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PRIME MINISTER'S MEETING WITH THE TAOISEACH, 16 JUNE:
SCENE-SETTER

SUMMARY

1. DESPITE DIFFICULTIES, NOT LEAST 18 PER CENT UNEMPLOYMENT, THE FIANNA FAIL/LABOUR COALITION SEEMS SET TO RUN FOR THE NEXT FOUR YEARS. REYNOLD'S PRIORITIES WILL BE PROSPECTS FOR THE NORTHERN IRELAND TALKS (AND WHAT TO DO IF THEY FALTER) AND SECURING THE FULL ?8 BILLION IN EC STRUCTURAL FUNDS WHICH HE HAS LED PUBLIC OPINION TO EXPECT. AN OPPORTUNITY TO COUNTER FRENCH BLANDISHMENTS ON GATT.

DETAIL

2. THE TAOISEACH'S MAIN AIMS WHEN HE SEES THE PRIME MINISTER ON 16 JUNE WILL BE TO REASSESS THE PROSPECTS FOR THE NORTHERN IRELAND TALKS PROCESS AND WARN OF THE POSSIBLE NEED FOR AN ALTERNATIVE POLICY: TO FLAG IRISH CONCERNS ABOUT THEIR PROMISED IR 8BN IN EC STRUCTURAL FUNDS: AND TO EMPHASIZE A GOOD RELATIONSHIP WITH THE PRIME MINISTER. FOR US, IT IS AN OPPORTUNITY TO DEMONSTRATE PUBLICLY THAT THE IRISH ARE ON BOARD OVER THE TALKS AND SECURITY COOPERATION: TO GIVE IMPETUS TO THE TALKS: TO DISCOURAGE SUSPICIONS THAT WE MAY HAVE IN MIND AN INTERNAL SETTLEMENT: TO FLAG UP POINTS ABOUT SECURITY IN A COOPERATIVE SPIRIT: AND TO TACKLE REYNOLDS OVER EC MATTERS AND HIS RECENT REMARKS ABOUT GATT.

THE COALITION

3. REYNOLDS AND SPRING GET ON WELL TOGETHER, AS DO THE OTHER MEMBERS OF THE GOVERNMENT, RATHER TO THEIR SURPRISE. THOUGH THEY DIFFER OVER ECONOMIC ISSUES (FIANNA FAIL FAVOUR FINANCIAL STRINGENCY AND PRIVATIZATION, LABOUR PUBLIC SPENDING AND THE PUBLIC SECTOR) THEY HAVE PREFERRED SO FAR TO HANG TOGETHER

RATHER THAN SEPARATELY, EVEN OVER SUCH CONTENTIOUS ISSUES AS INCREASED TELEPHONE CHARGES AND AN AMNESTY ON TAX DODGING (LATER WIDENED TO INCLUDE SOCIAL SECURITY FRAUD). BARRING ACCIDENTS THE COALITION LOOKS SET TO LAST FOR THE NEXT FOUR YEARS. THE SENIOR FIANNA FAIL FIGURES SACKED BY REYNOLDS EARLY LAST YEAR CONTINUE TO GRUMBLE ON THE BACKBENCHES: THOUGH INCREASINGLY IRRELEVANT, THE COULD BE DANGEROUS SHOULD REYNOLDS FALTER.

4. FURTHER DIFFICULT ISSUES LIE AHEAD, NOTABLY THE REPORT OF THE BEEF TRIBUNAL (EXPECTED PERHAPS IN THE LATE AUTUMN) WHICH MAY CRITICIZE REYNOLDS, AND THE RATIONALIZATION OF WEAK STATE-OWNED COMPANIES (EG AER LINGUS) WHERE JOB LOSSES SEEM UNAVOIDABLE. WHILE LEGISLATION TO LIBERALIZE THE SALE OF CONDOMS HAS BEEN PASSED WITH REMARKABLY LITTLE OPPOSITION, THE MORE DIFFICULT SOCIAL ISSUES - HOMOSEXUAL REFORM, DIVORCE (A REFERENDUM IS PLANNED IN 1994) AND ABORTION - ARE STILL TO BE TACKLED. MOREOVER, UNEMPLOYMENT CONTINUES TO RUN AT SOME 18 PER CENT: THERE IS LITTLE THE GOVERNMENT CAN DO BUT WAIT FOR ECONOMIC UPTURN IN THE UK AND US TO ABSORB SURPLUS IRISH LABOUR.

