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MR POWELL

DEFENCE AND OVERSEA POLICY COMMITTEE SUB-COMMITTEE ON
UNITED KINGDOM RELATIONS WITH THE REPUBLIC OF IRELAND
OD(I)(86) 1st MEETING: THURSDAY 27 FEBRUARY AT NOON

I attach a Chairman's brief for the Prime Minister.

I am sending copies to Sir Robert Armstrong and to Mr Mallaby.

D F Williamson

D F WILLIAMSON

26 February 1986

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OD(I)(86)1st MEETING: 12 NOON, THURSDAY 27 FEBRUARY

Chairman's Brief

Possible European Community Aid for Northern Ireland

Papers for discussion: OD(I)(86)1: Memorandum by the
Secretary of State for Northern Ireland
OD(I)(86)2: Note by the Chief
Secretary to the Treasury

PURPOSE

1. To agree how we should respond to expected European Community aid for Northern Ireland in support of the Anglo-Irish agreement and, in particular, the extent to which this action should be treated as additional to Northern Ireland public expenditure.

BACKGROUND

2. As the Secretary of State for Northern Ireland's memorandum states, there is a good chance of securing tangible European Community support for the Anglo-Irish agreement, in the form of a financial contribution to economic and social development in Northern Ireland and in the Republic of Ireland. In addition to its intrinsic merit, such a visible sign of international support for the Anglo-Irish agreement, considered together with the International Fund to be set up to administer United States' and possibly other contributions given in support of the agreement, would contribute to the Government's major aim of securing the acquiescence in the agreement of moderate Protestant opinion in Northern Ireland.

3. The Northern Ireland Office have had useful preliminary discussions with the Government of the Republic of Ireland and with the European Commission about the nature of a package - probably to take the form of a special measure extending over 5 years or more, and allocated in the ratio 70:30 to Northern Ireland and the Republic of Ireland - which might be acceptable to all those concerned. A package is not, however, yet assured; nor is the amount known. The Northern Ireland Office is working on the basis of a contribution which would match that of the United States to the International Fund - which might be of the order of \$200-250 million



over 5-7 years. The Secretary of State for Northern Ireland believes that we must clinch a deal quickly, before the Commission's enthusiasm for supporting the Anglo-Irish agreement dissolves in the face of the Community's perennial problems, including budgetary pressures. The United Kingdom Permanent Representative to the European Communities (Sir David Hannay) shares this view. He has argued (and the Northern Ireland Office accept) that we must advance discussions with the Government of the Republic of Ireland and with the Commission over the next ten days to the point which we can secure a firm commitment from President Delors, to be endorsed by the Netherlands Presidency, at the Foreign Affairs Council on 10/11 March. This would fit in well with the United States commitment to contribute to the International Fund, expected the following weekend. The Secretary of State for Northern Ireland argues, however, that before serious negotiations with the Commission can start, he must know how far he will have to find funds from within Northern Ireland public expenditure towards the cost.

The problem of additionality

4. In the absence of a specific decision by Ministers, the application of the public expenditure control rules would require that extra receipts from a European Community contribution to Northern Ireland should substitute for and not be added to Northern Ireland public expenditure. In other words the Northern Ireland Office would have to find the money from its public expenditure allocation to fund the projects selected for Community finance. It would also have to find the matching contribution (usually 30%) which the Commission requires of those who receive Community funds. This could mean Northern Ireland finding up to £142.9 million from its own resources for every £100 million of Community finance.



5. The Secretary of State for Northern Ireland argues that these rules should be waived in the special circumstances of this case and specifically

- that the political benefits of a European Community contribution would be lost unless all the extra Community money was used and was seen to be used to increase Northern Ireland expenditure. (He appears to accept that any matching funds should come from Northern Ireland's existing public expenditure provision)
- that the Commission will in any case require this, that without it an agreed package would be in jeopardy, and that if it is not agreed he will instruct his officials to persuade the Commission that their additionality requirement should be limited to the degree of additionality to be granted to the Northern Ireland Office
- that Northern Ireland public expenditure is under great pressure.

6. The Chief Secretary to the Treasury argues that it is too early to take a decision on the matter, since the implications for public expenditure will be unclear until we have a better idea of the amount of money likely to be involved, its division between Northern Ireland and the Republic of Ireland and the extent to which Northern Ireland will be required to match Community funds with its own.

