



# SEANAD ÉIREANN

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*Déardaoin, 12 Feabhra 2009.*  
*Thursday, 12 February 2009.*

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Chuaigh an Leas-Chathaoirleach i gceannas ar 10.30 a.m.

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*Paidir.*  
*Prayer.*

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## **Business of Seanad.**

**An Leas-Chathaoirleach:** I have received notice from Senator Cecilia Keaveney that, on the motion for the Adjournment of the House today, she proposes to raise the following matter:

The need for the Minister for Communications, Energy and Natural Resources to outline when Project Kelvin, with a tender specification for Derry city, moved to Coleraine, County Derry, contradicting all previous Irish ministerial comment since 2007.

I have also received notice from Senator Eugene Regan of the following matter:

The need for the Minister for Education and Science to outline his proposals for the rebuilding of Newpark comprehensive school, Blackrock, County Dublin including the time-scale for planning, final design and commencement of works.

I have also received notice from Senator Paul Bradford of the following matter:

The need for the Minister for Agriculture, Fisheries and Food to address the crisis faced by Irish dairy farmers as a result of the reduction in milk prices.

I regard the matters raised by the Senators as suitable for discussion on the Adjournment and they will be taken at the conclusion of business.

## **Order of Business.**

**Senator Donie Cassidy:** The Order of Business is No. 1, Electoral (Amendment) Bill 2008 - Committee and Remaining Stages, to be taken at the conclusion of the Order of Business.

**Senator Frances Fitzgerald:** There is an *Alice in Wonderland* quality about what is going on in Government at the moment when we hear the Minister for Finance say that he did not read the PricewaterhouseCoopers report. We have been asking for details of that report in this House for months. It is utterly extraordinary that the Minister said yesterday that he did not read the critical parts of the report and did not read it in full. Neither the Taoiseach nor Ireland's European Commissioner read the Lisbon treaty. I wonder what sort of Government we have if key documents are not being read by our Ministers. What trust can the people have in them? This morning 1,100 workers in north County Dublin got a body blow and we have a Government that did not know that €7 billion was moved between banks even though it was detailed in a report that it got. That amount is the same as will be given to recapitalise the two

[Senator Frances Fitzgerald.]

main banks. I am very concerned that adequate regulation is still not in place. I ask the Leader to convey this concern to the Government.

I heard the Minister's announcement about regulation last night. However, is it adequate? Is it strong enough to have one in four directors? Who will the directors be? In the 1980s we talked about the old boys' network. I am very concerned about the insider network that is operating at the moment. How can we be sure the regulation will be strong enough if we are guaranteeing this amount of money from taxpayers, many of whom are losing their jobs as we speak?

When will we have a debate in the Seanad? A motion will be taken in the Dáil today. We should discuss the current crisis in this House today so that the views of Senators can be reflected. I want it discussed today. I want the Leader to advise whether we will have a detailed discussion on the banks' recapitalisation in this House. I want to know about regulation. Fine Gael does not agree with the Government's approach. If we are guaranteeing this amount of taxpayers' money - the same amount that was moved between banks - how can we guarantee some safety net for the taxpayer? I am not convinced the regulation is adequate at this stage and we must have a debate to tease out the detail in the House today.

**Senator Rónán Mullen:** There is a difference between appropriate outrage and inappropriate outrage. We should feel appropriate outrage when we learn of the kind of transaction that took place in regard to Anglo Irish Bank and Irish Life & Permanent, where what was in fact a loan obtained by Anglo Irish Bank was dressed up dishonestly as a deposit from another bank. This points up the fact that we need something more than just strict regulation. We need a rediscovery of ethics at the heart of our society, a return to traditional ethics and communitarian values and especially within the business community. We need to take a root and branch look at the way business is taught in our colleges and to look at whether ethics and issues of professional integrity form a sufficiently emphasised part of the coursework of students. We cannot look at this as an issue of regulation or indeed an issue of punishment, which I hope will follow in due course. We need to focus on the issues of ethics and integrity.