5. ECONOMIC PROSPECTS OTHERWISE LOOK GOOD. INFLATION IN THE FIRST QUARTER WAS 1.9 PER CENT, THOUGH IT IS RISING. EXPECTED 1993 GNP GROWTH IS 3 PER CENT. THE 1993 EXCHEQUER BORROWING REQUIREMENT TARGET IS 2.8 PER CENT OF GNP AND THE FORECAST BALANCE OF PAYMENTS SURPLUS IS OVER 7 PER CENT OF GNP. BUT EXPANDING PUBLIC SECTOR PAY IS A CLOUD ON THE HORIZON. AND THE NATIONAL DEBT STILL STANDS WELL OVER 100 PER CENT OF GNP: DEBT REPAYMENTS MORE THAN OFFSET IRELAND'S NET EC RECEIPTS. JANUARY'S FORCED DEVALUATION HAS LEFT MUCH SCEPTICISM ABOUT THE ERM, RESENTMENT AT THE GERMANS AND KEEN AWARENESS OF VULNERABILITY TO CHANGES IN STERLING. THE FINANCE MINISTER TOLD ME THE OTHER NIGHT THAT IRELAND HAD TO CHOOSE BETWEEN STERLING AND THE ERM, AND HE UNHESITATINGLY CHOSE THE ERM.

NORTHERN IRELAND

6. THE IRISH ACCEPT THE LOGIC OF A THREE-STRANDED APPROACH AND PUBLICLY SUPPORT THE TALKS PROCESS. HOWEVER, THEY ARE SCEPTICAL THAT THE TALKS CAN BE RESUMED OR THAT, IF THEY CAN, ENOUGH CONVERGENCE EXISTS FOR THEM TO SUCCEED. THEY WORRY THAT THE TALKS POLICY LOOKS INCREASINGLY THREADBARE, AND THAT WERE IT TO FAIL HMG MIGHT GO FOR AN INTERNAL SETTLEMENT.

7. WHILE DAY-TO-DAY POLICY OVER NORTHERN IRELAND IS IN

SPRING'S HANDS, REYNOLDS (AND THE CABINET) HAVE THE LAST WORD. SPRING URGES THE NEED FOR A NEW ALL-EMBRACING ACCOMMODATION BETWEEN NATIONALISTS AND UNIONISTS UPON WHICH NEW POLITICAL STRUCTURES MIGHT BE BASED. HE IS FRUSTRATED BY MOLYNEAUX'S REFUSAL TO MEET HIM. REYNOLDS IS CONTENT TO LET SPRING TAKE THE LEAD. THOUGH THEY SEE GENERALLY EYE TO EYE, AND CONSULT CLOSELY AND OFTEN, REYNOLDS HAS JUDGED IT POLITICALLY NECESSARY ON OCCASION TO ECHO THE TRADITIONAL FIANNA FAIL REPUBLICAN LINE: THAT IT IS PRINCIPALLY FOR THE BRITISH GOVERNMENT TO PERSUADE UNIONISTS OF THE MERITS OF IRISH UNITY, ALBEIT IN THE VERY LONG TERM.

8. REYNOLDS WILL PURSUE THE TALKS WHILE THEY APPEAR A VIABLE OPTION. BUT HE IS OPEN TO FIANNA FAIL INFLUENCE OVER WHAT MIGHT COME NEXT, NOTABLY THE FAMILIAR LINE THAT THE IRISH SHOULD NEGOTIATE A SOLUTION WITH HMG AND PRESS THE NORTHERN IRELAND PARTIES TO ACCEPT IT. LIKE SPRING, HE WOULD DOUBTLESS ALSO FAVOUR USING THE ANGLO-IRISH AGREEMENT TO ENHANCE NATIONALIST INFLUENCE IN NORTHERN IRELAND.

EC MATTERS

9. THE LIKELY ISSUES FOR DISCUSSION ARE SUBSIDIARITY (OUR CHOICE) AND THE CASE AND PROSPECTS FOR A EUROPEAN COUNCIL IN THE AUTUMN. REYNOLDS REPORTEDLY TOLD THE VISITING DANISH PRIME MINISTER LAST WEEK THAT HE THOUGHT THE LATTER SUGGESTION PREMATURE AND UNNECESSARY. REYNOLDS WILL ALSO PROBABLY WANT TO REINFORCE THE IRISH CASE FOR ?8 BILLION IN STRUCTURAL FUNDS, A FIGURE BASED ON THE ASSUMPTION THAT THEY WILL GET THE SAME PROPORTION (13 PER CENT) OF THE TOTAL AGREED AT EDINBURGH AS THEY HAVE IN THE PAST: THERE HAVE RECENTLY BEEN SUGGESTIONS FROM BRUSSELS THAT THE SUM MIGHT NOT BE SECURE. HE WILL NO DOUBT SEEK THE PRIME MINISTER'S ASSESSMENT OF THE PROSPECTS FOR RATIFICATION OF THE MAASTRICHT TREATY.

10. FINALLY, IT WOULD BE WORTH PRESSING REYNOLDS ABOUT HIS REPORTED REMARKS IN PARIS LAST WEEK, WHEN HE APPEARED TO ENDORSE THE FRENCH LINE ON GATT. THE IRISH HAVE MORE THAN MOST TO LOSE FROM TRADE BARRIERS: EXPORTS REPRESENT 74 PER CENT OF IRISH GNP, IMPORTS SOME 61 PER CENT - AND 34 PER CENT OF EXPORTS ARE TO NON-EC MARKETS. HITHERTO THEY HAVE SAT ON THE FENCE.

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NORTHERN IRELAND

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