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5-3DraftNORTHERN IRELAND:Community Policies and Actions in the light of
the Anglo-Irish AgreementBackground Note for meeting of interested Cabinets -
Thursday 6 March 1986Introduction

The Governments of the United Kingdom and of Ireland have not yet finalised their approach to the Commission for an economic and social measure in support of the Anglo-Irish Agreement. In the absence of any specific proposal, this note confines itself to setting out the economic and social background, past and present Community efforts, and to outlining the options, conditions and modalities of a Commission response.

Northern Ireland - economic and social situation

Northern Ireland is a peripheral region of the Community where social and economic conditions are relatively less prosperous than in many other regions and where unemployment is particularly high. It had a position of 56.9 on the synthetic index (1979-83) (EUR 12 = 100). GDP per head has increased (at 1975 prices) from 2440 ECU in 1979 to 2767 in 1983. This represents an increase of almost 3% per year over the period.

Agriculture contributes 6% to GDP and employs 10% of the workforce. Community membership has led to a contraction in intensive livestock rearing and an expansion in beef and dairy production. Farm incomes have fallen from around £125 million in 1984 to £85 million in 1985, with the application of Community milk quotas accounting for some £13 million of the loss in income.

The contribution of manufacturing industry to GDP has fallen from 42% in 1971 to 30% in 1981. The level of output peaked in 1975 and in 1984 was still slightly lower.

Services now contribute over 62% to GNP, having risen from 52% in 1975. Over 75% of total GNP is accounted for by public current expenditure.

Over 30% of GNP is represented by direct transfers from the United Kingdom exchequer.

Since the early seventies, output, and especially income, have been largely sustained by increasing public expenditure. Financed by these transfers they have grown from £650 million in 1974/75 (in constant 1975 prices) to £850 million in 1982/83.

The numbers employed in agriculture have remained relatively stable (57 000 in 1975, 54 000 in 1981). In manufacturing industry, 170 000 were employed in 1974; the figure is now 100 000 of which over 15 000 are directly dependent on public subsidy. The level of employment in services has increased from 296 000 in 1975 to 328 000 in 1981. The greater part of this increase has been in the public sector with, in particular, the numbers employed in security increasing from ■ to ■.

With little increase in the size of the labour force (reflecting lower population growth and high emigration rates) the decline in employment in the manufacturing industry has been reflected in the unemployment figures. With, traditionally, a higher rate of unemployment than the UK, the numbers unemployed have gone from 38 000 or 6% in 1975 to 63 000 in 1979, with a current total of 120 000 or 21.7%. Over 38% of the male unemployed have now been out of work for more than two years; over 58% for more than one year. These averages encompass wide variations, with unemployment in the West of the area almost twice as high as in the East, with unemployment in the 16-19 age group running at 40% and with substantially higher levels of unemployment among the nationalist community than the unionist community.

Ireland - economic and social situation

There are more similarities than points of difference between the economy of Ireland and the economy of Northern Ireland. Economic and social conditions are also significantly less prosperous than in many other regions with a value of 60.4 on the synthetic index (1979-83 EUR 12 = 100). GDP per head has fallen from 2037 ECU in 1979 to 1994 ECU in 1983 (a decline of about .75% per year).

Agriculture contributes about 10% of GDP and employs 17% of the workforce. The sector is undergoing particular difficulties at the present time due to weather conditions and to price restrictions and quotas, especially in beef and dairy products. The contribution of manufacturing to GDP has fallen slightly from 35.3% in 1971 to 33.1% in 1981 while that of services has increased from 49% to 56%.

Public expenditure represents over 53% of GNP while exchequer foreign borrowing is running at ■% of GDP with the accumulated external government debt over 40% of GNP.

The number in employment in agriculture has declined from 238 000 in 1975 to 196 000 in 1982; the numbers in industry have increased from 337 000 to 352 000 and in services from 498 000 to 598 000. Despite the overall increase in the total at work (from 1 073 000 to 1 146 000) the rapid growth in the labour force over

especially for young people, is very high. Other than in the field of housing and of agriculture, there is no obvious scope for further conventional economic development measures.

As regards Ireland, the absorption of resources by security measures has slowed down its badly needed infrastructure development programme - particularly as regards roads, some of which constitute the main North-South axes (Dublin to Belfast, Dublin to Derry). The border counties of the South and of the North have suffered in their development ~~because~~ because of the constraints and diseconomies imposed by the border and have higher unemployment rates (in some cases up to 70% higher) and lower incomes (up to 20% below the overall average) than the relevant averages in the areas to which they belong. This has been recognised in the non-quota cross-border section of the ERDF.

