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Subject: 11 SEPTEMBER 2001 - EU STRUCTURAL FUNDS

Sam,

There is just one angle to the events of 11 September which could have a direct bearing upon EU Structural Funds issues. This concerns the allegations made from time to time that EU Structural Funds, and specifically PEACE Programme monies, have been used to assist those in Northern Ireland / Ireland engaged in terrorism.

Two such allegations arose last year following arms finds in premises used by ex Loyalist prisoners groups which had been funded under PEACE I. These incidents were investigated by OLAF (the European Commission's anti fraud unit) at our request, and in neither case did they find any evidence that EU funding had been used to purchase the arms concerned. Last month fresh allegations were made that one of the alleged IRA members arrested in Columbia had been a member of a Republican ex prisoners group also funded under the PEACE programme, albeit from the South in this instance.

We and the NIO (which was the lead Department involved in the NI cases last year) take the view that since PEACE money is and will continue to be used to assist ex prisoners, then it is inevitable (and entirely consistent with the objectives of the Programme) that some of those who benefit from it will be individuals, associated with projects, who have had previous paramilitary associations. However there is also a clear responsibility on us and on the Intermediary funding Bodies concerned to ensure that the money is used only for the purposes specified in some detail in the Operational Programme and the Programme Complement.

Officials in the European Commission also acknowledge that providing this type of support to former prisoners carries presentational risks, but their line is that this is a "risk for peace" worth taking in the Northern Ireland context. At the same time there is also considerable nervousness among those at senior levels in the Commission about how such funding might be portrayed more widely in the Union and beyond. This is particularly so since several MEPs, including local unionist MEPs, have used their positions to put down motions etc. criticising the Commission's approach to funding former prisoners projects in the PEACE Programme. All this usually manifests itself in detailed requests for analysis, information and reassurances from the Commission to the Member States each time allegations arise, as well as "administrative" delays in the payment of EU receipts to NI.

The events of 11 September will inevitably heighten the European Commission's sensitivities as to how its funding policies under the PEACE Programmes might be portrayed. This will not manifest itself in any general or arbitrary suspension of the funding (which could not be done anyhow without the Member states agreements); however it will mean that we will be expected to ensure there are rigorous systems in place to ensure that the EU funding provided to ex prisoner and other groups is carefully targeted and monitored to ensure it consistent with the objectives of the Measures concerned.

LEO O'REILLY