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Meetings between the Taoiseach and the British Prime Minister, Mr. Callaghan, the Leader of the Opposition, Mrs. Thatcher and the German Federal Chancellor, Herr Schmidt, November, 1978

Summary Notes

Taoiseach
 24/11

Meeting with Mr. Callaghan

1. Agenda

1. The likely agenda for the meeting is -

- (1) the proposed European Monetary System;
- (2) other Community issues; and
- (3) Northern Ireland.

This agenda is indicative only. The discussion may well range outside these subjects. For example, at the last meeting there was considerable discussion on industrial relations.

2. European Monetary System

2. The British will probably want to know, in some detail, the basis of our case for 200,000,000 ^{a year} EVA s/ from the Community. The case for this is documented elsewhere and, essentially, is accepted by the British. Mr. Callaghan said in a speech at the Lord Mayor's banquet in London on 13th November

"As a result of the high level of expenditure on agriculture some of the wealthiest members of the Community are also those who get the most benefit from the Community budget.

I am glad to say this is not universally true. Ireland, which has the lowest national income per head of the population, is the largest net recipient per head - as it should be."

3. However, this sympathy might not extend to the case where Ireland went into a new monetary system and Britain did not. The

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British could well argue that there is no reason why they, who, in their own estimation will be paying a disproportionately high percentage of the Community budget by the early 1980's, should add further to their burdens by contributing to the support of a system of which they themselves are not members. On our estimates, if the British support were through the ordinary budgetary mechanisms then their contribution towards the Irish estimated requirement of 200,000,000 ECU's a year would be of the order of £20 to £25 million. This is not a large amount in a ^{central government} budget of more than £ billion; but it is not the amount but the principle which would cause difficulty.

4. The argument against a harsh British attitude is that, on all the evidence, if they do not join the system on 1st January, they would hope to be in within six to nine months. If they create unnecessary difficulties for one or more members of the Community, then the terms of entry for them, when they seek it, will, undoubtedly be tougher than they would otherwise have been.

5. This, however, is an argument of confrontation. It would seem far better to approach the problem in another way.

6. The British difficulties with the Community at present, as they see them are -

- (1) on the budget. They say that when they are contributing to the Community budget in the early 1980s, in the same way as other countries of the Community, they will be paying a proportion of the budget which is twice their proportionate wealth in the Community.* In other words,

* £895 m. as against £369 m. in 1977

they will probably, on their own estimates, be paying more than the Germans (and the Danes) who are the richest countries in the Community. The reason for the comparatively high proportion to be borne by the British lies essentially in the nature of their trade. They buy a very high proportion of their food from outside the Community - and import many other goods from the old Commonwealth countries. These imports are subject to automatically the levy, the proceeds of which go/to finance the Community budget. There is not much hope, in practice, of the British getting much relief in this area since to give them this type of relief would be to defeat the essential purpose for which the levies were established. Further, the budget issue is not one which can be remedied in time for the new EMS system. It is a highly complex subject.

The existing sources of money for the Community budget (i.e. levies on imports from outside the Community, a proportion of VAT and certain other taxes) will be exhausted by the early 1980s; and the entire method of financing the Community will be the subject of detailed review. In fact, the Commission have already produced a detailed paper on this subject, which will, undoubtedly, become the subject of more intense discussion in the months ahead.

Our position will be essentially the same as that of the British. Our proportion of Community GNP is .6. When the full own resources system of contributing to the Community budget comes into effect for us in the early

1980s we will, on present estimates, be contributing approximately twice this proportion of the Community budget. The reasons will be the same, more or less, as those which apply to the British. In other words, we could reach an understanding with them about attitudes to the financing of the Community but it is essential that this issue does not clog up the negotiations on the EMS. The understanding should be tacit or inferable from what we say in the discussions;

- (2) in relation to agriculture. Present Community policies are, in a sense, contrary to the traditional British cheap food policies in that they are based, in part, on the need to provide for farmers a standard of living approximating to that of industrial workers. Less than 3% of the population of the United Kingdom is engaged in agriculture, compared with more than 20% here. The size of the British interest in agriculture is proportionate. They see over 70% of the Community budget going to support agriculture and, as they see it, they are contributing a disproportionately high share of that budget. This, therefore, is the second issue which they wish to see corrected in the EMS discussions.

The first point to make is that in the Bremen discussions the subject of agriculture was not associated with the EMS discussion, though the British tried to get the two connected later. It is important to maintain this disassociation of the two subjects.

The next point is that the Community budget is approximately

.7% of the total Community GNP. What the British are talking about, therefore, is approximately .49% of Community GNP - or one-seventh or one-eighth of their own budget. And this figure for Community expenditure on agriculture represents, in part, expenditure on behalf of the British Government on British agriculture which the British themselves would have to finance if the Community did not exist.

A further point is that of the Community expenditure on agriculture approximately 15% or 16% is spent because of the monetary compensatory amount system. In other words, this expenditure is incurred in correcting divergencies in currencies - which is not an agricultural subsidy at all, in the true sense, but money spent to correct distortions in the market caused by the failure of different countries to align their Green Pound rates with the ordinary exchange rates for their money.

