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MR HANNAY
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MR THOMAS JC

RESIDENT CLERK

PLUS FCO

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CABINET OFFICE

MR D WILLIAMSON
MR G STAPLETON
MISS S J LAMBERT
MR J C MACKENNEY
MR NICHOLSON

DTI (ASHDOWN HSE)
DOE

MR G DICK
MR J INGRAM
MR K BINNING
MR O KEMMIS (SPL)
RM232 ASHDOWN HOUSE

PLUS OGDS

No. 10 D.S.K
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H M TREASURY

MISS J E COURT
MR UNWIN
MR FITCHEW

MR A BERRY, ECIP(2)
PS/MR BAKER
MISS LACKEY
MR WALICER (ALVEY)

CONFIDENTIAL
FRAME INDUSTRY
DESKBY 281300Z
FM UKREP BRUSSELS 281155Z FEB 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 701 OF 28 FEBRUARY
INFO ROUTINE PARIS BONN

IMMEDIATE
ADVANCE COPY

RESEARCH COUNCIL : 28 FEBRUARY 1984
ESPRIT

1. MR BAKER CALLED ON DAVIGNON, RIESENHUBER (FRG) AND FABIUS (PRESIDENCY) BEFORE THE COUNCIL.
2. MR BAKER TOLD DAVIGNON THAT HE CONTINUED TO BE EXTREMELY CONCERNED ABOUT THE BUDGETARY POSITION IN 1985. HE NEEDED A PRIVATE ASSURANCE THAT PAYMENTS IN THAT YEAR WOULD NOT EXCEED 600 MECU. DAVIGNON REPLIED THAT EXPENDITURE ON R AND D WAS CLEARLY RELATED TO WHAT THE BUDGET WOULD ALLOW AND THAT THE INCREASE IN 1985 WOULD BE VERY SLIGHT. BUT HE WOULD NOT RULE OUT THE POSSIBILITY OF FUNDS BEING TRANSFERRED WITHIN THE BUDGET FROM AREAS OF LESSER PRIORITY. HIS BID WAS FOR 1.2 BILLION ECU FOR RESEARCH FOR R AND D IN 1984/1985, BUT THIS COULD NOT BE ACHIEVED IF SECTORAL CEILINGS LIMITED FLEXIBILITY.
3. MR BAKER POINTED OUT THAT DAVIGNON'S OBJECTIVE OF 700 MECU IN 1985 (GIVEN 500 MECU IN 1984) WOULD UNDOUBTEDLY BE PARED DOWN. EXPERIENCE SHOWED 600 MECU TO BE A REALISTIC MAXIMUM. DAVIGNON SAID THAT HE WOULD NOT EXCLUDE 'A PRIORI' THAT HIS COLLEAGUES WOULD AGREE TRANSFERS FROM OTHER SOURCES IN FAVOUR OF R AND D. BUT WHILST HE MIGHT HOPE FOR MORE. HE DID NOT EXPECT PAYMENTS IN 1985 TO EXCEED

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TRANSFERS FROM OTHER SOURCES IN FAVOUR OF R AND D. BUT WHILST HE MIGHT HOPE FOR MORE, HE DID NOT EXPECT PAYMENTS IN 1985 TO EXCEED 600 MECU AND CONFIRMED THAT R AND D ACTIVITIES IN THAT YEAR WERE CAPABLE OF BEING MANAGED WITHIN SUCH A PAYMENTS TOTAL. HE COULD LIVE WITH 600 MECUS. MR BAKER SAID THAT DAVIGNON'S NEGOTIATIONS WITH HIS COLLEAGUES WERE A SEPARATE ISSUE. HE WELCOMED DAVIGNON'S STATEMENTS AND CONSIDERED THAT ESPRIT COULD PROCEED ON THIS BASIS, AT A LEVEL OF 750 MECU OVER FIVE YEARS IF OTHER MEMBER STATES AGREED.

4. IN SUBSEQUENT DISCUSSION WITH RIESENHUBER, MR BAKER OUTLINED THE BASIS OF HIS AGREEMENT WITH DAVIGNON AND SAID THAT WE WERE NOW CONVINCED THAT R AND D EXPENDITURE COULD BE MANAGED WITHIN AN OVERALL LEVEL OF 600 MECU. RIESENHUBER WARMLY WELCOMED THIS AND SAID THAT CHANCELLOR KOHL ATTACHED IMPORTANCE TO ESPRIT GOING AHEAD TODAY. DISCUSSION IN OPEN COUNCIL WOULD BE COUNTERPRODUCTIVE, BUT WE SHOULD AIM TO ENFORCE IT IN THE FUTURE THROUGH THE RESEARCH AND BUDGET COUNCILS. HE READILY AGREED TO MR BAKER'S SUGGESTION THAT UK AND GERMAN OFFICIALS SHOULD WORK TOGETHER SO AS TO ENSURE THAT 600 MECU WAS NOT EXCEEDED. THE MINISTERS ALSO AGREED THAT AGREEMENT MIGHT BE REACHED ON THE ENVIRONMENT PROGRAMME AND THE JRC GOVERNING BOARD AS WELL AS ESPRIT AT THIS COUNCIL, BUT ON NOTHING ELSE. THEY CONSIDERED THE COMMISSION'S PROPOSALS ON BIOTECHNOLOGY TO BE OVER-AMBITIOUS.

5. FABIUS WELCOMED THE PROSPECT OF AGREEMENT ON ESPRIT AT THIS COUNCIL AND DID NOT DISPUTE THAT THE COMMISSION SHOULD BE ABLE TO LIVE WITH MAXIMUM PAYMENTS OF 600 MECU IN 1985.

6. ESPRIT WAS SUBSEQUENTLY AGREED AT THE COUNCIL WITH FUNDING OF 750 MECU.

COMMENT

7. RIESENHUBER'S READY AGREEMENT TO WORK FOR A LIMIT OF 600 MECUS IN 1985, COMBINED WITH PROBABLE FRENCH WILLINGNESS TO COOPERATE, SHOULD ENSURE THAT NOT MORE THAN THIS FIGURE GOES INTO THE COUNCIL'S DRAFT BUDGET, EVEN IN THE RELATIVELY UNLIKELY EVENT OF DAVIGNON GETTING THE COMMISSION TO GO SLIGHTLY ABOVE IT.

FCO ADVANCE TO:

FCO - HANWAY, FAIRWEATHER
CAB - WILLIAMSON, STAPLETON, MISS LAMBERT, NICHOLSON
DTI - PS/MR BAKER, MISS LACKEY, INGRAM, WALKER (ALVEY)
TSY - UNWIN, FITCHEW

NO.10

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NNNN



10 DOWNING STREET

Prime Minister ②

To note the understanding reached on Esprit. In the event Mr Baker did not need to go above 600 mecu

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10 DOWNING STREET

From the Private Secretary

28 February 1984

ESPRIT

The Prime Minister has seen your Secretary of State's letter of 27 February to the Chancellor, and the replies from the Chancellor and the Foreign Secretary. The Prime Minister took the view that Mr. Baker should argue at the Research Council for a limit of 600 mecu in 1985 for Community research and development in Chapter 73, but that if it would secure agreement, he could, as a last resort, agree to a figure up to 670 mecu. This view was communicated this morning to Mr. Baker in Brussels. The Prime Minister has noted, however, that in the event this did not prove necessary as an understanding was reached on a limit of 600 mecu.

I am copying this letter to John Kerr (HM Treasury) and Roger Bone (FCO).

Andrew Turnbull

Callum McCarthy, Esq.,
Department of Trade and Industry.

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