

PRIME MINISTER

## MEETING WITH THE CHANCELLOR

The Chancellor is coming in for fifteen minutes to discuss E(A) on Monday. E(A) will be considering frigates for Pakistan and Space.

On frigates, Mr. Younger would like to increase the credit support available beyond the figure of £260 million already agreed to £360 million. This would he thinks enable Yarrow Shipbuilders to supply Type 23 frigates to Pakistan. You are already aware of the arguments on this.

On space, the shortfall from option 3 which the Cabinet Office were asked to try to fill was:

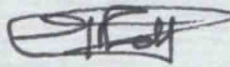
	£ million		
1987-88	1988-89	1988-90	
42	64	81	

Only DTI have offered to contribute to meeting the gap. It seems highly likely that if you were to decide that option 3 should be followed, the Treasury would have to find most of the money.

The Chancellor will no doubt want to emphasise to you the need to keep tight control on public expenditure in order to restrain the expectations of colleagues, which may have been created by the Budget tax cuts. He is likely also to point to the £15 million which has been found for the Research Councils. Furthermore, there is in prospect a possible need to find more resources for the European Community R & D framework: the Germans have now joined the Presidency compromise at 5.6 billion ecu as against the 4.2 billion ecu favoured by ourselves. The UK is therefore alone in opposing

the higher figure. The financial consequences are complicated and contentious, but, if accepted, there might be an increase in public spending of perhaps £25-30 million a year unless offsetting savings could be found.

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 Duty Clerk.

PP

David Norgrove

2 April 1987