Inappropriate outrage, however, is exemplified by the response to the lack of awareness of the Minister for Finance of a particular detail at a particular point in time. I disagree that this is fundamental. In the real world of politics, Ministers and Governments have people advising them and the important thing is that at the right time the civil servants made the regulator aware of this transaction and it is not significant that at a particular point in time the Minister was unaware of that particular fact when he was focusing on something more pressing. For us to get hung up on this point illustrates a split mindset where on the one hand we are pretending we are very concerned about the state of the economy and on the other hand we are falling prey to the temptation to play partisan politics. We need to keep a sense of proportion if we are going to act and speak responsibly about economic issues.

I note the very significant fact that the German constitutional court is asking the hard questions about the Lisbon treaty. This points up a number of issues including that there would be a significant transformational effect brought about by the Lisbon treaty, a transformational effect which some will oppose and some will support. What it certainly points up is the need to give emphasis to our Constitution. Just as our German colleagues are unafraid to emphasise the importance of and fundamental rights in the understanding of their constitution, we also should ensure there is constitutional underpinning for any guarantees that are to be sought on social and ethical issues or other matters as per last December's agreement.

No matter how good the guarantees are going to be, the Government will not be trusted when it goes to the people and says that these guarantees are substantial, if people do not see

that these guarantees are rooted in our own Constitution. The Government has been warned; if it is going to make a case it must remember that it will not be trusted because it has not been objective in the past about the positives as well as the negatives relating to our membership of the European Union and various treaties. Because there is that trust deficit, the Government needs to go the extra mile to assure people that the guarantees it appears to have obtained or which have yet to be fully negotiated are rooted in our Constitution and not just operating at the level of European law and subject to interpretation by the European Court of Justice.

**Senator Dominic Hannigan:** The details announced last night about the recapitalisation of the banks go some way to resolving the issue, especially with regard to first-time buyers and small business. However, it is not just enough to ensure banks have capital available to help small business. We need to ensure people have confidence to take out loans and I do not think the measures go far enough in this regard.

I suggest three measures which would help restore confidence in the economy. We need a fresh start in the management of the banks. To restore confidence, the old guard needs to be cleared out and we should start with a year zero. We need to assure people that they will not lose their homes while this recession continues and the conditional moratorium of 12 months does not go far enough. Yesterday, the Master of the High Court warned of an avalanche of repossession cases because of the economic downturn and many people are worried about losing their jobs. This morning we heard the news about the situation in SR Technics. These workers have paid taxes which have gone towards saving the banks. We need to ensure that while they are suffering, they will not lose their homes for as long as this storm rages. I do not think a year is long enough and I wish the Minister would listen to what the Society of St. Vincent de Paul and others are saying and put in a two-year moratorium instead.

I received texts and phone calls up to midnight last night from people questioning what was going on in the Department of Finance. People are completely at a loss to know what the Department is doing. The Department failed to tell its Minister about the loan to Mr. FitzPatrick and now it has failed to alert him to the fact that a loan of €7 billion was transferred from one bank to another. We need to know what is going on because it is not a case that the Department is short-staffed. Every time the Minister comes to this House he is accompanied by a plethora of people and one has to fight to get in as they stretch down to St. Stephen's Green. I do not agree with Senator Mullen because the Minister is responsible with regard to this issue. He was on the radio this morning saying in effect, "*Je ne regrette rien*", that he has worked hard, done his best and it is not his fault". This cuts no mustard with the public. A key way of restoring confidence at this stage has to be the removal of the Minister from his position and his replacement with someone competent enough to do the job.

**Senator Dan Boyle:** It is good and proper that the House should have an opportunity today to discuss the developing situation of the recapitalisation of the banks. I am aware that the Leader is making every effort to arrange for the appropriate Minister to come to the House to respond. If this proves possible, then the House should have such a debate. The last sitting day of the week is always more difficult.

I agree with Senator Mullen that we could concentrate on what was read and what was known and what was acted upon but the salient issue that we as a political system must take account of is that an action has taken place that goes beyond the realms of fraud and is an action that is nothing less than economic treason. The political system needs to be clear in stating that the activities of people who used the cover of a guarantee scheme agreed in both Houses of the Oireachtas fundamentally to cook the books of an organisation to create an impression of stability and profitability is regarded as nothing less than shameful by the entire nation. The people involved need to be brought to account.

