little negotiating room K. B. may be able to do a deal between 600 and 670 MEcu. If we block the deal by sticking at 600 we may find that in a few weeks, as part of a broader settlement we are pushed into an agreement at a higher figure - at a cost to credibility as well as cash!

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