

CONFIDENTIAL

cc - PB  
mw

The Rt Hon William Waldegrave MP  
 Chief Secretary to the Treasury  
 HM Treasury  
 Parliament Street  
 LONDON  
 SW1P 3AG

Northern Ireland Office  
 Stormont Castle  
 Belfast BT4 3ST

*cc - TREASURY  
 Public Expenditure*

*NBPm*

*File*

*Jan 3/3*

26 February 1997

*Dear William:*

### EU PEACE AND RECONCILIATION PROGRAMME

When I wrote to you on 31 January about the outcome of 1996 PES, I emphasised the importance of our commitment to full additionality to the possible extension of the Programme beyond 1997. The Programme provides for further allocations from the 1998 and 1999 budgets, subject to a 1997 review which is currently under way.

You will recall that the Prime Minister's 21 October 1994 additionality undertaking was crucial to the Commission's agreement to the allocation for 1995-1997. As I indicated in my 31 January letter, the outcome of 1996 PES has created suspicions as to whether that undertaking has been fully implemented, and my officials have had to work hard to seek to reduce those suspicions in the Commission.

While it is clear that those suspicions persist, UKREP has made progress in lobbying (alongside the Irish Government) for an extension of the Programme into 1998 and 1999, and Sir Stephen Wall has obtained President Santer's agreement in principle that the Commission will propose an extension. The Commission in more detail eg on quantum, priorities, delivery mechanisms, additionality etc.

CONFIDENTIAL



On quantum, it would be optimistic to assume that we would obtain continued funding for 2 years at the levels set in the 1995-1997 allocations (the latter translated into about £266m for NI when UK co-funding is included, with the expenditure likely to continue until 1999 - your officials are being kept abreast of the rephasing which is being required as the Programme took time to gather momentum). The Commission seem to regard a second tranche in terms of an exit strategy, to provide a softer political landing than a simple cut-off would permit, and the European Parliament are unlikely to support an expansion at the expense of their other priorities for the Structural Funds. So it is much more likely that a second tranche will be materially less than the first.

However, while it is not possible to be more precise about what figures might emerge or about the public expenditure phasing which would flow from 1998 and 1999 allocations, we do need to be clear about the public expenditure dimension so that we can deal effectively with the Commission. They are bound to press us to confirm that the Prime Minister's additionality undertaking will continue to apply. Anything less would be fatal to our case for an extension, and would provoke the most severe political reaction in Northern Ireland and in Europe. However, I thought it appropriate, for the avoidance of doubt, to confirm with you that the undertaking will carry forward so that UKREP and NI officials can advance the negotiations with the Commission.

In seeking this confirmation, I must also emphasise the doubts and suspicions which 1996 PES has caused. I have already mentioned the suspicions of Commission officials (and we may see these emerge in detailed discussion of the additionality test for a second tranche). But the Northern Ireland parties are also highly critical of the outcome of 1996 PES, which they regard as having treated

CONFIDENTIAL



Northern Ireland more harshly than the rest of the UK (a view with which, as you know, I have considerable sympathy). This concern was repeatedly expressed when the NI Grand Committee debated 1996 PES on 18 February. It will doubtless be repeated when the Committee resumes that debate, and the suspicions of NI members are likely to be fuelled by an imminent Northern Ireland Economic Council report which will pose some extremely challenging questions about whether 1996 PES was a fair outcome for NI.

In light of the foregoing, I would be grateful for your confirmation that:-

- (a) we can confirm to the Commission that the Prime Minister's additionality undertaking will carry forward to a second tranche;
- (b) in pursuance of that undertaking, mainstream NI public expenditure will not be treated less favourably than the normal application of fiscal policy would warrant.

Copies go to the Prime Minister, Malcolm Rifkind, Ian Lang, Sir Stephen Wall and Sir Robin Butler.

A handwritten signature in dark ink, appearing to read "Ian Lang", with the date "(21/2)" written below it.

CONFIDENTIAL