[Senator Dan Boyle.]

Those of us in the political system who are trying to oversee this situation, attempting to analyse and define it are not the people who have engaged in these activities but we have to accept that the people who have been involved are the very people we have lionised over the past decade and a half. We as a society must get to grips with their activities, their actions and the effects of what they have been doing to this economy. To do otherwise would be the real failure of politics and the political system. We can argue as much as we like between ourselves, point fingers and score points, but it does not change the essential element that what has gone wrong has caused the undermining of this nation's credibility. The people who should be brought to account are still out there, still enjoying some vestiges of respectability and we as a political system cannot allow that respectability to attach one moment longer.

If this House has the opportunity to debate the issue today, I suggest that this is the message that needs to go out from the Houses of the Oireachtas. We cannot take this type of self-aggrandisement and enrichment any more. The country cannot afford it and the country cannot prosper into the future with the existence of these people and their activities.

**An Leas-Chathaoirleach:** I have allowed some latitude to the leaders of the groups in the House so I ask Members to be as brief as possible in their contributions as many Members are offering.

**Senator Eugene Regan:** It really is embarrassing to be associated with this Government and even those of us in Opposition are tainted. For the avoidance of doubt, Fine Gael does not acquiesce in, endorse or approve of the economic policies of this Government nor of its policy on the banks. We have the proof of why we have adopted this type of position. Senator Mullen talks about ethics in government. It is a question of competence when we see that the Minister for Finance has not read the report on the state of the Irish banks which he commissioned from PricewaterhouseCoopers and in particular the report on Anglo Irish Bank, which he must have known at the time was the bank that was tainting the whole banking system and threatening to bring it down. Can one imagine past Ministers for Finance such as Alan Dukes, John Bruton or Deputy Ruairí Quinn not reading such a report? It is that incompetence which is the kernel of the issue. We know the Minister for Finance, Deputy Brian Lenihan, is not an economist and he has no qualifications in the area of economics. We know he has no experience of or qualifications in commercial or banking life.

**Senator Donie Cassidy:** Is Senator Regan speaking from his own experience?

**An Leas-Chathaoirleach:** Has the Senator a question for the Leader?

**Senator Eugene Regan:** I have. We are not necessarily blaming the Minister for his lack of qualifications and experience for the job. Normally, it would be a prerequisite to have some such qualifications to be Minister for Finance, but he is a lawyer and it is the lawyer's training to read his brief. We now know the Minister did not do that. This is a document of which he should have been a master, digesting it in full, particularly the parts on Anglo Irish Bank. Despite the issues the report threw up, the Minister was still prepared to propose the recapitalisation of Anglo Irish Bank up to December. It was only later in January that he moved to nationalisation.

**An Leas-Chathaoirleach:** Has the Senator a question for the Leader?

**Senator Eugene Regan:** The two issues I want to put to the Leader are regulation and how much is being hidden by the Government concerning Anglo Irish Bank and other banks. Our

international reputation is at stake. The economy depends very much on the Irish Financial Services Centre and asset management funds in Dublin. Will the Leader comment on that?

Until December, despite this report and what we now know is contained in it, all the Minister said about the switching of bank loans and Seán FitzPatrick's loans was that it was disappointing.

**An Leas-Chathaoirleach:** Has the Senator a second question for the Leader?

**Senator Kieran Phelan:** We will be here until dinner time.

**Senator Eugene Regan:** We expected better from the Minister. It is disappointing when the incompetence of the Minister has been shown up in this regard. Will the Leader agree that the Minister for Finance is on borrowed time?

**Senator Terry Leyden:** I agree with Senators Mullen and Boyle about the Minister for Finance, Deputy Brian Lenihan. In all the years I have been in the House, I have never seen a Minister pilloried for telling the truth, which is a rare commodity. The man told the truth yesterday, yet he has been accused of being honest. It is extraordinary.

**Senator Dominic Hannigan:** That is not the case. It is his competence that is being questioned, not his honesty. The Senator should be clear on that.

