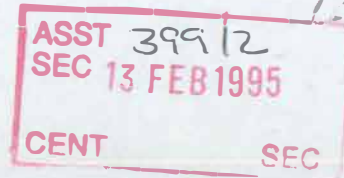


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FROM: W K LINDSAY
Political Affairs Division
10 February 1995



cc: PS/Michael Ancram (B&L) - B
PS/Sir John Wheeler (B&L) - B
PS/PUS (B&L) - B
~~PS/Mr Felix~~ - B
Mr Legge - B
Mr Thomas - B
Mr Bell - B
Mr Brooke - B
Mr Daniell - B
Mr Leach - B
Mr Shannon - B
Mr Steele - B
Mr Watkins - B
Mr Williams - B
Mr Wood (B&L) - B
Mr Brooker - B
Mrs Brown - B
Mr Dodds - B
Mr Maccabe - B
Mr Perry - B
Mr Marsh - B
Mr Stephens - B
Mr Smyth - B
Mr Bramley, SIL - B
Mr Beeton, TPU - B
Ms Checksfield, TPU - B
Mr Margetts, SIL - B
Mr R Lyne, No 10 - Fax
Mr P Lever, Cabinet Office fax
HMA, Dublin - Fax
HMA, Washington - Fax
Mr Lamont, RID - B
Mr Cassell, MOD - Fax
Mr Warne, HO - Fax

a Mr Mappin

PS/Secretary of State (B&L) - B

**LOYALIST EXPLORATORY DIALOGUE (LXD): RECORD OF FIFTH MEETING -
MONDAY 6 FEBRUARY 1995, HELD AT PARLIAMENT BUILDINGS**

The fifth meeting of LXD began at 11.00 am and finished at 2.15 pm with a 30 minute recess at 12.03 pm. Both the parties fielded the same delegations as before - for the PUP, Messrs Hutchinson, Ervine, Smyth, Robb and Mahood and for the UDP, Messrs McMichael, English, White, Kirkham and Adams. The Government side was led by

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Mr Leach and included Mr Steele, Mr Watkins, Mr Maccabe and myself.

Summary

2. This was a particularly good meeting of LXD with both parties producing papers and, in the case of the PUP, clearly having put a considerable amount of research and preparation into their contributions. Discussion ranged widely across a number of issues in the social and economic fields including unemployment, inward investment, housing, health, energy and education. They suggested the promotion of "participative democracy" (as distinct from elective) involving the local community much more than at present.

3. Specifically, they said that the Delors aid package should be channelled directly to deprived areas, for instance using MBW and not statutory agencies; there should be co-ordination of housing policy with the job creation and inward investment effort to encourage re-generation of inner city areas; a regional consortium should be set up to supplement any NI Assembly and advise on economic development; there should be competence-based training in workskills to enhance the employability of people in disadvantaged areas; the proposed community employment programme should provide proper wages for those involved; decisions on electricity interconnection should be based on wider considerations within NI; Shaftesbury Square Hospital (Drugs Unit) should not be closed.

4. Though not mentioned at the meeting, the PUP paper called for a written constitution for Northern Ireland with a Bill of Rights overseen by a committee of eight judges - two each from the UK, ROI, NI and the European Courts. They also pledged to work towards making integrated education a real, viable alternative and called for more Government support for it.

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Introduction

5. Mr Leach welcomed the delegations and mentioned the absence of Mr Stephens, and of Mrs Brown, who was ill, and whose place was taken by Mr Watkins. He also mentioned that there would be a 21 gun salute at 12 noon but this should not be taken as a signal that we wished to speak about arms at that stage!

Minutes of Last Meeting

6. The minutes of LXD4, circulated prior to the meeting, were agreed without amendment.

Matters Arising

7. Mr Leach said that, in view of the controversy surrounding the article about the JFD in the Times on 1 February, he proposed to give the parties a copy of the Secretary of State's statement in the House that day. The parties indicated that they would wish to mention this subject later in the meeting.

Social and Economic Issues

8. Mr Watkins introduced the Government paper, saying that there was a clear link between Northern Ireland's political, security, economic and social problems and a need to tackle these together. There was a tendency to be negative about the Northern Ireland economy, which he accepted had structural weaknesses in the size of the public sector, areas of deprivation, long-term unemployment and so on. But, equally, it had a number of strong, positive points in its favour - the number of world class companies in Northern Ireland, the fact that more people were in work than ever before, the way in which the Northern Ireland economy had survived the recession better than in the UK generally, and the fact that manufacturing productivity was now reportedly as good as in the rest of the UK.

