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BRITISH EMBASSY,
DUBLIN.

21 January 1981

The Right Honourable
The Lord Carrington KCMG MC
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
London SW1

My Lord,

REPUBLIC OF IRELAND: ANNUAL REVIEW FOR 1980

1. At the beginning of the year Mr Haughey had not yet completed his first month as Taoiseach. He had beaten Mr Colley to leadership of the Fianna Fail party in December, 1979, following the resignation of Mr Lynch. The result was close, and the contest left some bitterness in the Cabinet and higher ranks of the party. Mr Haughey is an altogether tougher character and better qualified for the job than Mr Colley and over the year has greatly strengthened his position. His critics who claimed that he would be too much of a divisive influence in the party have at the end of the year been proved wrong. In political terms he won most points in his handling of the Donegal by-election, where by moving almost the whole Cabinet on to the campaign trail he pulled out all the stops. The stakes were high and he won convincingly.

2. When Mr Haughey took power two things were expected of him; first, that he would be a good business manager at a time when the economy needed an experienced hand. Secondly, it was thought that he would take a much tougher line than Mr Lynch in his attitude to Northern Ireland. He has had perhaps a more difficult time during the year with the economy than he expected; it was his bad luck to take over when the world economy - and the British one in particular - was in a deepening recession. On Northern Ireland his approach has been cautious and well thought out; he has not so far been the hard-liner we expected. Anglo-Irish relations may be reckoned to be good at the year's end and Mr Haughey is entitled to his share of the credit.

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The Economy

3. In his first major speech in January Mr Haughey said that the country was living beyond its means. In 1979 the current budget deficit had been £520 million, the borrowing requirement over £1 billion and the balance of payments deficit over £700 million. Subsequently in the budget in February, the Finance Minister, Mr O'Kennedy, announced a relatively austere programme and provided for a borrowing requirement of £896 million or 10.4% of estimated GNP. However, by the end of the year the borrowing requirement had reached £1.2 billion or about 14.5% of GNP. What had gone wrong?

4. In March the Finance Minister explained that the Government's policy was to strike a balance between economic objectives and social needs. Unfortunately unemployment was soon seen to be rising in manufacturing industry and real incomes in agriculture were falling for the second year running. During the late summer an attempt was made to control wage increases by drawing up a new National Understanding. In the view of many employers the awards were considered to be too generous and it was only due to the personal intervention of Mr Haughey that management was prepared to sign. It was becoming clear that the right balance between economic objectives and social needs had not been struck, and by the end of September the current budget deficit had risen to £400 million, or £47 million more than the target for the whole year. In mid-November Mr O'Kennedy acknowledged that the current budget deficit would require either cuts in expenditure or additional taxes. But no remedial measures had been taken by the end of the year when the current budget deficit had reached £553 million or £200 million over target. Meanwhile, the trade gap which had narrowed in mid-1980 - largely because the recession led to a cutback in imports - widened again alarmingly towards the end of the year; the balance of payments will be almost as far into the red as in 1979. Moreover, as about half the budget deficit was funded by new foreign loans, the accumulated debt service burden has worrying implications for both the budgetary position and the balance of payments in future.

/Internal Politics ...



Internal Politics

5. By mid-June, when I arrived, Mr Haughey's position did not look particularly strong. The polls shewed that Dr Garret FitzGerald would be more popular as Taoiseach than Mr Haughey and that Fianna Fail and the Opposition were neck and neck. At the end of the month "Magill" published the first of a series of articles on the arms crisis of 1969-70 which led to the trial of Mr Haughey, then Minister for Finance. Irish politics are tough and a re-run of the arms crisis looked like providing Dr FitzGerald and Mr Haughey's enemies within his own party with plenty of material for discrediting him. However, the Deputy Speaker refused to allow the matter to be debated when it was raised on 26 June and the Dail went into recess on the following day until mid-October. When the debate was held in November it caused little comment. I don't think that at any time the arms crisis has posed a serious threat to Mr Haughey. And in the rather crude way that Dr FitzGerald kept flogging away at it Mr Haughey may have gained some points.

6. What perhaps caused the Government more difficulty was the sudden announcement in early July that the Irish Ambassador in Washington, Sean Donlon, was to be transferred as Irish representative to the United Nations. It was generally believed that his move had been made at the request of the extreme Irish-American faction in the USA who much resented Mr Donlon's success in carrying out the Irish Government's policy of trying to stop financial support being given to the PIRA through NORAIL. The Government retracted within two days, saying that the report was entirely without foundation. More importantly, Mr Haughey made a clear statement of Government policy about the campaign of violence and condemned NORAIL explicitly. Maybe it was just coincidence, but I think from this point onwards Mr Haughey started to strengthen his position.

Anglo-Irish Relations

7. Whatever else they may be, Anglo-Irish relations have always been intimate; and lately they have been called unique - quite rightly. On both sides there is a feeling that the two meetings this year between the Taoiseach and the Prime Minister have opened a new phase

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in our relationship. We have many things in common and equally there are many ways in which our interests may conflict; for example, in our attitudes to the Common Agricultural Policy, a matter of really vital importance to Ireland. But transcending all other issues is the question of Northern Ireland; whichever party is in power, it is by this alone that we are judged.

