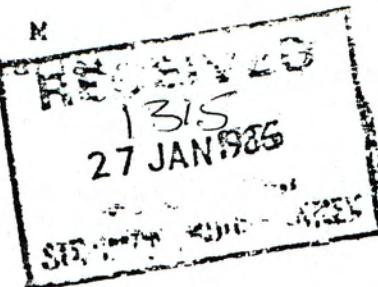


C.R. 14/12

## CONFIDENTIAL

MR R SPENCE M  
Central Secretary

Anne pt.  
60% to A. Miller & -  
this back to me.

cc PS/Mr Bloomfield M  
Dr Quigley M  
Mr Fell M  
Mr Brennan M  
Mr Chesterton M  
Mr Small DFP  
Mr Bell SIL

(S)

EC AID INITIATIVE: EQ PAPER

RS 27/1

I attach as agreed with you and Mr Small the latest draft of the EQ paper.

I spoke to Mr Jay at the Cabinet Office on Friday afternoon. He considers that EQ(S) is the appropriate forum and he will discuss with the Chairman, Mr Williamson putting our paper on the Agenda for an EQ(S) meeting either on Thursday afternoon 6 February or late Friday morning 7 February. (This has now been set for 3 pm on 6 February.)

The timetable between now and then is as follows:

- i) Any further thoughts from you or Mr Small to me by 10 am Tuesday 28 January.
- ii) Show draft paper to Cabinet Office, HMT, PCO and DTI on Tuesday 28 January.
- iii) An informal meeting with NI representatives under UKREP auspices in Brussels and also involving British and Irish Cabinet members and the Irish representation. UKREP is seeking to arrange this for Thursday 30 January.
- iv) Further revise of the EQ(S) paper in the light of any comments from those to whom this minute is copied, other Whitehall Departments and the outcome of the Brussels meeting. (Friday 31 January.)
- v) Finalisation of the EQ(S) paper and distribution by Cabinet Office on Monday 3 February.

CONFIDENTIAL

~~CONFIDENTIAL~~

Two further points on the draft paper. First you will see that I have slightly revised the formulation of the conclusions so that they do not present EQ(S) with any proposition which some Departments cannot accept but at the same <sup>time</sup>/encourage Departments to support NIO line: Secondly Mr Bell will notice reference to a non-existent Annex B which is a description of the latest position on negotiations to establish the International Fund. I would be grateful if he could let me/something which meets the bill or otherwise contact me urgently about this.

EQ(S) is chaired at Deputy Secretary level and Departments are normally represented at Under Secretary level. Cabinet Office see no difficulty in the NI system fielding a team of three people which we have envisaged as those most involved namely you, Mr Small and I. However because of the linkage with Analc/Irish political matters, and the International Fund Mr Brennan or Mr Chesterton may wish to attend the EQ(S) meeting. This minute gives them advance warning but we do not need to decide on representation now. I understand the Mr Mallaby (Cabinet Office) and Mr Elliott (Sir David Hannay's Deputy) will be attending.

N. R. C - G  
N R COWLING  
27 January 1986

~~CONFIDENTIAL~~

CONFIDENTIAL

DRAFT EQ PAPER (24.1.86)

POSSIBLE EC AID INITIATIVE FOR NORTHERN IRELAND

Background

1 The Prime Minister and the Taoiseach signed the Anglo/Irish Agreement on 15 November 1985 - see Cmnd. 9657. It was subsequently approved by large majorities in both the British and Irish Parliaments and is now in force. Article 10(a) states:

"The two Governments shall cooperate to promote the economic and social development of those areas of both parts of Ireland which have suffered most severely from the consequences of the instability of recent years and shall consider the possibility of securing international support for this work."

2 President Delors issued a statement on behalf of the Commission on 15 November 1985 warmly welcoming the Intergovernmental agreement - full text at Annex A. M. Delors statement concluded:

"In the past, the institutions of the community - the Commission, the Council and the European Parliament - have given concrete expression to their concern about the problems of Northern Ireland. The Commission's communication to the European Parliament in November 1984, summarised the impact of present community policies and actions. I pledge the continued wholehearted support of the Commission to the economic and social development of Northern Ireland and to effective cross border cooperation. I thus support the objectives underlying the Agreement announced today."

3 The European Parliament subsequently debated the Agreement and expressed widespread support for it. A motion (approved 150 for and 28 against) stated inter alia;

"The European Parliament .... believes that the Agreement will have all the greater chance of success if it is underpinned by a programme of economic development which would reduce unemployment and poverty which are both a consequence of and a contributing factor to the violence;

E.R.

therefore reaffirms its call to the competent community bodies to assume a greater responsibility in the economic and social development of Northern Ireland and thereby give practical expression to the Parliament's resolution of March 29, 1984;

calls also upon Member States of the European Community to consider ways and means of supporting the British/Irish Agreement."

