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INFO DESKBY 241730Z NIO(L), NIO(B)
INFO IMMEDIATE UKREP BRUSSELS

PS/SOFSNI
Mr J HANLEY
PS/Mr MATES
PUS
MR D FEELY
Mr LEDLIE DUS(B)
Mr WOOD
Mr DODDS
Mr J STEELE
Mr ALSTON
Mr LEACH
Mr MACCABE
LIAISON X 2
RUC
RECEIVED.....25.

11418
25 SEP 1992
ms 242/9
pts Murphy
1075/9
28 SEP 1992
CENT SEC
Mr Watters
Mr S Quinn

PRIME MINISTER'S MEETING WITH THE TAOISEACH, 25 SEPTEMBER:
SCENE-SETTER

SUMMARY

1. ON NORTHERN IRELAND, TAOISEACH CONCERNED OVER POSSIBLE EROSION OF ANGLO-IRISH AGREEMENT AND LACK OF UNIONIST COMMITMENT TO THE TALKS PROCESS. ON EC/ECONOMIC ISSUES, WILL SEEK PRIME MINISTER'S VIEWS ON WAY AHEAD AND PROBABLY PRESS FOR EARLY RETURN OF STERLING TO ERM AND MEASURES TO STABILIZE EMS/ERM. CONCERN OVER MULTI-SPEED EUROPE, BUT WILL WANT IRELAND IN TOP TIER. DOMESTIC POLITICAL POSITION STRONGER THAN BEFORE SUMMER, BUT ELEPHANT TRAPS REMAIN.

DETAIL

2. ACCORDING TO NALLY (CABINET SECRETARY EQUIVALENT), THE TAOISEACH WANTS TO DEVOTE ABOUT EQUAL TIME TO NORTHERN IRELAND AND TO EC/ECONOMIC ISSUES AT HIS MEETING WITH THE PRIME MINISTER TOMORROW.

NORTHERN IRELAND

3. THE PRIME MINISTER HEARD THE TAOISEACH'S CONCERNS DIRECT BY TELEPHONE ON 22 SEPTEMBER. REYNOLDS IS WORRIED THAT THE POSTPONEMENT OF THE IGC IS DAMAGING THE ANGLO-IRISH AGREEMENT, AND THAT IF THE TALKS PROCESS WERE TO FAIL THE GAINS OF THE AGREEMENT (TO THE IRISH) WOULD BE LOST. HE IS SCEPTICAL ABOUT THE UNIONISTS' COMMITMENT TO THE PROCESS: HENCE, PROBABLY, THE DEFENSIVE AND TACTICAL IRISH GAME SO FAR. HE WOULD LIKE THE IRISH AND OURSELVES TO SET AN AGREED COURSE - IDEALLY, UNITED IRELAND BY CONSENT - AND LIKE OTHER IRISH MINISTERS HE OVERESTIMATES HMG'S INFLUENCE OVER THE UNIONISTS. UNDERNEATH LINGER SUSPICIONS ABOUT HMG'S REAL INTENTIONS OVER NORTHERN IRELAND AND ABOUT OUR COMMITMENT TO THE AGREEMENT AND THE ANGLO-IRISH RELATIONSHIP SHOULD THE TALKS RUN INTO TROUBLE.

4. THE UNIONISTS' CONCENTRATION ON ARTICLES 2 AND 3 OF THE CONSTITUTION HAS STIRRED UP OPPOSITION TO THEIR AMENDMENT - ESPECIALLY AMONG THE GREENER ELEMENTS OF FIANNA FAIL.

EC/ECONOMIC MATTERS

5. THE TAOISEACH WILL WANT TO KNOW THE PRIME MINISTER'S VIEWS

IN THE WAY AHEAD, AND IN PARTICULAR HOW HE PROPOSES TO HANDLE THE 16 OCTOBER COUNCIL. THE IMPLICATIONS OF THE EVENTS OF THE LAST TEN DAYS FOR THE MAASTRICHT TREATY AND THE PLANNED COHESION FUND ARE OF SERIOUS CONCERN HERE. IRISH POLICY HAS LONG BEEN TO WORK FOR MONETARY STABILITY THROUGH THE EMS/ERM AND FOR AN ECONOMICALLY STRONG AND INCREASINGLY CONVERGENT EUROPE. THE TAOISEACH HAS SAID THAT FACED WITH A TWO (OR MULTI) SPEED EUROPE IRELAND WOULD STAY IN THE FIRST TIER, DESPITE ITS ECONOMIC AND SOCIAL LINKS WITH THE UK. IF PUSH COMES TO SHOVE HE WILL STICK TO THIS VIEW.