**Senator Eugene Regan:** It was more a confession.

**An Leas-Chathaoirleach:** Senator Leyden, without interruption.

**Senator Terry Leyden:** The PricewaterhouseCoopers report was sent by the Minister's officials to the Financial Regulator. Those issues were dealt with at that time and it did not affect the decision to nationalise Anglo Irish Bank. It had no bearing on that because the money had been repaid. However, we are taking our eye off the ball as far as Irish Life & Permanent plc is concerned. It put at risk €7 billion of ordinary savers' and investors' money. It was very lucky to get the €7 billion back because it could have been pocketed by Seán FitzPatrick and his team at Anglo Irish Bank. What a gamble it was.

**Senator Fidelma Healy Eames:** What a gamble with the Irish people.

**An Leas-Chathaoirleach:** Senator Leyden, without interruption.

**Senator Terry Leyden:** I appeal to the investors in Irish Life & Permanent plc to demand an extraordinary general meeting of that bank and call for the resignation of the chairperson and the chief executive. Gillian Bowler is a lovely lady who is great in tourism but not great in banking, as far as I can see.

*(Interruptions).*

**An Leas-Chathaoirleach:** The Senator cannot refer to people who are not in the House. Has he a question for the Leader?

**Senator Terry Leyden:** She is not in the House but, by God, she is here in spirit. Her and Seán FitzPatrick and the chief executive——

**An Leas-Chathaoirleach:** Have you a question for the Leader?

**Senator Terry Leyden:** We should have a debate on the banks today. Again, I appeal to the investors in Irish Life & Permanent plc to demand an extraordinary general meeting and remove top management because they have let down the staff of the bank. The staff, decent, honest and hard-working young people, have been betrayed by their chief executive and management. Management knew Anglo Irish was a crooked bank, yet they were prepared to give €7 billion of investors' money for as long as it was required to prop it up. That is terrorism as far as I am concerned and is against the national interest.

**Senator Paul Coghlan:** The exceptional support on the part of Irish Life & Permanent, which artificially boosted the deposit base of Anglo Irish Bank, was, as pointed out by Senator Boyle, under cover of the State guarantee scheme. The jiggery-pokery involved is abhorrent and I with all Members in condemning it. The serious matter about this is that those funds were routed through the investment management arm of Irish Life and pensions.

**Senator Shane Ross:** Yes, they were.

**Senator Paul Coghlan:** Senator Ross is rightly concerned about this and he may raise the same question. What are the Irish Association of Investment Managers or the Pensions Board doing about that? Both organisations have been strangely silent on this serious matter which is of the utmost concern to all Members and citizens, particularly those worried about their pensions.

The other day I asked if all the cowboys were confined to Anglo Irish Bank. Apparently, it is not the case. Much of this activity has been fraudulent. I do not want to blame all the banks. I hope the recapitalisation of Allied Irish Banks and Bank of Ireland works, but I am concerned at what we have recently seen. I am looking for a debate on the recapitalisation programme today. The other House will debate a motion on it later and we look forward to hearing the Leader's arrangements for such a debate.

As for the members of the golden circles in some of the banks, it was as if the normal rules did not apply to them. There were cosy insider arrangements involved and no one understood the concept of conflict of interest.

**An Leas-Chathaoirleach:** Has the Senator a question for the Leader?

**Senator Paul Coghlan:** I have, of course.

*(Interruptions).*

**Senator Eugene Regan:** It will be in his own time.

**Senator Paul Coghlan:** The members of these golden circles had no regard for proper governance. Will the Leader agree that we have reached the stage, sadly, where we need - I hoped we would not need this - a High Court inspector to examine these matters, as was proposed by the Labour Party?

**Senator Larry Butler:** Will the Leader ask the Minister for Health and Children to intervene in the closing of the welfare home, Bethany House in Carlow? A delegation from Carlow visited the House yesterday. I believe that home should not be closed.

**Senator David Norris:** Good.

**Senator Larry Butler:** It is being closed by the Health Service Executive because there has been little or no maintenance to this fine, well-run home. The residents are being moved to

different homes around County Carlow, which does not suit them, and at great expense of €800 or €900 per bed. Bethany House is not the first of its kind to be closed. The Orchard nursing home in Bray, County Wicklow, was recently closed. The Health Service Executive is transferring its responsibilities to other homes. It is causing great inconvenience to the residents of these homes. Bethany House is situated in the centre of Carlow town, which allows the residents to go for walks and it is a convenient facility. Will the Leader ask the Minister to attend the House to debate this issue?

