

DEPARTMENT OF
ECONOMIC DEVELOPMENT
18 MARCH 1986
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cc. Dr Quigley
Mr Fell
Mr Small
Mr Cowling

✓ Mr Mayne
Mr O'Hara
Mr Hopton

Mr Bloomfield

EC AID

Attached is a draft of the submission which I propose to make today.

I would be grateful for comments as soon as possible, by 15.00

We have alerted FCO and HMT to the approach which NIO is likely to take.

R B SPENCE
18 March 1986
/JH

This did not reach
my desk until after
the final version had
been despatched. However,
the points that I
subsequently made on
the phone to Ronnie
Spence had already
been picked up
by them. We
will get the final
version shortly.

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cc. PS/Ministers (B&L) - M
PS/PUS (B&L) - M
PS/Mr Bloomfield
NI Perm Secs
Mr Brennan - M
Mr Stephens
Mr M Elliott
Mr Chesterton - M
Mr Cowling - M
Mr Small
Mr Bell - M
Mr S Hewitt
Mr Pearson
Mr Hingston

PS/Secretary of State (B&L) - M

EC AID

At a meeting today chaired by Mr Bloomfield, we have been reviewing our tactics in the light of the OD(I) decision not to support the case for a special measure.

At the discussion which Sir Geoffrey Howe had with Mr Peter Barry on 10 March it was clear that the Irish are not content with the UK's position. We understand that Dr Fitzgerald may now write to the Prime Minister.

The line which the FCO want to develop with the Irish is to invite the Commission to explore how greater use can be made of the existing structural funds. The Irish are, we understand, very unenthusiastic. Moreover, such an approach would not produce a positive benefit in Northern Ireland since the Treasury would reap the advantage of any extra receipts which NI might be able to earn. In addition, NI Ministers would face the serious political difficulty of explaining and defending the absence of tangible EC assistance in the context of the Anglo-Irish Agreement. Thus, the approach being fostered by the FCO is of limited value in itself and is likely to create new political and presentational difficulties.

Our line has consistently been that, while we would strive to maximise receipts from

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the Community's structural funds, this would ^{NOT} meet the obligation accepted by the UK and Irish Governments under Article 10(a) of the Anglo-Irish Agreement to seek international support to promote the economic and social development of areas which have suffered over the last 17 years. We have, however, to accept that the UK's problems over additionality rule out the possible use of normal EC budgetary mechanisms as the means of providing this special support. This brings us to the option -which we have always left open - of seeking direct contributions from member states -as distinct from the Commission itself - to the International Fund.

Our advice is, therefore, that the Secretary of State should write to the Foreign Secretary - copied to OD(I) members - expressing a willingness to co-operate with the Commission in examining how more use can be made of the structural funds; explaining that this must be a low-key exercise since it does not meet the special circumstances created by the Anglo-Irish Agreement; and suggesting that the UK join with the Irish in a joint approach to selected members of the Community seeking direct contributions to the International Fund. Attached is a draft letter.

R B SPENCE
Central Secretariat
18 March 1986
/JH

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DRAFT LETTER FROM SECRETARY OF STATE TO SIR GEOFFREY HOWE

ANGLO-IRISH AGREEMENT : EC AID

I have seen the record of your meeting with Mr Barry on 10 March in which you explained to him why the UK is unable to proceed with an approach to the Commission for a special measure, and proposed the alternative of improving and developing the co-ordination of the existing funds under the provisions of the Single European Act.

Mr Barry raised the same matter with me at the Intergovernmental Conference on 11 March, and the same surprise, disappointment and suspicion at UK motives was evident. Officials now understand that on Dr Fitzgerald's return from the USA an approach to the Prime Minister is likely. I have therefore been reviewing our options, including the diplomatic and tactical requirements.

EQS identified 3 possible options for our relationship with our European partners, given the terms of Article 10(a) of the Anglo-Irish Agreement ("The two Governments shall co-operate 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"). The first option was the special measure; this did not attract support at the OD(I) discussion, and it remains ruled out, whatever the Irish may say.

The second option was greater use of the existing structural funds. This is the route which you have now proposed to the Irish. It fits in well with Commission thinking,

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and with the work to which Article 23 of the Single European Act refers. Our policy in NI has always been to maximise UK receipts from the funds consistent with our existing priorities and public expenditure plans. This proposal therefore constitutes a valid holding position for us in response to the interest which has been awakened in the Communities and the European Parliament.

However this route is not capable of bringing any direct benefit to Northern Ireland, under the UK public expenditure rules which we have agreed and recently confirmed. It must not therefore be oversold, or allowed to build up expectations in NI which are incapable of being fulfilled. Ian Paisley is already on to this, as we knew he would be.

The third option is contributions to the International Fund, either by the EC or by individual Member States. The former falls foul of the difficulties which OD(I) identified in relation to a special measure. But we have never ruled out seeking International Fund contributions from selected European States; what we have done is to restrict our approaches to the USA, Canada and Australia until the EC dimension was clarified. The Irish are bound to raise the possibility of individual European contributions now that progress has been made in the US Congress, and particularly against the background of the very limited value of the structural funds proposal. It is the kind of action to which Article 10(a) commits us, and it does not raise the same problems of additionality particularly if our approaches were limited to selected European States for comparatively modest amounts.

My assessment therefore is that if we are to avoid a row with Garret Fitzgerald, which could cause problems for us in Washington and Brussels, and if we are at the same time

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to avoid building up a false prospectus in Northern Ireland, we need to proceed on the following basis:

- (i) a low-key joint approach to the Commission offering to work with them in their current emphasis on the increased effectiveness of the existing funds. For this purpose the current version of the draft paper prepared by officials is unsuitably portentous; and
- (ii) an agreement to prepare jointly with the Irish approaches to selected EC members for contributions to the International Fund, since this is the vehicle being established to provide special assistance.

To do less is hardly consistent with Article 10(a) of the Agreement, and I doubt if the Irish will settle.

Copies go to the Prime Minister, other Members of OD(I), and to Sir Robert Armstrong.

/JH

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