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IRISH EMBASSY, LONDON

Just in touch

17, GROSVENOR PLACE,

SW1X 7HR

Telephone: 071-235 2171

TELEX: 916104

Fax: 071-245 6961

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2 May 1991

Mr. Dermot Gallagher
Assistant Secretary
Anglo-Irish Division

1. PST: PRAY
H. M. O'Donnell's PRSP / Gus O'Donnell
H. M. O'Donnell's PRSP / Gus O'Donnell
Gus O'Donnell
2. H. M. O'Donnell

Dear Assistant Secretary

Lunch with Gus O'Donnell

Gus O'Donnell is the Prime Minister's press spokesman.

A former Treasury economist with a relaxed and affable style, O'Donnell enjoys an exceptional degree of access to the Prime Minister. He is regarded as being even closer to Major than Bernard Ingham was to Margaret Thatcher. A mark of Major's confidence in him is that O'Donnell attends Cabinet meetings (a privilege not accorded to Ingham). In addition to their professional association, there is a close personal friendship between Major and O'Donnell (based on a shared interest in cricket and football) which goes back to their time in the Treasury together.

While O'Donnell has some distant family connections with Tralee, he is somewhat bashful about this Irish connection. His family is second or third generation Irish and has lost virtually all contact with Ireland. It emerged that his first visit ever to Ireland was for last year's informal ECOFIN meeting at Ashford Castle (which he and John Major greatly enjoyed). O'Donnell has an instinctive interest in Irish matters but admitted frankly that he is not knowledgeable about them.

In the course of a wide-ranging conversation, the following points of interest arose.

The round-table talks

- Major is absolutely delighted that the talks have now begun. He never entirely expected that this stage would be reached.

- He is personally very committed to the initiative and is following it with keen interest. He would dearly like the talks to succeed. Indeed, he indicated to O'Donnell a few days ago that, if he were to achieve nothing else during his term in office than a successful outcome to these talks, he would be quite content.
- Major is himself a skilled negotiator and there is nothing he likes better than "a good political negotiation". He likes the challenge of trying to reconcile positions which seem, at first sight, wide apart. His approach is clearcut and pragmatic: he will want Brooke to "go in there and come out with an answer".
- Unlike his predecessor, O'Donnell assured me, the Prime Minister has an absolutely open mind on Northern Ireland and its future. (O'Donnell emphasized this point several times in our conversation). He has had virtually no contact with the Unionists during his career to date (not even when he was the NI Whip) and does not share his predecessor's protective concern for them.
- However, Major's room for manoeuvre could be constrained if he found himself in a precarious political position. Reflecting on what the Prime Minister might do if a solution were to emerge which encountered opposition from Tory right-wingers, O'Donnell commented that "how far we are able to go" will depend on Major's strength within his party at that time and on the party's overall electoral prospects. Major's overriding concern is to preserve party unity in the run-up to an election. He would certainly have to "weigh in the balance" any serious threat posed to him by the right-wingers.
- Furthermore, O'Donnell continued, he would be conscious of the need to keep lines open to the Unionists should he require their support in the event of a hung Parliament. When I speculated on alternative partners for a minority Tory Government, O'Donnell replied that "traditionally the Unionists are approached first" and that Major would not depart from this tradition.
- Major's earnest hope is that he will not find himself in such a position. As regards the talks, furthermore, he is calculating that matters will not have come to a head before he calls the election. For various reasons (see below), Major is now thinking in terms of a September/October election date. While he has not yet thought it through in detail, his guess is that the process which has now begun will extend, one way or another, beyond the cut-off point envisaged for mid-July and that it will not have been resolved before an early autumn election. (This, of course, is an optimistic scenario - Major is equally aware that the talks might not survive the first few weeks). If the process is still active by, say, September, Major will want to build on the (relative) success of the initiative. He will want to exploit it in his election campaign, seeking a mandate from the electorate to pursue the initiative to its conclusion.

- So far, the Prime Minister has deemed it prudent to make no public comment about the talks. He is acutely aware of the sensitivity of the exercise and does not want to "get in the way". Behind the scenes, however, he is entirely supportive of what Peter Brooke is doing and has left Brooke in no doubt about that.
- There have been some Cabinet discussions of the initiative but none within the past couple of weeks. The Cabinet has listened with interest to Brooke's presentations but there have been few interventions. O'Donnell expects that Brooke will keep the Prime Minister privately informed of developments and that there will only be discussions at the weekly Cabinet meetings if a particular need arises.
- Neither Douglas Hurd nor Chris Patten has made any particular contribution to the Cabinet discussions so far. In Hurd's case, this is not surprising given the Foreign Secretary's own extremely heavy workload at present (the Kurdish crisis, the Middle East, Europe, Hong Kong and South Africa). O'Donnell expected, however, that Hurd would make a more active contribution once the second strand of the talks is reached.