The record of Community Intervention

The European Community, and in particular the Commission, has consistently shown an awareness of, and given sympathetic treatment to Northern Ireland, primarily because of its disadvantaged economic and social situation, but also because of its particular communal, security and political problems. As its comprehensive communication concerning the impact of Community policy actions in Northern Ireland (COM(84)613) makes clear, Northern Ireland receives aid from all the relevant Community Funds or instruments designated to promote economic development. In addition, in view of its special social and economic situation, Northern Ireland is both accorded priority and higher rates of aid within these funds. For example, Northern Ireland is one of the Absolute Priority Regions in the European Social Fund; this entails a 55% intervention rate (instead of the normal 50% rate) and less demanding requirements for priority treatment under the ~~new~~ guidelines. Northern Ireland also benefits from a large number of specific actions. These specific actions have included:

- Since 1981, the Regional Fund (Regulation 2619/80) has supported a programme to improve economic and social conditions in the border area of Northern Ireland and the Republic of Ireland (chapter 510). This programme was renewed for a further five-year period in 1985 and involves support totalling 48 MECU.
- In 1981, Regulation 1942 provided special Community support of 43 MECU for the stimulation of agricultural development in the less-favoured areas of Northern Ireland over ten years.
- Most significantly, in 1983, Regulation 1737/83 was adopted concerning an exceptional three-years Community measure for 100 MECU to promote urban renewal in Northern Ireland. Under this Regulation, the Community contributes up to 70% of the cost of investments in a wide range of infrastructure developments (including

housing); the Regulation expressly requires that the Community aid be additional to the total volume of national expenditure. This allocation came to an end in 1985.

Since 1981, the Commission Services, together with the ^{relevant} national authorities, have been investigating the feasibility, the preconditions for, and the implications of, an overall integrated development plan for Northern Ireland, which would coordinate all structural measures.

As regards Ireland, the Community has, as in the case of Northern Ireland, accorded priority and higher rates of aid within existing Funds together with a number of specific actions. Most notably, at the time of the establishment of the EMS, additional funds of 1 ECU were made available from 1979-1983 for infrastructure development in Ireland in order to facilitate the adjustment of the economy to the constraints of participation in the EMS.

Annexes I and II give details of the trends in expenditure as regards Community grants in favour of Northern Ireland. It will be seen that overall expenditure has fallen from £112 million in 1983 to £101 million in 1985 (in current prices); this figure can be expected to fall substantially in 1986, due to the termination of the exceptional measure for Belfast.

Negotiations are under way for a Belfast Integrated programme which will qualify as a National Programme of Community interest, funding for which will come from the national quota sectors of the ERDF. Discussions are also taking place with the EIB in relation to the exploitation of the lignite finds at Crumlin. Finally, pressure for aid to agriculture can be anticipated in the wake of the 1986 price package proposals. With the ending of the special measure for Belfast, there is scope for further measures, if only in order to maintain current levels of support in favour of the area.

It will be seen that Community structural expenditure in Ireland has levelled off noticeably since 1983 with the termination of the EMS interest subsidy. Provisional figures indicate a slight decrease in expenditure (at current prices) in 1985.

The Anglo-Irish Agreement

The AIA was signed by the Prime Ministers of the Governments of the United Kingdom and of Ireland on 15 November 1985 and has been registered with the United Nations. There has been a strong hostile reaction to the Agreement from ~~significant sections of the Unionist community, in particular~~. Both governments believe that the hostility is based on a profound misconception of the Agreement which does ^{no} harm to the Unionist position, and they believe that, in the course of time, public opinion throughout Northern Ireland will rally towards acceptance of the Agreement. ~~Despite the initial hostile reaction to the Agreement from the Unionist community in Northern Ireland,~~ Both governments have

*but settlement of the Republic
agreements and a different view of the
Unionist community.*

reiterated their determination to implement the Agreement which has been endorsed by both Parliaments. Both governments believe that the Agreement offers the most appropriate framework for the achievement of lasting peace and stability in Northern Ireland. The agreement sets out a number of principles and declarations by ~~both governments~~, notably recognising and respecting the identities of the two communities and the right of each to pursue its aspirations by peaceful and constitutional means. The Agreement also rejects any attempt to promote political objectives by violence, and reaffirms the commitment of both governments to the full participation of both communities in devolved government. It introduces a mechanism whereby the Irish government puts forward views and proposals on certain matters relating to Northern Ireland whereby determined efforts are made to resolve any differences. The Agreement involves no derogation from the sovereignty of both governments.

The Agreement is considered to be a significant breakthrough in the Northern Ireland crisis. For the first time, the most important protagonists - the two sovereign governments - have embarked on a longterm joint programme of reconstruction and reconciliation. If the Agreement succeeds in fulfilling the political objectives which it has set itself, there will be considerable prospects for the improvement of the economic and social situation. The goodwill and support for the Agreement will ultimately be translated into an increase in inward investment and orders. If there is a decline in the level of violence, valuable resources can be reallocated in the economy. The effective exploitation of economic potential can depend crucially on peaceful conditions, on internal political stability and on maintaining advantages with respect to those factors that can be determined locally.