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9. The Government's objective in the field of economic policy, Mr Watkins continued, included the promotion of economic growth through increased competitiveness; a fair distribution of jobs throughout Northern Ireland; the provision of education and training facilities designed to maximise the welfare and life chances of all sections of the community; and maximising the benefits to Northern Ireland of the UK's membership of the European Union. In terms of social policy, the Government continued to seek to eliminate discrimination on the grounds of political opinion or religious belief in both the public and private sectors; to secure the further protection of the human, civil, political, social and cultural rights of all members of the community in Northern Ireland; and to pursue action programmes targetted at the areas of greatest social and economic deprivation in Northern Ireland.

10. These objectives were reflected in the Government's public expenditure priorities, which included strengthening the economy to provide a healthy manufacturing and service sector base. The instruments used were the IDB, LEDU, T&EA training initiatives and improving education, including a greater emphasis on vocational approaches. The other major area was Targetting Social Need, which was about targetting resources to meet disadvantage wherever it was found. In this case, Making Belfast Work, the Londonderry Initiative and the Rural Development Programme all sought to establish a partnership between the Government and the voluntary sector. He gave as an example the Shankill Regeneration Strategy, which had brought together a group to look at what was happening in that area on the ground and to encourage greater local participation.

11. At this stage, Mr Hutchinson and Councillor McMichael introduced their submissions on this subject. The PUP were content to publish their submission in the same way as the Government paper, though the UDP were undecided. Mr Hutchinson began by saying that economic growth, which he noted was what the Prime Minister's Conference in December was about, did not necessarily

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deal with poverty. He gave as examples the Republic of Ireland, where he said there was still a great deal of poverty, yet significant economic growth; and similarly in Londonderry. The PUP were concerned about creating quality jobs. He claimed that the life span of newly-created jobs for the IDB was 4.2 years and for LEDU 3.8 years; additionally, only 7% of jobs created by the IDB went to Belfast. He said the IDB appeared to have a difficulty about talking to community activists or community groups.

12. In relation to TSN, Mr Hutchinson claimed that the use of the Robson index, which he said had excluded Highfield and Andersonstown, was unfortunate and that his party would prefer to continue to use the Townsend index. The Government had failed to differentiate between deprivation and disadvantage, to the detriment of the Protestant community. He accepted that Roman Catholic communities came out much higher in the league table of deprivation but claimed that this was growing in Protestant areas (in 1971 only two Protestant areas appeared in the top twenty areas of deprivation, but now there were eight). Other examples were the high proportion of young people going into YTP and the lower percentage (20%) going into further education in the Greater Shankill area, as against a higher number (45%) in Catholic West Belfast. He also pointed to factors affecting relative disadvantage, for instance the higher percentage of elderly people in the Greater Shankill area than in North Down, yet the health budget did not take account of this. A similar disadvantage was claimed in respect of a release of prisoners into the community in these two areas.

13. Supporting this theme, Mr Ervine said it was good to see the Greater Shankill formulating policies for community regeneration but he feared the sense of community had been removed and this needed to be instilled again. The sense of family had largely disappeared from the area and with it, to a large extent, the controllers of morality (grandparents especially). While he fully supported regeneration of the Greater Shankill area, and West Belfast generally, this must not be at the expense of his own East

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Belfast, which was also an area in need of regeneration. Mr Kirkham, and Mr Adams, both for the UDP, supported the Shankill regeneration strategy but recognised that this should not be at the expense of nationalist areas.

14. Discussion moved on briefly to housing in the Greater Shankill area with Mr Ervine claiming that there was still a demand for it. He gave as collateral for this the fact that private houses had recently been built in the area and all had been sold. He suggested that people would move to the Shankill if there were good jobs in the area, so investment schemes should take account of that. There was a window of opportunity which should not be lost. One of the problems was the considerable amount of wasteland in the area which lowered the tone and ambiance of the Shankill. Responding to a jibe from Mr Mahood that the Government had practiced passive discrimination in housing against the Shankill community, Mr Watkins said that the Housing Executive built where there was demand or need. The fact was that in North Belfast and the Shankill area in particular there was housing, but perhaps of an unpopular type. By contrast, in Roman Catholic areas, a number of people remained unhoused and more new building was needed. The Government had taken on board that housing was one of the instruments which could be used for urban regeneration and he hoped that this would be reflected in the MBW proposals which would be released shortly. In contrast, Mr Robb said that the Housing Executive had done a superb job in Lurgan and invited any of his colleagues to come and see it for themselves.

