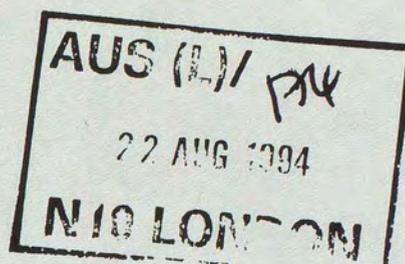


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26 July 1994

David Watkins Esq
Central Secretariat
NIO
Belfast*Dear Dawn,***US ASSISTANCE TO NORTHERN IRELAND**

1. Peter Westmacott's letter of 18 July refers.
2. David Schafer in the State Department gave me the attached non-paper of ideas on how the US could help Northern Ireland economically in the context of a peace settlement. The ideas had been enthusiastically received in the NSC by Nancy Soderberg but not yet cleared with Treasury or Commerce or 'lawyer-proofed'. The next step would be to convene a meeting of State, NSC and interested Congressmen. Schafer asked that we continue to keep the ideas closely held. They would only have any impact if the element of surprise was maintained.
3. I asked if the ideas would only fly in the context of an agreement involving Sinn Fein. He said that in the U.S. view they would be equally applicable if there were an agreement in the autumn involving the constitutional parties but excluding Sinn Fein.
4. The ideas are clearly still very fluid, not to say half baked. For example State have now discovered that U.S. companies pay only 3% tax on repatriated profits and consider this an insufficient incentive to encourage U.S. companies to provide the training for workers from disadvantaged areas they propose. Schafer suggested we could therefore reduce our corporation tax in Northern Ireland for U.S. companies from 33% to 10% (the rate prevalent in the Republic of Ireland). I expressed some scepticism. They were effectively asking us to finance their scheme. The idea of a Presidential visit - eventually - is new to me.

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5. Although there are clearly problems with the American ideas we do have an opportunity to steer them. Instead of criticising them or rejecting them we should inject our own ideas and make suggestions for improvements in their ideas. I appreciate this will be difficult while keeping the American paper tightly held, but it is important to do so. We look forward to receiving your comments. We are of course working closely with Don Alexander on all this.

Yours Sincerely
Jonathan Powell

Jonathan Powell

cc: David Gibson Esq, DED, NIO, Belfast
Peter Bell Esq, NIO, London
Graham Archer Esq, RID, FCO
Don Alexander Esq, NIB
PS
Mr Westmacott o/r
Ms Mitchison

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Ireland

The President has repeatedly promised to do everything possible to support the peace process in Northern Ireland. There is wide expectation in Ireland and the United Kingdom that the United States will provide substantial financial assistance to Northern Ireland in the event a genuine financial settlement is reached. Given tight budgets and domestic concerns about exporting American jobs, we will have to be creative in devising programs that will be both politically saleable with the Congress and provide real assistance to Northern Ireland in building a new political and social order. We will also have to move quickly to capitalize on the momentum of a political breakthrough. There follow a number of ideas or programs we might consider in putting together a Presidential program to support Northern Ireland.

1. Convene a Presidential Conference on Trade and Investment in Northern Ireland, similar to the ones being organized for Eastern Europe and South Africa. The President would speak at the conference along with the Prime Ministers of Great Britain and Ireland. The conference would bring together private businessmen from the U.S., Northern Ireland, Ireland and Great Britain.

The Catholic Bishops Conference and Presbyterian Church U.S.A. are in the process of organizing an investment conference for the Spring of 1995 to promote investment opportunities in Northern Ireland. The Administration could, as one alternative, throw its support behind this conference and feature the President as a keynote speaker. (see attached proposal).

2. Increase the annual U.S. Contribution to the International Fund for Ireland (IFI) to \$60 million for two years.

IFI Chairman McCarter recently said in Washington that he was confident he could spend triple the annual U.S. contribution of \$20 million to the IFI.

3. Announce that the Overseas Private Investment Corporation would undertake a commitment of \$200 million to support U.S. firms investing in Northern Ireland.