4 President Reagan also speaking on 15 November 1985 stated that:

"I will be working closely with the Congress in a bipartisan effort to find tangible ways for the United States to lend practical support to this important Agreement".

On 15 December the US Congress passed a concurrent resolution declaring "Its willingness to work with the President in supporting the Anglo/Irish Agreement through appropriate United States assistance, including economic and financial support, to promote the economic and social development of those areas of both parts of Ireland which have suffered most severely from the consequences of the violence of recent years." Considerable progress has been made by British, Irish and US officials on the establishment of an International Fund - see para. 10-11 and Annex B.

5 Even before the signing of the Anglo/Irish Agreement UNREP reported an intensification of interest in the Commission in economic and social initiatives for Northern Ireland against the unpromising background of declining receipts from the Regional Fund, the expiry of the Urban Renewal Regulation, lower than expected social fund receipts, and Mr King's decision to disengage from the wide-ranging EC assisted economic study of Northern Ireland.

6 There is evidently a strong political will in Brussels to give new, concrete expression to EC support for Ireland and especially Northern Ireland. However it is far from easy to reconcile such an objective with UK budgetary and public expenditure policies or

with the different perspective on such matters in Brussels and Dublin.

7 Tactically however the UK cannot afford to let the Irish or the Commission have all the running. Northern Ireland Departments have therefore urgently examined the possibilities for an initiative in terms of what is likely to be practical and also politically acceptable to the Secretary of State. UKREP held an informal meeting with the British members of the Delors, Cockfield and Clinton Davis Cabinets on 10 January (reported in Tel No. 056 10 January). Further similar contacts are planned but it is apparent that the Commission will expect proposals to come from the UK and/or the Irish.

#### Northern Ireland Objectives

8 The prime political objective is to ensure that the Community's desire to demonstrate positive practical support for the Anglo/Irish Agreement is expressed in a way which buys real benefit to Northern Ireland and so exemplifies one of the advantages of the Agreement. It would be completely counter-productive if the Government's critics were able to demonstrate that the EC initiative brought no tangible additional help to Northern Ireland - particularly in circumstances where the Republic of Ireland gained real net benefits. Comparisons would also inevitably be drawn - not only by the Europeans - with the arrangements for the UK International Fund.

9 In these circumstances Northern Ireland's aims are: (In this order of priority)

high

X

- a) to obtain additional resources for the NI Block which may be applied in line with local priorities and needs;
- b) to secure any other forms of real economic benefit for the Province;
- c) to play our full part in assisting the UK to derive maximum benefit from membership of the community;
- d) to be in a position to fend off Commission initiatives which run counter to the above aims.

E.R.

## CURRENT POSSIBILITIES

UK International Fund

10 The latest position on negotiations to establish the International Fund is given at Annex B. There have been some indications that the Irish favour directing EEC assistance to and through the International Fund. Mr Spring, the Deputy Prime Minister, spoke confidently in Brussels on 15 January 1986 of an EC contribution to the International Fund. US officials have also shown interest in multi-lateral funding although this could be on a national rather than EC basis.

11 The International Fund offers one way of taking an EC contribution outside the normal budgetary arrangements. But there are real dangers that EC involvement in the Fund arrangements would delay the good progress currently being made in the tripartite negotiations. Also we doubt that a general contribution by the EC would meet the presentational requirement in Brussels. We do not therefore wish to back this proposal.

All Ireland Integrated Operations

12 The Irish may also be thinking in terms of EC aid linked to All Ireland Integrated Operations. There are likely to be major practical difficulties linked to planning and uptake but we see overwhelming political objection in the current state of community feelings in Northern Ireland to an ambitious high profile integrated operation for the whole of Ireland aided and abetted by EC. We believe the Commission would see similar political objection at present. Furthermore an Integrated Operations Programme for the whole of Ireland would be unlikely to provide any net benefit to NI, but merely affect the way existing EC receipts are distributed.

Extension of Existing Structural Funds

13 The current holding position of the Commission is to stress the maximum use of existing structural funds. However they are unlikely to be able to stick to this position given the level of political commitment and particularly as the International Fund continues to make well publicised headway. It does not match the United Kingdom's political objectives or the Northern Ireland requirements. Extension of the existing structural funds - eg

by bringing in hitherto ineligible expenditure to enable Northern Ireland to earn increased receipts - would raise repercussions problems throughout the Community and set an uneasy precedent. Even if these objections were overcome in Brussels greater use of the structural funds would not bring any net benefits to NI unless there is a waiver on additioality.

#### Urban Renewal Regulation

14 The history of URR is summarised at Appendix C. The concept it embodied - funds additional to the UK reflected in funds passed on to Northern Ireland for additional expenditure fully in line with NI priorities - meets the principle of our requirements. In practice however many of the conditions laid down in that Regulation would make it difficult if not impossible to operate for a further period eg insufficient qualifying projects and difficulties with the additioality test. In addition we doubt if presentationally it would match the current requirements with the emphasis on those areas of both parts of Ireland which have suffered most severely from the consequences of instability of recent years. There may be a preference in Brussels to let the unprecedented URR expire rather than prolong it.