15. Mr Watkins, picking up on the peace dividend, said that if peace was permanent then presumably money could be switched from security to other areas of public expenditure. In the last survey Ministers had re-directed some £60m from the security budget. He was aware that there could be a loss of jobs in the security industry but CBI/DED had looked at this and suggested that even more jobs could be created in the event of a permanent peace.

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Economic growth

16. Mr Watkins responded to a number of the other points raised. On whether economic growth alone could deal with poverty, he said it was now generally recognised that the tide of economic growth did not "lift all boats", at any rate quickly enough. It was a question of using all the available tools, not choosing one only. The community work programme, which was due to begin shortly, would provide work for the long-term unemployed for up to 3 years. Three areas, Strabane, West Belfast and Fermanagh, had been chosen to pilot the programme because they had the highest incidence of long term unemployment. The scheme would be subject to assessment and amendment where necessary. Something like this was necessary in addition to IDB, LEDU and all the other agencies because, for every 3 jobs that IDB/LEDU promoted, only one person came off the unemployment register (due in part to people coming back to NI or the employment of women who were not previously on the register). The aim for the IDB, though a difficult one was to attract companies which were not just simple assembly plants but, for instance, had a research and development facility, and they had achieved some success in this. Peace had ensured that serious inward investors were now interested in Northern Ireland and, spurred on by the Prime Minister's conference, there were now many leads to follow up.

17. Mr Mahood cited the case of someone with an idea who was turned down by the IDB, but managed to get substantial funding for his scheme elsewhere. He felt that advice was not available in the area for cases such as this, although accepted that the BATS teams were doing an excellent job at local level. Mr English suggested that more priority should be given to attracting chemicals and electronics companies, while Mr Ervine suggested that there were many people with bright ideas in the community in Northern Ireland and these needed to be harnessed for the good of the whole economy.

18. Asked about the advantages the IDA had over the IDB, Mr Watkins said that, over the years, they had many of the advantages of

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Northern Ireland, without the violence; on top of that, they had a good incentive package, with attractive tax holiday benefits. On the other hand, Northern Ireland had a better trained and more experienced workforce and a good grant scheme. Asked if this might change under a devolved administration so that Northern Ireland had its own tax arrangements, Mr Watkins said he did not think so because this had not been a measure which was transferred under Stormont and it also had implications for other areas of the UK. Mr Smith took a different tack and said that the IDB record of not supporting existing workforces was wrong. He further asserted that the manufacturing base was only 15% of what it had been 20 years ago, and that the vast majority of the lost jobs had been from Protestant areas. Mr Watkins expressed surprise at this figure and countered the first point by citing support for Harland and Wolff, Mackies, Short Brothers as just some examples of how the Government had supported existing industries.

19. Mr Ervine claimed an argument for devolution in all of this; Stormont had been good at attracting foreign investment over the years. He recognised that there were many deprived areas in the rest of the UK and Northern Ireland could not be treated as a particularly special case. But peace was the pre-requisite for devolution and local politicians and civil servants, not to mention planners, had to be imaginative and to think in a more visionary way about the economic problems which faced the people of Northern Ireland.

20. Concluding this section of the debate, Mr Leach said the fact that Northern Ireland had a senior Minister at the Cabinet table since 1972 had been to its advantage, not least in the support given to such companies as Harland and Wolff and Shorts. While the Government could do a great deal, it could not reverse economic and social trends emerging in society, such as the tendency to move from inner city areas, which was by no means peculiar to Northern Ireland. Mr Watkins agreed and said that devolution could involve more local people in the development of economic policy, although he did point to the wider economic and social debate which took place

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with bodies such as the Northern Ireland Economic Council, the Economic Forum, NIC/ICTU, NICVA, NIVT and others. Clearly, there was potential for that to be accelerated in any devolved arrangement. A planned recess to include the 21 gun salute at Stormont was taken at this point from just after 12 noon until 12.30 pm.