Article 10(a) of the Agreement commits the two governments to:

"cooperate to promote the economic and social development of those areas of both parts of Ireland which have suffered most severely from the consequences of the instability of recent years, and to consider the possibility of securing international support for this work".

Already, the Agreement has borne economic fruits with the decision to set up an international Fund for reconstruction and reconciliation in Ireland (its terms of reference are annexed). As of now, indications are that the American government will propose to Congress a contribution of \$50 million per year for five years part of which will be available as credit and loans and part as grants.

The Community Response to date to the Agreement

The Commission and the other Community institutions, especially the Parliament, have always recognised Northern Ireland as a special case because of the objective social and economic

1984

conditions in the area, especially as regards unemployment, and because of the related political instability and violence. In 1984, Parliament declared its readiness "to assume a greater responsibility for the economic and social development of Northern Ireland, to the limit of the financial capacity and legal obligations of the European Community". The European Community institutions have always aspired to provide a wider horizon and a common ground on which reconciliation and dialogue between different traditions is possible. The widespread acceptance of Community institutions throughout the spectrum of political opinion in Northern Ireland and the frequency with which the Northern Ireland MEPs cooperate and work together within the Community framework have shown the special role which the Community can play.

The Commission, through its President, issued a statement on the day the Agreement was signed, congratulating the two governments and stressing the importance of the Agreement for the people of Northern Ireland, for the relationship between the peoples of two Community Member States and for the overall Community. The preamble of the Treaty of Paris was evoked, and the creation of the Community was cited as proof that negotiation leading to new structures and procedures capable of reconciling different identities and interests was the solution to difficult problems; violence was never the answer. The President confirmed the continuation of the Commission's support for the economic and social development of Northern Ireland and for effective cross-border cooperation. In his programme speech to Parliament on 19 February, the President said:

"There are questions which are close to our hearts. That, for example, of Northern Ireland. At the appropriate time, Commission will make a proposal to show its attachment to the promotion of peace and to economic and to the social development of Northern Ireland".

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The European Parliament, on 9 December 1985 ~~unanimously~~ endorsed the Agreement in a Resolution which declared its belief that "the AIA offers a unique opportunity to make progress towards peace and reconciliation in Ireland" and "called upon the European Commission to examine ways and means by which the European Community could give practical support to the Anglo-Irish Agreement, in particular by contributing to a programme of economic development in Ireland".

Options, modalities and conditions for a positive Community response

Although the SCIS has not yet received any formal proposal from the two governments, it is understood that its presentation is imminent and the broad outlines of the proposals, and the options and issues arising for the Commission, can be set out.

On the purely economic and technical level, the SCIS suggests that a positive Commission response to a request for economic and social support is justified. The special measures, particularly the exceptional measure for Belfast and the EMS Infrastructure Subsidies have been successful in accomplishing the objectives set for them, but much remains to be done. In recent years, there has been a fall-off in the level of structural aid to Northern Ireland and Ireland, so that there is scope, on an objective basis, for further measures. While not wishing to encourage a plethora of special measures throughout the Community, the experience has been that special measures which are carefully developed and which are part of an overall integrated approach (such as the IMPs programme) can have a more substantial impact than the use or intensification of the conventional structural interventions.

As regards, Northern Ireland, the SCIS believes that as a complement to the ~~macro level impact of the~~ Agreement considerable scope remains for urgent action in the area of reconciliation, social reconstruction and reanimation of areas and of communities. The extent of violence has already been iterated. There is evidence of a dangerous combination of dependency on the State together with a high degree of alienation, both intercommunal and from the State. The reduction of alienation and of mutual tension between the communities in Northern Ireland requires the planned and targeted allocation of resources, and the implementation of specific social programmes, local community-based employment measures, management development, and the promotion of local enterprise groups on a cross-Community basis.

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Most of these activities of social reconstruction (including health, education and housing measures) fall outside the range of structural interventions developed by the European Community because most European societies have only limited use for them. yet, in relation to Northern Ireland, success in these areas may be the key to success in attracting inward investment, producing a climate for indigenous economic development and removing the causes of the destruction and dislocation.

As regards Ireland, there is a strong case to be made for support for the improvement of infrastructure and economic development in the areas which are most significant from the point of view of good North-South relations. This could include, for example, roads where a number of routes which constitute the chief North-South axes (Dublin to Belfast, Dublin to Derry) require upgrading. The border counties in the South have also suffered in their development because of the constraints and diseconomies imposed by the border. This has been recognised in the non-quota cross-border section of the ERDF. Unfortunately, because of limitations on resources, the Irish authorities were constrained to use the second "tranche" of their ERDF non-quota allocation for the development of a gas pipeline and, consequently, to scale down the previous programme for the development of tourism and craft industries in the Border regions.

sq.