8. When Mr Haughey took over the leadership of the Government many people, both British and Irish, expected that he would take a tough line on Northern Ireland, probably following the Fianna Fail policy statement of 1975 which, amongst other things, called on the British to declare their intention of withdrawing from Northern Ireland. He did not do so. Instead he took the line at the party conference in February that there should be an arrangement in Northern Ireland whereby "Irish men and women on their own and without a British presence, but with active British goodwill, will arrange the affairs of the whole of Ireland in a constructive partnership within the EEC". At the same time he was openly sceptical of our attempts to find a political basis for a devolved Government in Northern Ireland. He claimed that no solution stood a chance of success which did not give proper weight to the "three dimensions"; namely, between the two communities in Northern Ireland; between North and South in Ireland; and between Ireland and Britain. The first full Anglo-Irish Summit meeting on 21 May went off well and gave full expression to his third dimension, Anglo-Irish relations. The joint communiqué spoke of the unique relationship between the peoples of the United Kingdom and the Republic of Ireland. This theme was developed at a meeting between Mr Atkins and Mr Lenihan on 13 October and later at official level, finding new expression in the communiqué following the second meeting between the Prime Minister and the Taoiseach on 8 December. We are now about to start together on the development of joint studies covering citizenship, economic cooperation, security, mutual understanding and institutions.

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EEC

9. Agriculture has a great importance for Ireland and for the standard of living for many of its people; agricultural exports account for over a third of the total. 20% of the working population are engaged directly in agriculture, and a proportion of manufacturing industry is dependent on the agricultural sector. It is reckoned that the incomes of farmers have fallen 40% in the last two years due to the high level of Irish inflation, adverse weather conditions and relatively static prices. Progressive farmers who had borrowed heavily to invest in modern buildings and equipment are now unable to meet interest payments and have to add to their long-term indebtedness. Most farmers have cut back on inputs such as fertilisers and new machinery; cattle have been sent early to slaughter, with the result that net agricultural output in 1980 will show an increase on other years. But this will be at the expense of future output.

10. The European Community support arrangements seemed until recent years to be ideally advantageous for Irish agriculture, but persistently modest price increases have partially eroded their initial attractions. This year's apparently arbitrary changes in intervention arrangements for beef have brought home to Irish beef farmers their excessive dependence on the intervention system. There is a growing awareness that membership of the Community, despite considerable financial and political advantages, does not provide an automatic solution to Irish agricultural problems.

Anglo-Irish Trade

11. With visible exports of £2,260 million in the first eleven months of the year we have consolidated our share of the market in terms of value at 50.7% compared with 50.0% for the same period in 1979. This is satisfactory in view of the 20% appreciation of sterling against the Irish pound during 1980. Prospects for British exports across the board in 1981 remain favourable. But with all the indicators pointing to little if any volume growth of Irish imports, and with sterling remaining strong, exporters must pay great attention to the market if

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our share is to be maintained. Ireland is our fifth most valuable overseas market, a staggering position when considering the relatively meagre population of 3.4 million, and its importance can not be exaggerated.

The Hunger Strike

12. The ending of the hunger strike in the Maze prison on 18 December was received with immense relief in the Republic. I have no idea what might have happened if one or more of the hunger strikers had died. The Irish Government were certainly very worried. And it is likely that many who had been indifferent to the protest would have blamed the British for any troubles which dead hunger strikers might have caused. However, the murder in the Republic of two policemen in July and one in October by terrorists had hardened opinion against militant Republicanism. While the Irish Government took a close interest in our handling of the hunger strike their attitude was sympathetic and helpful throughout this difficult period. And public opinion remained indifferent or openly critical of the activities of the Anti-H Block Committee. There was little support for the marches. There has been a shift of opinion in the South and the man in the street now takes a more sympathetic view of the problem facing the British Government in its handling of Northern Ireland.

Conclusion

13. This is no place to speculate about the "Irish problem". At the end of 1980 we should be satisfied with the state of Anglo-Irish relations. I think evolution is the key word. The attitudes of both the British and Irish Governments have evolved considerably since the troubles started just over ten years ago. For the administration in Northern Ireland 1980 has been a difficult year. But the fortitude and patience which the Northern Irish Civil Service as a whole - and those responsible for prisons in particular - have shewn in facing the tactics of the Provisional IRA and the Irish National Liberation

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Army deserve the greatest credit. Their success enables us to go on trying to develop Anglo-Irish relations in a constructive and hopeful way.

14. I am sending copies of this despatch to the Chancellor of the Exchequer, the Secretary of State for Northern Ireland, the Secretary of State for Defence, HM Ambassador at Washington and HM Representatives at EEC posts, UKRep Brussels and to the Head of British Information Services, New York.

I have the honour to be
My Lord
Your obedient Servant

Leonard Fin

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