#### A "Social Reconstruction" Package

15 The final option is the one which we are now exploring more fully. The Commission would be invited to support a five to seven year programme of social reconstruction/reconciliation in Northern Ireland and the Republic, based on the 75:25 split agreed for the American money. No authoritative figures are available on the amount of money which might be available. The programme would be built round the triple themes of assisting the regeneration of areas of multi-deprivation (enabling local communities to contribute to this process); encouraging activities and the provision of facilities which help to bring the two communities in NI together; and promoting greater understanding between the people in the two parts of the island. (The emphasis would in practice be on the first two elements). It would therefore be presented as paralleling the International Fund which might concentrate more, but not exclusively, on the economic issues.

16 Detailed work is currently under way in identifying the sort of expenditure in Northern Ireland which could be covered, including the voluntary housing movement, health care in the community, certain school building, further education, sport and the arts. High priority would, of course, be given to expenditure which is already included in public expenditure plans in order to release those resources for other purposes.

~~However An essential element of the package~~  
~~On the assumption that community aid will be 70% of the~~  
~~Additionality cost to the overall programme will be~~  
~~17 The additionality of any EC aid is a central issue which~~  
 Ministers will need to consider in the overall UK policy context. From the Northern Ireland standpoint there are 3 main considerations which will need to be taken into account.

a NI Political and Public Opinion ~~already within PE plans~~

EC finance has a remarkably high profile in Northern Ireland and the intricacies of the budgetary arrangements between the UK and the community are fairly well understood by leading politicians and economic commentators in the Province. Government is constantly fending off criticism that EC aid earmarked for Northern Ireland projects under the structural funds does not go transparently to increase the level of public expenditure in the Province. The public ~~expenditure~~ <sup>Spending</sup> consequences of any special package of aid in response to the Anglo Irish Agreement will be very carefully scrutinised in Northern Ireland and it will be essential that the Secretary of State can clearly demonstrate that there has been ~~an overt~~ <sup>actual</sup> increase in the Northern Ireland ~~public expenditure block~~.

*To the full extent of EC aid.*

b NI Public Expenditure Priorities

The Northern Ireland public expenditure block is very tightly constrained at present and only those expenditures having high priority can be accommodated within the baseline. If projects are to be carried out with EC aid but are not already within PE plans, additionality will be essential if existing priorities are not to be distorted. Without additionality there would be no basis for meaningful negotiation with the Commission and the emphasis would have to switch to tactics for disengagement.

c Commission Requirements

There seems little doubt that if the Commission are prepared to develop a regulation along the lines envisaged it will include additionality to be proved. It will not be sufficient in this context to cite the normal line ie public expenditure in the UK as a whole is higher than it would otherwise have been without EC receipts. something much more transparent will be necessary. There was an "additionality test" included in the Urban Renewal Regulation. The Commission have expressed themselves satisfied that there was additionality under that regulation but we know from our contacts with them that they do feel that their requirements for additionality were not sufficiently taut. We can expect therefore that they will learn from their experience and a tighter requirement would be included in any new regulation.

*eff*Following the URR process*Discuss*

18 Against this background it seems axiomatic that any aid made available to Northern Ireland under a new regulation must be additional. What this would mean would be that over an agreed period of years the Northern Ireland PE block would be increased by an equivalent amount to the EC grant. The main difference between this arrangement and that which applied to the Urban Renewal Regulation would be that the entirety of the grant would be additional whereas in the latter case only the net benefit in the UK was additional. Particularly in the circumstances now pertaining as a result of the Fontainebleau Agreement additionality which was limited to the extent to which the UK benefitted would be completely insufficient. *inadequate and unacceptable*

19 This raises the question of the extent to which negotiations with the Commission should seek an arrangement whereby a mechanism is created to enable receipts under this regulation to be excluded from the Fontainebleau calculations. Given the fact that wider budgetary issues will almost certainly come into play it will be most important that those negotiating this regulation in Brussels have a clear remit on this aspect of the funding arrangements.

Conclusion

20 EQ(S) is invited to:

- i) note the present position on the possibility of EC aid for NI and the Republic of Ireland in the context of the Anglo Irish Agreement;
- ii) note the NIO preference for developing a "social reconstruction" regulation;
- iii) note that in the NIO's view the absence of additionality would require the UK side to seek to disengage, with all the political and presentational difficulty that would entail;
- iv) agree that Ministers should be invited to address the issue of additionality as soon as possible, leading to clear instructions for the UK side in negotiations with the Commission and the Irish;
- v) agree accordingly that in the light of the EQ(S) discussion the Secretary of State for NI should write to the Chief Secretary and E(A) colleagues.