It is understood that the total package of measures will be costed at (750 MECU) over a five-year period mid-1986 to mid-1991. A Community intervention rate of 70% will be sought. 70% of expenditure will be allocated to projects in Northern Ireland, 30% to projects in Ireland. 10% will go to joint projects. This division roughly mirrors the 3:1 ratio of expenditure foreseen for the International Fund. Both administrations propose to initiate projects immediately which would make an entry into the 1986 supplementary budget desirable.

Options (which may not be mutually exclusive)

Option One: Strengthen existing funding arrangements without additional resources.

Advantages: No immediate budgetary consequences.

Disadvantages: There is no immediate, obvious improvement attainable in the Coordination of Structural Interventions in Northern Ireland. Greater coordination will occur primarily in the context of Article 130 of the Single European Act and it can be argued that the coordination of structural interventions in Northern Ireland is no better or worse than elsewhere. There is, however, considerable scope for the pursuit of the coordination of Community structural interventions with national or regional interventions. This is especially true in the case of a devolved administration such as Northern Ireland where the interplay between central exchequer policy, Community interventions and expenditure on the ground is important.

This in turn leads to the more general issue of generating for the area a multiannual economic development plan within which the specific role of the Fund and of Community measures could be clearly identified.

It is, as a political reality, unlikely that the national administration would be prepared to embark on such an exercise without the prospect of additional funding.

A more general disadvantage is that such an option would have a very low political profile and could well be regarded as inconsistent with the Commission position until now. It is also based on a negative assessment of the wish of the members of the ~~Council of Ministers~~ ^{with} to be associated in a concrete way with the AIA.

Option Two: Direct contribution to the resources of the International Fund

Advantages: A Community contribution would make the Fund truly international and substantially strengthen the impact and profile of the Fund. It would be the most direct manifestation of support for the Agreement (since the Fund is a direct product of the Agreement). The Fund can be regarded as a flexible, innovative instrument, closely geared to the social and economic requirements of the situation.

Disadvantages: - Budgetary Implications

Until now, Commission policy has been against pure subsidies, and ~~an unfortunate precedent could be established.~~ The Commission has already gained considerable experience and has a considerable presence in Northern Ireland. A straight contribution to the Fund would take away from the distinctive Community presence and dimension to the problem, *unless this was justified prior to a Commission report on the time and management aspects in context with a low comment to that time be discussed.*

A Community participation in the Fund would require, as preconditions, negotiations over the objectives, priorities and operation of the Fund as well as guarantees of adequate systems of financial control and accountability in the management of the Fund.

A sub-option would be Community participation in elements of the Fund, for example, in its venture-capital activities.

Option Three:

Make additional resources available for a specific Community Action.

Disadvantages

Budgetary Implications:

Likely to cover intervention areas which Member States would not consider as directly economic.

Advantages

Community profile resulting from a specific Community action. Would follow the precedent of the exceptional measure for Belfast which has been regarded as successful, particularly as regards additionality. would allow the Commission, in collaboration with National authorities, to determine the areas of greatest need for support and the mechanisms of support. Would be a less direct "product" of the AIA and, therefore, might be better received by the Unionist community. The action could be used to move administrations in the direction of a more integrated approach (Integrated Development Plan in Northern Ireland, Integrated Operation in Ireland).

Modalities

Option Two would require a new budget line and regulation. Option Three would also require a new budget line and regulation or, alternatively, use could be made of budget line 5413, "additional support for Integrated Operations", if the proposals agreed could be deemed to fall in the Integrated Operations category.

Suggested requirements for a positive response

1. If additional Community resources are to be made available and allocated to the Anglo-Irish package, Community aid should be additional to the total volume of national public expenditure. Matching funds could be provided by national public exchequers or from the resources of the International Fund. ✓
2. In relation to Northern Ireland, there should be a commitment from the authorities that a longterm development strategy and programme be worked out. This would serve to enable an integrated approach by community measures in the years ahead and to enable a coherent set of roles and priorities for local, national, community and international Fund measures. The production of such a longterm plan should not delay a Commission response to the specific proposal put forward at this stage. ✓
3. Satisfactory roles should be defined and organisational links should be provided between Community operations and operations financed by the international Fund. ✓
4. There should be a substantial economic employment creation component in the Northern Ireland measure. ✓
5. In relation to Ireland, the cross-border programme should be an Integrated (Operation) (Approach). ✓
6. The Community should be directly implicated in the economic part of the overall development strategy: its particular intervention should be given a profile and a rationale of direct relevance to economic development. ✓