7. The Chief Secretary argues further that:

- our contribution to the European Community budget, and the operation of the Fontainebleau mechanism, severely limits the net benefit to the United Kingdom of Community receipts. (These factors will not of course affect the United States contribution to the International Fund)



- full additionality, as proposed by the Secretary of State for Northern Ireland, would therefore imply a substantial net increase in UK public expenditure, and in effect a transfer of funds to Northern Ireland from Great Britain
- we should go for a modest programme
- Northern Ireland is well provided for already, particularly with the expected US contribution to the International Fund (which the Treasury have agreed should be fully additional)
- additionality is a matter for Departments to resolve, and not a matter for negotiation with the Commission. (He is right: the Secretary of State for Northern Ireland's proposal to negotiate with the Commission would be inappropriate and unnecessary).

8. Despite these differences, there should be common ground that there is a strong political argument for accepting the support the Commission seems ready to offer. At the very least, it would damage the credibility of the Anglo-Irish agreement if we were seen to turn down an offer of support for it, all the more so as the Republic of Ireland will accept it. The sub-Committee should be able to build on this and to find a middle way, so that substantive negotiations with the Commission can begin at once.

THE MAIN ISSUES

9. The main issues are:

- i. is a decision needed now? Ideally it would be right to wait, as the Chief Secretary suggests, until the facts are clearer. But the Secretary of State for Northern Ireland's arguments in favour of a quick decision, so that negotiations with the Commission can proceed, seem compelling.



ii. a European Community contribution to the International Fund? A European Community contribution to the International Fund would be an apparently simple solution, allowing the question of additionality to be fudged, but we do not consider that it would be acceptable to the Commission. The Republic of Ireland, which was at first attracted by it, has come to the same conclusion. Sir David Hannay has advised that the Commission would be most unwilling to propose it because it would set an awkward precedent, would be difficult to present with a European label, and would get little or no support from other member states. It must therefore be ruled out.

iii. the degree of additionality. This is the central question. Table I at the back of OD(I)(86)1 sets out options. It is doubtful whether full additionality as recommended by the Secretary of State for Northern Ireland is necessary. Provided that there is substantial additionality, the Secretary of State for Northern Ireland ought to be able to sell a package convincingly on the grounds that it was providing demonstrable additional money to help the province. The Commission may ask for full additionality, but they will not expect it in this case any more than in others. Provided that there is substantial additionality, it is unlikely that they would hold up an otherwise agreed package. But equally nil additionality does not seem likely to be acceptable either to Northern Ireland, or to the Commission. As the Table shows, because of the UK contribution to the Community budget, and the working of the Fontainebleau Mechanism, anything above 25% additionality would involve a net increase in public expenditure - which the Chief Secretary is right to argue should, in the present climate, be avoided. But it does not follow that no increase would be justified, particularly bearing in mind the political importance of the issue. In the argument over additionality it also appears to have been forgotten that the overall package would bring in extra money from outside the United Kingdom, contributed by taxpayers of other member states, to create assets in the United Kingdom. The question of where in the



range of 0% to 100% additionality the choice should fall is largely a matter of political judgement. The Chief Secretary may be prepared to go up to option iv. - 25% - but the Secretary of State for Northern Ireland will argue very strongly that this is unacceptable. It may therefore come down to a choice between option ii. (75.5%) or option iii. (50%). There is a certain logic in option ii, and a precedent of a sort, since this was the formula - albeit before the Fontainebleau mechanism was introduced - agreed for the Belfast Urban Renewal Regulation. But the Sub-Committee will wish to consider the question.

10. It could also help the Chief Secretary, if the Sub-Committee were to decide in favour of some additionality (ie higher public expenditure), that the Sub-Committee should give some indication of the size of programme which might be acceptable, eg about £150 million over 5 years.

HANDLING

11. You may want to ask the Secretary of State for Northern Ireland to introduce his memorandum. The Chief Secretary, Treasury will want to reply. The Foreign and Commonwealth Secretary will want to report on the latest discussions with the Republic of Ireland and to comment on the timetable for future discussions with the Republic of Ireland and the Commission. You may then want to move to the main issues set out in paragraph 9.

CONCLUSION

12. You may be able to conclude that

- the balance of advantage lies in favour of capitalising on the Commission's interest



- substantive negotiation between the United Kingdom, the Republic of Ireland and the Commission on a package which would support worthwhile programmes which accord with Northern Ireland's economic and social priorities should start at once, with a view to securing a Commission commitment to a contribution at the Foreign Affairs Council on 10/11 March

- the question of additionality should not be an issue during these talks.

You will also need to reach a decision on the degree of additionality which should apply to a Community package, so that the Northern Ireland Office can take this into account during the negotiations.

Cabinet Office

26 February 1986