Relations with the Taoiseach

- Major likes the Taoiseach and believes that he has established a good rapport with him in the few brief meetings they have had so far. He wishes that he had more time for a longer meeting with the Taoiseach to discuss both Anglo-Irish and European issues. His own intensive schedule in recent months, and the workload facing him in the near future, have prevented this so far.
- Expanding on the latter point, O'Donnell explained that Major had a whole series of domestic policy initiatives in mind when he took over last November. These had to be shelved by the sudden intervention of the Gulf war, followed by the protracted poll-tax controversy. Only now is Major finding the time to address domestic policy (e.g. his health policy seminar at Chequers last weekend). He has deliberately cleared his programme of international trips in order to concentrate on the domestic work (not least because of its relevance to an election later this year).
- Touching on the European dimension of a meeting with the Taoiseach, O'Donnell was quite firm on the value to Britain of individual alliances in relation to specific aspects of the IGCs. While the Foreign Office has been insisting on the overwhelming importance of good relations with Bonn (in order to undermine the Paris/Bonn axis), the view in No. 10, O'Donnell indicated, is that "we must form alliances by policy and not by country". A meeting between the Prime Minister and the Taoiseach later this year could, for example, explore their shared interests on matters such as the defence issue and the EP's role. A London/Dublin alliance on these matters, O'Donnell commented, would be very sensible.

- Adding to what he had said about Bonn, however, O'Donnell mentioned that relations with Germany have become far more important since Mrs Thatcher's departure. In an effort to win goodwill (and a slice of whatever economic revival eventually takes place in the former East Germany), Major will be despatching a number of Ministers to East Germany over the coming months to explore the scope for British investment there. "Kohl is desperate for us to invest" and Major attaches considerable importance to Kohl's goodwill (as much as the opportunities he sees for British industry).

The election

- The Prime Minister is considering calling the election in September or October of this year.
- He has ruled out a June election, unless the Tories fare much better than expected in today's local elections. O'Donnell's own prediction is that the Tories will lose 400 seats. While this defeat can be shrugged off, anything worse would be "an unmitigated disaster".
- The Cabinet are mildly encouraged by the current economic indicators and the opinion polls and feel that they could win an election in early autumn. The poll-tax issue has now been defused. Inflation figures to be released on 17 May will show a sharp fall to roughly 6% (close to the EC average). Some modest reductions in interest rates will be possible over the coming months - but they will be applied very cautiously, in order to hold out (to the voter next autumn) the promise of more to come. Falls in mortgage repayments and the usual "feel good" effect of the summer holiday season should add to the Tories' chances of re-election in an autumn election.
- An important consideration for Major, in addition to the above, is that he would like to secure his mandate on Europe in advance of the Tory bickering on this subject at the party conference and also of the IGCs. (A book by Nicholas Ridley criticising Major on Europe is due for publication at the beginning of the party conference).
- O'Donnell's own view of the election outcome is that it is "wide open". Much will depend on Labour's approach. If they choose a campaign which highlights the team aspect, as opposed to Kinnock's personal qualities, "we could have a real fight on our hands". The front-bench team of Smith, Brown and Blair is particularly formidable - and dangerous because their policies, directed at the centre voter, are almost indistinguishable from the Tories'. If, however, Labour runs a Presidential-style campaign centred on Kinnock, Major stands a much better chance. His own popularity remains very high and Kinnock remains unconvincing as an alternative Prime Minister. If the election became simply a personality contest between the two, the Tories could hold onto most of their present majority. If Labour emphasizes the team aspect, however, a Tory defeat is quite conceivable.

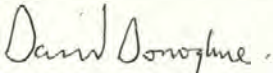
Post-election reshuffle

- There will be no reshuffle prior to the election. The post-election reshuffle, however, will be very wide-ranging, with many younger people being promoted and older Ministers departing.

- Contrary to some speculation, Douglas Hurd will be staying in the Cabinet for the indefinite future. He likes his job, he is good at it and he has made it clear that he wishes to stay there. If Chris Patten delivers an impressive election victory, he can "name his price". O'Donnell expects that it will be the Home Office (Patten is not, in fact, particularly interested in the Foreign Office).

- Brooke will be retained as NI Secretary if the talks are going well and hold out some prospect of success. In an informal and casual way, O'Donnell enquired about the kind of successor we would like to see when Brooke moves in due course. He also asked which Ministers we would specifically regard as unsuitable. I replied in casual but guarded terms, emphasizing the need for any Secretary of State to avoid any suspicion that he is susceptible to Unionist pressure.

Yours sincerely



David Donoghue
Press and Information Officer