21. After the break, Mr Leach commended the quality of debate thus far and proposed that the Government side would take away the parties' papers and come back with a further paper, focussing on the more specific points they had made. He asked whether the UDP envisaged that the Northern Ireland regional consortium, referred to in their paper, would function as a supplement to an Assembly? Mr Mc Michael said that a consortium would facilitate the pooling of resources, research and targeting of where funds could be obtained. In his experience of local government, all the councils were competing for EC structural funds and engaging unilaterally. Much effort was wasted and this could be focused more beneficially if carried out by a consortium. It would also be a more representative and accountable structure than was available at present. Agreeing with Mr Leach that the consortium would not be elected, Mr Watkins said this highlighted the democratic deficit we faced - on the one hand, the Secretary of State was working at Cabinet level, and on the other, there were a number of Quangos which delivered many services; some saw a need for much more local elected input and accountability. In the present situation, it was difficult to see how an unelected consortium would operate in practice, but it could work better in the context of devolution with clear links to a functioning local elected institution.

22. From the tenor of his comments, it was clear that Mr Ervine was not a supporter of Quangos. He complained of their being unaccountable, with no real sense of community involvement, for instance, the Health Boards. There was no sense of power within Northern Ireland but, he claimed, peace would allow the middle classes, who had largely opted out of public life, to take their place once again. He called for a hands-on approach to influence

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and effect change and suggested that the large amounts of money earned by Belfast City Councillors on committees and quangos (up to £20K he claimed in some cases) could be better spent.

23. Mr Kirkham, who works for the Farset Youth and Community Enterprises, one of the largest ACE Schemes in Belfast, said they had hoped that ACE would be extended for 3 years, together with an increase in the amount which could be paid to trainees. They had found that the quality of people was getting better but they were only getting into their stride at the end of the first 12 months and then had to go elsewhere. Another problem was that they did not have a training budget. To a question from Mr Watkins, he said that around 25% of the ACE workers at Farset moved to full-time employment. Mr Watkins said he thought the general level moving to full-time employment was higher than that. He noted a comment from Mr Hutchinson that the community work programme payment should be £150 per week (instead of £20) and said that he would be happy to come back on the subject in general and would find it useful to have another discussion on it.

Inward investment

24. Mr Hutchinson returned to this subject and noted again that only 7% of jobs created by the IDB were located in the area covered by Belfast City Council, though Mr Watkins argued that the figure would be higher if it included all of the Greater Belfast area. Like his colleague earlier, Mr Hutchinson was keen to see the IDB rescuing or assisting local companies in order to keep them in business (like O'Hara's Bakeries). He was not happy about the provision of advance factories and had been told that these had to be built or investors would not come to an area. In his view, it was necessary to attract people first and then build a factory that met their needs. Mr Watkins agreed that in many cases it was better to have a serviced site ready for a factory but in fact there was very little available land in North Belfast for industrial development.

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25. Mr Ervine helpfully suggested that factories could be created between ghetto areas in land currently used as a buffer astride the peacelines. The workforces should be mixed and this would be another factor in breaking down sectarianism. Mr Smith agreed and said that he knew there had been attempts to form a peaceline conference, at which community groups on both sides could work out what was best for both communities, for instance whether it would be better to try to attract a supermarket or a factory. If tackled in an imaginative way, community divisions could be broken down. Mr Ervine said President Roosevelt had helped to bring the United States out of the depression by putting people to work on infrastructure projects yet, in his view, the EU was inhibiting that.

26. Mr Watkins, in response to the point about grants to local industries, said that about 80% of IDB staff time was spent on around 400 local companies and there was little doubt that a lot of jobs which could have been lost were still there due to the IDB grants, advice on exports, research and development etc. The peace dividend, with the advent of EU funding and the diversion of national funds from the security budget, provided an excellent opportunity to move forward decisively.

26. Mr English suggested that Northern Ireland should employ a co-ordinated strategy similar to the Republic, which had a target of achieving 100,000 new jobs in a given period of time. Mr Watkins said that the Republic had a greater tradition of Government, employers and unions working together in this way, whereas the Government in the UK had opposed that sort of dogma, particularly in the 1980's. This had changed over the years, but clearly if there was a devolved administration in Northern Ireland, this type of initiative could well be high on the agenda and any Assembly would be able to follow its own ideology. Mr Mahood was not impressed with Mr English's intervention and claimed that there was no guarantee of success in the Republic either - "look at Team Aer Lingus".