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4. Propose legislation providing tax exemption over a five year period for U.S. subsidiary companies operating in Northern Ireland which participate in a career opportunities program for persons from economically disadvantaged areas. (Program proposal attached.)

5. Announce that the President will propose that Congress provide the National Democratic Institute an additional \$2.5 million to fund programs for the development of young political leaders. In addition, or alternatively, the President could announce additional financial support for USIA IVP programs or contributions to the International Executive Service Corps.

6. Announce that the United States will create under USIA auspices an "America House" in Belfast to bring together the Protestant and Catholic communities in programs designed to promote a tolerant multi-ethnic society. An America House would build on the tradition that our Consul General's residence has for many years provided the venue for politicians of all political stripes to meet and discuss common problems. The America House could sponsor political discussions led by American experts on development of multi-ethnic societies, as well as cultural events designed to bring diverse groups together to participate jointly in musical, dramatic or other productions.

Finally, the President could announce that he will visit Northern Ireland to dramatize his support for the peace settlement reached by the parties. This could be done at a trade conference or at a Rose Garden ceremony honoring the Prime Ministers of Ireland and Great Britain and the political leaders of Northern Ireland who have reached agreement on a political process or settlement in the North.

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EMPLOYMENT INCENTIVE AND TRAINING PROGRAM

Concept:

A tax incentive program for U.S. subsidiary companies operating in Northern Ireland which would provide immediate entry level job/career opportunities to employable youths from economically depressed areas.

Method:

Provide a five year exemption from liability for U.S. tax payments by U.S. subsidiary companies operating in Northern Ireland upon satisfying the following conditions:

for every 25 persons employed in Northern Ireland by a U.S. subsidiary, said subsidiary would accept one applicant from the Northern Ireland Career Opportunities Program for a minimum one year period.

The Northern Ireland Career Opportunities Program:

U.S. subsidiaries seeking to take advantage of a five-year tax moratorium would register with the International Fund for Ireland identifying total employee strength, under the supervision of the U.S. observer to the IFI. The International Fund would determine the total number Career Opportunity positions using a 25 to 1 formula (25 employees to 1 Career Opportunity position).

Using the International Fund for Ireland's established Disadvantaged Areas Initiative Program as a model, employable youths from the identified disadvantaged areas would apply for appointment to an Career Opportunities position with a subscribing U.S. subsidiary operating in Northern Ireland.

The IFI would review application packages which would include the application, academic records from the last three years, and a personal statement addressing career interests. Applications would be ranked ordered by IFI staff and assigned to each position available.

Subscribing companies would be required to hire the applicant in an entry-level apprenticeship position for a minimum period of one year. The program would provide experience in at least two significantly different areas of company operations. At the end of the first year, the company will evaluate the

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employee and determine whether to offer to the apprentice a career position or release him/her. Each year until the end of the five year tax moratorium (or unless a subscribing company drops out of the program), the subscribing company would be required to recertify its employee strength and take on new a new Career Opportunity candidate.

At the end of each year of participation in the program, the company would have to file a report on the applicant and, using supplied criteria, evaluate his suitability for a six-month U.S. training program in the field the apprentice has demonstrated aptitude in. The reports would be reviewed by the Ferris Foundation (or similar entity) and a number chosen to participate in the IFI funded six-month U.S. training program. Career Opportunity candidates selected to receive the training program would be offered placement in a subscribing U.S. subsidiary upon completion of the six-months. The training program would be operated using the J-2 visa program under the auspices of A.I.D.

The Training program would be financed by the U.S. government in the form of an increase in IFI funding. If the program selected 100 Career Opportunity candidates for training at an approximate cost of \$20,000 per Career Opportunity candidate, \$2 million of a projected increase in U.S. IFI funding of \$40 million per year, would be designated for use for this program under the IFI's Wider Horizon's initiative. The Training Program would be operated by an independent foundation such as the Ferris Foundation (Georgetown University).

