Ireland’s dilemma after rejection of European Union budget

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The Irish government has been placed in enormous difficulties by Prime Minister Tony Blair’s offensive in Europe against social welfare and the European Union’s Common Agricultural Policy (CAP). Leading government figures have been forced into criticism of British policy after Blair prevented ratification of the EU budget this month, fearing its implications for the Irish economy and agricultural producers in particular.

Capitalism in Ireland has been one of the EU’s winners, despite the country’s size, relative geographical isolation and history of miserable poverty and domination by Britain, the former colonial power.

Since following Britain into the then European Community (EC) in 1973, the economy has changed out of all recognition. In 1973, 55 percent of Irish exports went to Britain or Northern Ireland, and a mere 21 percent went to Europe. Most of these exports were foodstuffs and agriculture-related production. Food, drink and tobacco accounted for the equivalent of €477 million annually in exports, while chemicals and machinery amounted to only €184 million.

By 2003, the economy had multiplied in size dramatically and its composition had radically altered. Some €6,822 million of food, drink and tobacco were produced, but this was dwarfed by €59,133 million of chemicals and manufactured equipment. Of this, most was exported. Forty-three percent, much of it produced by US corporations based in Ireland, went to the EU, while 18 percent went to Britain—a reversal of the previous position. Ireland has a substantial balance-of-payments surplus. Exports to the US account for 21 percent of the total, also more than to the UK.

From the first, EC support to Ireland contributed around 2 percent of GDP. This rose to more than 6 percent in 1979 and 1991, and rarely fell below 4 percent between 1976 and 1997. In 2003, Ireland still received more than €1,500 million, 1.4 percent of GDP—which left Ireland receiving the highest level of per-capita support of the entire EU despite a per-capita income now among the EU’s highest.

While 65 percent of the support went directly to farmers, a number of large infrastructure projects—Dublin’s ring road, airport terminal improvements—and educational projects were developed. In 2002, the cash largesse was, according to then-Finance Minister Charlie McCreevy, worth a 4 percent tax cut.

Along with a succession of wage- restricting deals agreed with the trade unions, EU cash also gave successive governments, under both Fianna Fail and Fine Gael, leeway to slash public spending and corporation tax. It is one of the pillars of the “Celtic Tiger” boom that saw Irish growth rates top 10 percent over the late 1990s. Following a collapse after the so-called “dot.com” bubble burst, the annual growth rate has recovered to around 5 percent.

More serious than the threat of reduced subsidies is the fact that Ireland’s economic success relies on access to the European markets and US investment based on this possibility. A string of major IT and chemical corporations—Dell, Intel, Google, Pfizer, Johnson & Johnson and Microsoft—have Irish operations. Any tensions within the EU therefore send shivers through the ruling elite in Dublin.

The government of Fianna Fail leader Bertie Ahern has long been aware that the expansion of the EU into eastern Europe threatened to undermine the basis of the “Celtic Tiger.” Faced with a hugely expanded pool of skilled and very cheap labour, along with new and cruelly impoverished agricultural areas nearer to Europe’s major markets than the distant Atlantic coast, the Irish bourgeoisie has been preparing for a cut in its EU funding, a bitter struggle to retain a competitive edge and the necessary attacks on the working class.

Ireland’s low corporation tax rates are no longer unique

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in Europe. Many of the corporations initially attracted to Ireland, such as the world's largest home PC maker, Dell, are eyeing eastern Europe for future developments.

Ireland abandoned its old currency, the "punt," which was closely tied with sterling, and joined the eurozone. The government has set out to import skilled east European workers as cheap labour, and has heavily promoted the EU's Lisbon agenda devoted to increasing rates of exploitation across Europe. It has sought to use such influence as it has in the EU, London and Washington to mitigate transatlantic tensions.

Particularly following the debacle of Ireland's referendum on the Nice Treaty in 2001, where EU expansion was rejected by 54 percent of Irish voters, the Ahern government has been particularly sensitive to the growing disconnect between the European masses and the EU. A year later, the government held another referendum and this time, after a media campaign costing millions of euros, got the result it wanted.

But in the face of the current crisis in Europe, following the French and Dutch "no" votes on the proposed EU constitution, and the Blair government's political offensive against social welfare across the continent, the Irish government appears powerless. It has been forced to cancel its planned referendum on the EU constitution indefinitely in the midst of a general freeze in the ratification process. Ahern's initial response to the breakdown of the budget talks was to say that the atmosphere was "the worst I have ever seen." It was "very hostile at the end, even bitter," he said, "the kind of meeting I don't like to be at."

Days later, writing in the *Irish Independent*, he was more measured. There was, he opined, "every reason...to remain positive and optimistic about the EU." There should be a period of reflection. But the constitution was the only one on offer, and Ireland's interests were advanced by it. Negotiations have "failed before," and Ahern was confident that a new budget agreement would eventually be made. The "Financial Framework confirms yet again that a small country can fully protect its interests in the Union," he added.

Foreign Minister Dermot Ahern described the breakdown as a "hiccup" before making the forlorn demand that the British EU presidency make no attempts to resolve the budgetary debacle that would likely enflame the situation.

Blair has demanded that much of the spending on the Common Agricultural Policy, which takes up 40 percent of the EU budget, be taken away from farmers and directed to the immediate interests of the large corporations. In response, Ahern demanded that the proposed budget, including the agreed CAP spending up to 2013, should be "fully respected."

He told the press that Blair's presentation of the CAP as "old-fashioned, negative for Europe or an organisation for backwoodsmen...is a dishonest way to present the issue."

Underlying Ahern's stance is the parlous state of Ireland's agriculture and food industry, and the position of his government should the CAP be further cut. Farmers were already anticipating a 10 percent cut in subsidies, but more now seems inevitable.

Immediately after negotiations failed, the Irish Farmers Association (IFA), representing 85,000 farmers, proposed to lead a mass protest across the EU against CAP reform. IFA leader Ruaidhur Deasy threatened to work with "all other EU farming organisations [to] shake the EU to its foundations."

The sugar industry is also a source of concern and indicative of the sort of transformation being sought in the CAP. The European Commission recently agreed to seek massive cuts in the price currently guaranteed to EU-based sugar producers. The cuts followed a World Trade Organisation ruling against subsidies directed towards the industry across Europe. Subsidies will be cut by 39 percent this year and 42 percent in 2006.

In Ireland, this will likely lead to the closure of the last remaining sugar factory, the Greencore-owned operation in Mallow, Country Cork. While Greencore, formerly the Irish Sugar Corporation, is likely to be compensated, the smaller sugar beet farmers and the factory workforce will not receive the same consideration.

Although Dublin has disagreed with London over the CAP, it would be wrong to conclude that the two governments are on divergent paths. Fianna Fail has long championed the tax-cutting pro-business agenda being advanced by Blair. Currently, the EU's internal markets commissioner is Ireland's former finance minister, Charlie McCreevy. The commissioner is setting out to crack open such nationally regulated financial and service industries as remain in the EU, allowing the development of continent-wide banks, insurance and service providers. The Blair government fully supports this type of initiative.

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