Following the Bremen Council, the Commission are to produce a paper for the Council to be held in Brussels in December. This paper is not a root and branch examination of the principles of the CAP. That type of stock taking was completed about two or three years ago. The Commission paper is expected to deal with subjects like surpluses (in milk, sugar etc.) and prices. There is little reason now why we should not reach a moderate degree of understanding with the British on these subjects. Our market advantages in these areas would enable us to produce ^{highly competitive} at prices and still obtain a good return.

7. The reason why a moderate degree of understanding is desirable on the Community budget and on agriculture is that whether or not the British are in the new monetary system they are still, by far, our biggest single customers. We, in turn, with purchases from them of approximately £1.5 billion in 1977, are their fourth or fifth biggest customers. Harmonious relations in political and commercial affairs are highly desirable. If these relations are not harmonious, and the British do not enter the system then,

- (1) exchange control could be operated harshly as between the two countries, interfering, in particular, with capital flows, essential for investment^{*} and
- (2) the British attitude to^{the} Community aid we are seeking in the new system could, in the ultimate, amount to a veto.

*It is for consideration whether the "sticky" attitude to controls being adopted by British officials should be raised with the Prime Minister - see separate note.

8. The British will undoubtedly raise the question of whether it is worth ~~our~~ while going into the new system if they are not in it, on 1st January, when in all likelihood they will be joining in six or nine months time. The essential British difficulty here seems to concern not the Community or Irish interests but the date of the British general election. In the British view the effects of the new system could be deflationary in their economy. It would, for obvious reasons, be undesirable to have this sort of an effect in the lead up to an election, whatever about the long term benefits of the system. Equally, of course, it would be highly undesirable to have sterling depreciate strongly, outside the new system, whether or not there is an election in the offing. It is very much a matter for judgement the extent to which this sterling depreciation would occur if the British remained outside the system.

9. Essentially, therefore, it would seem desirable to ascertain -

- (1) their likely attitude to entry into the new system on 1st January;
- (2) what sort of conditions they will be looking for in Brussels and how these would affect Irish interests;
- (3) if they are not in the system on 1st January -
 - (a) how exchange controls will operate;
 - (b) if they will try to maintain the parity of their currency - so that the Irish and British pounds, in effect, retain their present parities; and
 - (c) their attitudes to the possibility of a veto on aid for Ireland.

3. Other Community issues

10. Here, the principal points for discussion will probably be -

- (1) a review of the meetings which both the Taoiseach and the Prime Minister will have had with the French President (as well as with other Heads of State);
- (2) the Three Wise Men proposal; and
- (3) any other issues likely to come up at the Brussels Council in December.

4. Northern Ireland

11. The Secretary of State for Northern Ireland last November produced a five point plan, as follows -

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- "(1) there should be a single Assembly elected by Proportional Representation;
- (2) the Assembly should exercise real responsibility over a wide range of functions and should have a consultative role in relation to legislation;
- (3) the arrangements should be temporary and should envisage progress in due course towards some form of full legislative devolution;
- (4) although the interim arrangements will be temporary, they must be durable - which means that the interests of minorities must be safeguarded, and that political parties representing different shades of opinion must be prepared to make the arrangement work;
- (5) the arrangements must make good administrative sense: we are not interested in merely making cosmetic changes."

12. The SDLP rejected these proposals, flatly. Their argument is that they could lead to the re-establishment of Stormont. Since then there has been little or no dialogue on political progress in Northern Ireland. It is unlikely, in practice, that such dialogue could produce much movement by the British, on the eve of their forthcoming general election. The SDLP have other views on this.

13. The essential point is that the absence of political movement in Northern Ireland will, in the end, lead to the disintegration of the moderate parties there and to the politics of confrontation. The absence of movement is playing into the hands of the men of violence.

14. The second point is that, whatever gloss is put on it, the increase in Northern Ireland representation in Westminster from 12 to "between 16 and 18" is a further move in the direction of integration with the United Kingdom. This move can only have bad

effects both for the United Kingdom and for relations between that country and Ireland. All experience must show the British that the Irish membership have little interest in mainstream British politics. In the 19th century, for example, the main achievement of the large Irish parliamentary party there, apart from fostering Irish nationalism, was the introduction of -

(1) the guillotine and

(2) the closure motion

in British parliamentary practice.

15. The Irish members themselves have been described as -

"intruders, with only a transient interest in the passing scene and with only a momentary opportunity of influencing the events which were being daily enacted before their eyes."

16. Northern Ireland is costing the British Exchequer approximately £1 billion a year now - in comparison to the "cost" of membership of the European Community of the order of £400,000,000 a year. The European Community brings immense benefits, in the form of political influence in world affairs, trade, and other areas. Northern Ireland brings only expense, opprobrium and death. A repetition of the policies of the past sixty years can only produce a repetition of their effects.