6. THE IRISH PUNT, KEPT AFLOAT LARGELY BY GOVERNMENT AND BUNDESBANK INTERVENTION (PERHAPS ?2 BILLION) AND EXCHANGE CONTROLS (DUE TO GO ON 1 JANUARY), SLIPPED TO ITS ERM FLOOR EARLY THIS WEEK, BUT HAS RECOVERED. IT HAS RISEN BY ABOUT 10% AGAINST STERLING, TO ABOUT ?1 = IR?1.03.

7. THE TAOISEACH IS LIKELY TO PRESS THE PRIME MINISTER FOR THE EARLY RETURN OF STERLING TO THE ERM, AND FOR MEASURES TO STABILIZE THE ERM. HE HAS SAID REPEATEDLY THAT THE IRISH PUNT WILL NOT BE DEVALUED, AND THE ECONOMY REMAINS STRONG (INFLATION 2.8%, GDP FORECAST GROWTH 3%, EXPECTED 1992 BALANCE OF PAYMENTS SURPLUS 7.8% OF GDP, EBR 1.9% OF GNP, MANUFACTURING OUTPUT UP 11% SO FAR THIS YEAR). UNEMPLOYMENT, AT 20%, HAS BEEN THE GOVERNMENT'S BIGGEST WORRY, THOUGH THIS PARTLY REFLECTS POPULATION GROWTH AND A RETURN OF EMIGRANTS FROM BRITAIN. BUT SOME 30% OF IRISH TRADE IS WITH THE UK, AND THOUGH IRISH INDUSTRY HAS A COMPETITIVE EDGE OF SOME 15% AGAINST BRITAIN, THE BUSINESS COMMUNITY IS WORRIED THAT THE PRESENT PUNT/STERLING RATE WILL HIT IRISH EXPORTS TO BRITAIN. MANY WOULD LIKE TO SEE STERLING DRIFT UP TO ABOUT ?1 = IR?0.97, TO RESOLVE THE TENSIONS BETWEEN A CURRENCY ALIGNED WITH THE DEUTSCHMARK AND AN ECONOMY STILL LARGELY LINKED WITH THE UK.

INTERNAL POLITICS

8. THE TAOISEACH'S POLITICAL POSITION HAS EASED OVER THE SUMMER. THOUGH THE OPPOSITION CONTINUES TO ATTACK HIM OVER UNEMPLOYMENT, HIS BROMIDES ARE MORE IMAGINATIVE THAN THEIRS AND THE ECONOMY IS OTHERWISE DOING WELL. HE HAS THE MAASTRICHT REFERENDUM SATISFACTORILY UNDER HIS BELT. MOST PEOPLE HAVE LOST INTEREST IN THE ARCANA OF THE BEEF TRIBUNAL AND THOUGH THE TAOISEACH HAS YET TO GIVE EVIDENCE (PERHAPS NEXT MONTH) IT LOOKS LESS THREATENING THAN IT DID. THE EX-MINISTERS HE SACKED IN FEBRUARY STILL NURSE THEIR WOUNDS, BUT WITH EACH PASSING MONTH BECOME LESS OF A THREAT. HIS MAIN CONCERNS, EC/ECONOMIC ISSUES APART, ARE NOW PROBABLY:

(A) ABORTION: A REFERENDUM IS DUE PROBABLY IN LATE NOVEMBER. THE GOVERNMENT IS LOOKING FOR AN ALL-PARTY CONSENSUS, AND ON SO CONTENTIOUS A SUBJECT THE OTHER PARTIES ARE LIKELY TO AGREE. IF THEY DO, THE GOVERNMENT'S PROBLEMS WILL BE MUCH REDUCED.

(B) THE COALITION: RELATIONS WITH THE PROGRESSIVE DEMOCRATS (PD'S) ARE NOW SO BAD THAT THEY COULD HARDLY GET WORSE (ERGO, HOWEVER, THE COALITION SHOULD - BARRING ACCIDENTS - SURVIVE).

(C) THE CONSTRAINTS OF AN APPROACHING GENERAL ELECTION, DUE BY MID-1994 AT THE LATEST AND GENERALLY EXPECTED IN MAY/JUNE 1993: WHILE THE TAOISEACH WANTS TO BE RID OF THE PD'S, HIS CHANCES OF SECURING A MAJORITY FIANNA FAIL GOVERNMENT ARE SLIM.