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28. Asked about incentives for companies to set up in peaceline areas, Mr Watkins said that about 3 years ago the IDB had introduced a significant differential (20%) in the grant rate available in the more deprived areas of worst unemployment. There were of course other factors which investors looked for, such as being near a university for research and development facilities or being near a port if they were involved in the production of heavy equipment. Concluding this section, Mr English said emphatically that violence was over, and he thought for good, therefore there needed to be a policy of getting out into the market place and selling Northern Ireland. The walls between people and in their minds also needed to be broken down. Mr Ervine agreed and said the Northern Ireland situation and people should be talked up and not down.

Peace dividend

29. Mr Hutchinson, wishing to underline a point made earlier, said that the money allocated by the EC should be funnelled directly to deprived areas, possibly through MBW, instead of using statutory agencies. A similar type of arrangement could be set up in rural areas and local people should in each case be consulted. If, as a result, there was direct job creation then they would foresee no problem. If not, then it would need to be decided how much went to statutory agencies and then the rest should go to community groups. The responsibility for this should not rest with MEPs or a task force, because constitutional politicians were jumping on the bandwagon. Mr McMichael agreed and said that the money needed to go directly to those areas which had suffered most.

30. Mr Watkins made a number of points in relation to this; first of all, the EC package was not British Government money, although the idea was largely the Prime Minister's, he shaped the package and insisted that it should be additional to British Government expenditure in Northern Ireland. Mr Watkins agreed that we needed genuine consultation, possibly by means of conferences, and that the money had to go to the grassroots. The EC was working up specific proposals and there may be some sort of block grant to local

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communities. This would be in line with what has happened in England, for instance with the Regional and City Challenge. What was needed was something that was not too complicated. Mr Leach said that we would provide an update on this subject in a future paper.

Energy

31. Mr Ervine said the PUP was totally opposed to the electricity interconnector with Scotland, for a number of reasons. First, Scottish Electricity's capacity was 100% more than they required and so there was no hope of Northern Ireland selling Scotland any of its surplus electricity. The EC was about to give two private companies (NIE and Scottish Power) £61m; the cost of building the interconnector was £175m and he estimated that electricity bills would go up substantially as a result (5%). He said they would do everything in their power to stop the interconnector becoming a reality (though Mr Hutchinson drew the line at blowing it up!). What he suggested should happen was the link-up of the North/South interconnector so that NIE could sell into the Republic. In short, he said, the Scottish interconnector would mean a loss of jobs for Northern Ireland, higher prices and create an unhealthy monopoly.

32. Mr McMichael supported this argument and said that the economic issue had been deliberately sidelined by the environmental aspect in the public enquiry. There was no possibility of the interconnector with Scotland benefitting Northern Ireland or indeed the island of Ireland in terms of jobs in particular. [The symbolism of loyalist delegates arguing for a North/South interconnector, rather than one with Scotland, was not lost on either of the parties.] Mr Hutchinson concluded by saying that if the Scottish interconnector went ahead, the Belfast West power station would have to close. He claimed that all the relevant District Councils were against this on both sides of the Irish Sea; in fact, everyone except Roy Beggs MP. Added to which, the £61m from the EC would, he

claimed, come to other projects in Northern Ireland if it did not go into this scheme. Mr Leach said the Government team was unable to comment in any detail on this point although he was aware that there was substantial surplus low-cost generating capacity (hydro and nuclear) in Scotland, and if Northern Ireland could benefit from this the case for the interconnector might well be stronger than the parties were suggesting. Mr Watkins said that he would ask DED to prepare a paper on energy issues, including a specific section on this question.

Ship-building

33. Even though Mr English was keen to break for lunch, Mr Smith presented his contribution on ship-building. He said that in the 1970's and 80's the workforce (at Harland and Wolff) had been told that if they showed flexibility in work practices they would be able to compete around the world. The workforce had done so, but had then found that the playing field had changed. The intervention and subvention permitted by the EC was 9%, whereas Germany had 26% intervention, apparently because of the state of the industry in the former East Germany. This level of intervention also applied to Spain. The ship credit facility by the British Government was less generous than in other European countries. He also mentioned the Jones Act in the US, a protectionist law which nonetheless allowed for special exemptions, and he felt that the Government could use its special relationship with the US to make Harland and Wolff, and indeed Shorts, special cases for obtaining orders.