17. The Northern people would have a large say in any ^{purely}Irish parliament. Their interests are more akin to those of Ireland, in the European Community, than they are to those of Britain. And, the Irish economy has shown such growth in recent years that the old difference in standards between North and South has now disappeared. In fact, the level of Irish GNP per head now is,

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in all likelihood, above that of Northern Ireland.

18. It is against this background that the change in policy based on a British declaration of interest in the unity of Ireland could produce useful results. The work of the private committee on this subject, established by the Taoiseach, might be worth mentioning, confidentially, to the Prime Minister.

19. Finally, certain issues affecting Long Kesh might well be worth mentioning.

20. (So far as we know, security co-operation is at a high level. We have had no complaints of any sort in recent months in this area.)

Mrs. Thatcher

21. The meeting with Mrs. Thatcher is, more or less, a courtesy meeting. It might be used to outline developments in relation to -

- (1) the proposed European Monetary System;
- (2) developments in the European Community, and in particular, the Irish attitudes to Community financing and agriculture; and
- (3) Northern Ireland.

22. On this, Mrs. Thatcher's main interest, as she has expressed it, is in maintaining the union, and in security. She may be accompanied by Mr. Airey Neave who has expressed considerable interest in the subject of restoring local government powers in

Northern Ireland. This is anathema to the minority population there, essentially because the local government system, as organised, has been among the worst offenders in relation to religious and racial discrimination. There is little evidence to show that this position would change under Mr. Neave's proposals. Examples will be available of the exercise of this type of discrimination in recent years by local government authorities in Northern Ireland.

3. Meeting with Federal Chancellor, Herr Schmidt

1. Agenda

23. The likely agenda is -

- (1) the European Monetary System
- (2) Northern Ireland (doubtful) and
- (3) a review of world developments generally.

24. The main part of the discussion on EMS will be concerned, essentially, with Ireland's willingness to join the system, if conditions permit this to happen. Essentially, joining the system could mean that the parity of the Irish currency would be higher than it would otherwise be, and, in the worst scenario, would appreciate relative to sterling, where we sell almost half our exports and on which much of our tourist trade depends. This development would mean that the Government would have to cut their capital programmes and, so increase unemployment and decrease the rate of economic growth - in contravention to the country's essential needs. Other arguments in relation to the system are in the note prepared for the visit to the French President.

25. The essential questions in the German interview will be -

- (1) how the figure of 200,000,000 ^{a year} EUA's is made up;
- (2) the mechanisms through which we would see aid being disbursed, if this were decided on;
- (3) the minimum amount of aid which we would find acceptable.

26. The 200,000,000 EUA's is the estimate of the size of the ^{transfer needed to counteract} the deflationary effect which we think that membership of the new system would bring about, in its initial period. It is equivalent to approximately 2% of GNP. There will be available a draft capital budget to show what the Government would have to do going into the new system, without aid of the order mentioned, and a further draft, showing what they could do, if the aid were available - and what they would have to do, if, they were to avoid the deflationary effects of EMS.

27. On mechanisms, a paper has been submitted to the German authorities indicating that while there might be some possibilities in the Regional Fund and the Social Fund, we would not favour these essentially because it would be impossible to confine them to Ireland and because, on all past experience, changes in these Funds take an inordinate time to bring about. We would prefer a new mechanism, on lines which could be agreed between officials of the German and Irish administrations (with French ^{and Community?} participation, if necessary) before the Brussels Council.

28. In essence, therefore, it would appear that the issues on EMS to be settled in Bonn are -

- (1) the extent to which the Germans would go in providing aid and whether this would be sufficient to enable the Irish

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Government to opt for the new system; and

- (2) the establishment of arrangements for officials to meet and draw up the mechanisms through which the aid could be dispursed - in advance of the Brussels Council.

Northern Ireland

29. This is included essentially to enable the Taoiseach to review the position there, for the German Chancellor.

Other issues

30. The opportunity might be taken of mentioning to the German Chancellor the possibility of increasing German investment in Ireland. Much of this seems to be going to countries outside the Community like, for example, Yugoslavia or Morocco. The possibility might be raised of influencing the flow of this investment in the Irish direction. Undoubtedly, the question of labour disputes will come up on this issue, or on others. The statistics are

<u>Days lost per 000 civilians at work due to industrial disputes</u>				
	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>Average 74-76</u>
Belgium	153	163	242	186
Denmark	78	43	88	70
Germany	41	3	22	22
Ireland	523	285	761	523
Italy	1,040	1,445	1,341	1,275
Holland	2	0	3	2
U.K.	597	244	134	325
U.S.	558	368	434	453

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31. It is worth bearing in mind, in the conversations, that between 1972 and 1977 Irish exports to Germany increased by more than 600%; while imports from Germany went up by just over 215%.

32. Notes on other issues which the German Chancellor may wish to raise, are included in the brief.

33. Finally, in view of developments on fisheries (and other areas) the questions may come up of redefining a "^{united}central national interest". This is being used largely, but not exclusively by the British to delay action by the Community and in the German view, is having a serious effect on the standing of the Community in some countries, with whom it is unable to conclude agreements because of British intransigence.

27th November, 1978.