Legislation relating to the banks should be put forward in this House. We have at our disposal people with the expertise to draft such legislation, which is badly needed. We should introduce legislation that will ensure proper governance obtains in the banking organisations in this country. It is time for a complete review of the position. In addition, we should ensure those who are at the helm of these institutions are placed on a short leash. New management should be brought in to ensure we have a proper banking system.

I welcome the recapitalisation of the two main banks, which has a number of positive aspects. Everyone in the House called for this to happen.

**An Leas-Chathaoirleach:** Those matters can be raised in the relevant debate.

**Senator Larry Butler:** Among the positive aspects to which I refer is the reduction in salaries and so forth. However, the most positive development is that we have ensured people who are under pressure when it comes to repaying their mortgages, etc. will now be able to avail of a rest period.

**An Leas-Chathaoirleach:** Does the Senator have a question for the Leader?

**Senator Larry Butler:** When the 12-month rest period for mortgage holders ends, local authorities should become involved to ensure that people are not evicted from their homes. Perhaps the local authorities could assume responsibility for making mortgage repayments, if necessary. The Minister for the Environment, Heritage and Local Government should be asked to examine this matter because all that people are being provided with is some breathing space. I welcome the fact that there will be an increase in the level of mortgage provision and in the loans available to small and medium-sized businesses.

**Senator Shane Ross:** I wish to endorse what previous speakers stated with regard to Irish Life & Permanent being put in the frame in respect of this matter. My understanding of this matter, which is based only on press reports, is that if the transaction in question took the extraordinarily circuitous route outlined - which was utterly deceitful - it was not actually Irish Life & Permanent's funds which were involved. Irish Life Investment Managers, ILIM, manages the funds of small investors. What happened in this instance was that €7 billion of such investors' funds were put at risk when they were transferred to Anglo Irish Bank, which was not under guarantee at the time of the transaction. The situation is much more serious than people realise because this was not an ordinary transaction.

The recapitalisation of the two main banks confirms some of our worst fears because it represents a bloodless victory for the banks. One need not engage in any great examination of this matter in order to know who won this battle. The recapitalisation is something of a *coup d'état* and the banks have pulled off an incredible stroke at the expense of the Government. If one considers any of the issues involved, it is obvious the banks got what they wanted in respect of them.

**Senator Fidelma Healy Eames:** Hear, hear.



**Senator Shane Ross:** It is extraordinarily difficult to understand how or why this happened. The two main banks had no cards with which to play but they have emerged victorious. They will be given €7 billion and all they have been asked to do is provide some form of financing for small businesses. Apparently they will increase the amounts they were previously giving to such businesses by 10%. They were not providing anything previously so they will not encounter major difficulties in that regard. The position is the same in respect of mortgages. Apparently they are going to increase the extremely low level of provision to first-time buyers by approximately 30%. The two main banks were not lending much money to people in the form of mortgages. These are not concessions. What is involved here is mere window dressing.

There are two other extraordinary aspects to this matter. On radio this morning the Minister for Finance stated that people should not be concerned about the guys at the top in the two main banks because they must go before their institutions' annual general meetings and be voted back in. Some of these individuals go before their AGMs every year and are voted in. When one is a member of a bank board, it is the easiest thing in the world to have oneself voted back in. The banks are self-invested and those involved vote for themselves. The second largest shareholder in Bank of Ireland is the bank itself. Will those involved with the bank vote against the directors being returned to their jobs?

**An Leas-Chathaoirleach:** The Senator should put a question to the Leader.

**Senator Shane Ross:** Yes, I must think of one.

**Senator Paul Coghlan:** Good on the Senator.

**Senator Frances Fitzgerald:** There are too many which might be asked.

*(Interruptions).*

**Senator Shane Ross:** I wish to ask the Leader for a specific debate on this matter. There is a cartel in operation whereby those involved with the banks go to their AGMs and vote for each other. I regret to say that we will not be pacified by the fig leaves being offered by the Minister for Finance.