34. Mr English, for the UDP, agreed that Harland and Wolff had been committed to reducing unit costs and had introduced more flexible working arrangements, yet now found they were up against unfair subventions compared to firms in other European countries. Mr Watkins, speaking from some experience of the subject, (though not recent), said that the Harland and Wolff of the 1970's and 80's was a most heavily subsidised shipyard. It had to be remembered that other similar yards in the North East of England and Scotland had closed and there were problems with ship-building in Western

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Europe generally. He said he would have the circumstances looked at further, including the mortgage facility, the terms of the Jones Act in the US and the level of subvention in Germany.

Health

35. Mr Hutchinson then returned to the question of Quangos who had power but no responsibility and mentioned the recent announcement that £100m (£60m we thought) was to be spent on the Royal Victoria Hospital, while the City and Mater hospitals nearby were struggling. He considered that this was for the most "base political motives" and purely because the hospital was situated in West Belfast. He also mentioned the proposed closure of the drugs unit at the Shaftesbury Square Hospital and said that, at a time when the drug culture in North and West Belfast was second to none in Northern Ireland, he doubted if drug units in the community were going to do the job as effectively as this hospital. Mr Watkins said that we would respond later on these two points.

Springvale

36. Mr Hutchinson noted that there was a proposal to build a university campus at Springvale out of peace dividend money. This was land zoned for industrial development, not educational. It was conceived against the background of violence and deprivation in that area and, in his view peace had changed everything. It would not benefit the children of the Shankill area, whose educational attainment was very low, unless it worked with the primary schools in the area and built from that base. It would only provide jobs for cleaners and security men. There had been no real local consultation and the university authorities had talked down to community groups; it was essential to give the community ownership of any scheme proposed. Mr Smith agreed and said it was ludicrous that funding for simple maintenance in schools and other universities was not available and yet this new campus had been proposed. The UDP appeared to be less concerned about the concept and said that they had listened to a presentation from the

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university with interest.

37. Mr Watkins, in response, said that the proposal had come from the university to Government, who had asked for an analysis to be done. This analysis would look at the impact of the project on third level education provision elsewhere, and on the economy of the local area. He said that universities elsewhere which had set up in formerly deprived areas had found that the development had helped the area. Ministers were very conscious of the existing constraints on the education budget and so there would need to be a considerable amount of discussion and consultation when the analyses had been received.

Any Other Business

38. Mr Mahood complained that judges did not seem to be aware that there was a peace process, given the 25 years imprisonment handed down for attempted murder recently. This contrasted with the life sentences for the Shankill bomber, which carried no recommendation for a minimum period. Judges were making life more difficult for the UDP/PUP in making political statements and trying to pre-empt possible changes to remission rates by imposing long fixed-term sentences. Mr Steele said that the very fact judges could make comments about the peace process was proof that there was no political direction of the judiciary.

39. On the JFD, Mr McMichael said that there was extreme concern that the document had fallen into the hands of the press and had made the job of all those around the table more difficult. He hoped the Government recognised the calming effect of the comments made by both parties. They were committed to looking at the document pragmatically and constructively. The difficulties should not be underestimated and the JFD should be published soon.

40. Mr Ervine agreed. The two parties did not sabre-rattle. The indigenous British population did not have any power, except their consent. Unless there was a "level playing surface", there was no

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possibility of PUP consent. They had already given away their aspiration of total integration with the UK. But they would draw a line in the sand at that and could go no further. Mr Kirkham referred to the effect the story had had in his by-election defeat in Newtownabbey. They could have deployed, but did not, the document handed over at the last meeting of LXD. Mr Leach said Ministers and officials had been struck by the maturity of the comments by UDP/PUP spokesmen. The Times article had been a shock to the process and there was some damage, but he was confident that this would not be permanent. The Government side noted the omments which had been made.

Press Statement

41. The Government press statement was agreed with the parties with minor amendments. Mr Hutchinson suggested we should consider providing the press corps with some shelter from the weather outside Parliament Buildings. Mr Leach said that this would be considered.

Next Meeting

42. The next meeting was agreed for Tuesday 21 February at 10.30 am.

(Signed)

W K LINDSAY

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