Impact:

With approximately 300 U.S. subsidiaries operating in Northern Ireland with over 20,000 employees, it would be possible to enroll as many as 1,000 to 1,200 program candidates within one year of the program's inauguration. Over a five year period, the program could have enrolled over 6,000 employable youths from disadvantaged areas in Northern Ireland assuming no growth rate in the number of U.S. subsidiaries investing in Northern Ireland. Tentative projections of U.S. investment growth in Northern Ireland in the event of a peace agreement suggest as many as 10,000 youths enrolled in the program at the end of five years.

The five year moratorium will attract U.S. investment in the event of peace, since companies will want to maximize their tax advantage. At the same time, the program will show a quick and visible U.S. commitment to addressing Northern Ireland unemployment; a key factor in resolving political unrest in the event a peace agreement is reached.

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Questions to be Answered:

1. Is there a legal conflict with GATT?
2. Are there other sources of funding for the Training Program?
3. Is there reason to expect that tying tax exemption to investment in the Apprentice Program would prove to be a disincentive to U.S. subsidiary investment?

(Caveat: The UK tax rate is currently 33 percent on corporate profits. The USG taxes the difference between the UK obligation and the U.S. rate: 3 percent in the case of Northern Ireland. A moratorium on U.S. taxes at 3 percent would, in fact, provide no incentive at all since the cost burden of the Career Opportunities program would be substantially greater than the proposed tax relief. The Republic of Ireland taxes at a 10 percent rate yielding a 26 percent margin which enabled Senator Moynihan's tax/investment bill to have some impact for investment in the Republic.

If, through a joint conference agreement, the Major government were prepared to ask Parliament to reduce the tax rate for Northern Ireland to 10 percent (in the spirit of economically related cross-border institutions which they say they support), this would level the investment playing field for the entire island of Ireland and provide a sufficient U.S. tax margin to make the Career Opportunities Program work. Discussions to feel out HMG on this matter should be initiated soon.)

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PRIVATE SECTOR/ECCLESIASTICAL INVESTMENT INITIATIVE

(Preface: The following program was an EUR/NE suggestion to Jerry Powers of the Catholic Bishops Conference and John Duffy representing the Presbyterian Church U.S.A. in response to their search for ideas about where next to take the Joint Call for Fair Employment and Investment. The proposal was met with enthusiasm by them and is currently being pursued.)

Concept: An Investment Conference jointly sponsored by an ad hoc consortium of American subsidiaries in Northern Ireland and American and Irish Ecclesiastical signatories to the Joint Call for Fair Employment and Investment. The conference would emphasize a practical presentation of investment opportunities from the vantage point of other American companies currently doing business in Northern Ireland. The target attendees would be potential U.S. investors in manufacturing, services, marketing and distribution.

Timing: Hold an Investment Conference for Northern Ireland in a U.S. location, such as Washington, in the Spring of 1995 (possibly late March to take advantage of the post-March 17 heightened U.S. interest in Ireland and Northern Ireland).

Components and Structure: The conference would open with key note presentations by Northern Ireland Secretary of State Sir Patrick Mayhew and Irish Deputy Prime Minister Dick Spring. A possible brief appearance by the President or Secretary of State would be desirable.

The first series of presentations would be "testimonials" by American companies currently operating in Northern Ireland. The companies, Ford, Short Bros., Du Pont, Seagate, Fruit of the Loom, among others, would focus their remarks on perceived obstacles or disincentives to American investment in Northern Ireland such as the security situation, tax considerations, resource availability. The predicate of the presentations would be that these "blue chip" companies are there because it is profitable for them to be there.

The second series of presentations would address specific issues such as, inter alia, taxation, recruiting, employment regulations, infrastructure, location, security, market, community-relations and import/export regulations. The presentations would be made by specialists in each area.

The final presentations would include Ecclesiastical signatories to the Joint Call who would focus on the history and current status of fair employment in Northern Ireland and the impact they have on successful business operations. The presentation would be complemented by testimonials from the ad hoc consortium who are supporters of the Joint Call.

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