I agree with what Senator Leyden said yesterday and today. Directors offering to take tiny drops in salary is farcical. Mr. Sheehy, who apparently continues to enjoy the confidence of the Minister for Finance - God knows why - is going to take a salary reduction of 33%. If that is correct, he will only earn €1.5 million next year. The man who landed us in this appalling situation is going to receive €1.5 million and the remaining members of his bank's board will remain in place. The chairman of Bank of Ireland, Mr. Burrows, who earns in excess of €500,000, will remain in place next year. It cannot be stated that this represents a change in Irish banking because it is merely more of the same. It is time a fundamental change occurred. What is being done is window dressing and it is totally unacceptable.

**Senator Mark Daly:** I agree with Senators Mullen, Boyle and Leyden and in part with Senator Ross about Irish Life & Permanent which has engaged in high treason of an economic nature in recent years. I must declare an interest because my firm operated as an agency for Irish Life & Permanent which closed 50 such agencies in recent weeks. It did so because it was much cheaper to obtain money through interbank loans than it was to go out and work for it and give value for money to people who invested perhaps a few hundred or a few thousand euro in those agencies. Many jobs were lost as a result of this development. However, those who committed high economic treason are being rewarded. I hope, as does Senator Mullen, that these people will get their just rewards.

Last week the Taoiseach announced a reduction in professional fees that will yield a saving of €80 million over the course of one year. We pay more than €1 billion in such fees and I have often wondered if we obtain value for money in return. In a curious case of which I am aware, a local authority in County Kerry decided to engage the same professionals who got the figures wrong on the first occasion and asked them to correct their error. I refer to a firm that was asked to source water for a new supply to be provided to the town of Kenmare in which I live. A local community organisation managed to get the figures right and stated that the original figures were cockeyed. The council then decided that the firm of professionals should re-examine its figures. I suspect that the next batch of figures it provides will still be wrong. If we are doing so badly by engaging poor professionals at local level, I am sure the €1 billion allocated each year in respect of professional fees is not being well spent. Perhaps the Leader will ask the Minister for the Environment, Heritage and Local Government to investigate the curious case of how an organisation which got matters so wrong in the first instance was asked to correct its own mistakes. I hope the firm in question does not request that it be paid for both sets of work.

**Senator Michael McCarthy:** In light of the manner in which they have operated, the banks have literally brought the economy and the country to their knees. Is the Leader of the opinion that it is fair that the former chief executive of the Financial Regulator should have obtained the severance package with which he was provided when he left his position? It is clear that questions remain to be asked about the way this individual did his job. Does it make sense or is it fair that in the week when we expect lower paid public servants such as teachers, gardaí and nurses to pay a pension levy, when 139 special needs teachers are being removed from the education system, thereby depriving the children who need them of their services, and when so much is happening in the political arena and elsewhere, the former chief executive of the Financial Regulator should receive such a severance package? Is the granting of this package justifiable? Does the individual in question deserve a retirement package as handsome as that which he has received? Does this man deserve a pension of €2,500 per week?

**Senator Labhrás Ó Murchú:** As is the case with the various matters discussed in the House, all things are relative. At present, two young children under the age of 12 months are incarcerated in Irish prisons. Ten such children have been held in our prisons in recent times because their mothers gave birth while incarcerated. On the other hand, we have witnessed shenanigans involving the transfer of deposits of billions of euro to Anglo Irish Bank. The issue is not only the sums involved but also the damage done to Ireland's international good standing, the losses incurred by investors and the jobs which have been lost as a result. In comparison, the transgressions of the mothers of the small children who are in jail are infinitesimally small. What kind of a society is able to punish misfortunate women and their children but is unable to punish the big boys, so to speak, who have brought the country to its current position?

I salute Senator Mullen on the ground that it is vital to have balance in this debate. I have endeavoured on every occasion on which I spoke on this issue on the Order of Business to avoid party politics because party political debate will not help. Too often, we take our eye off the ball and focus on the man. By highlighting and making the central issue the Minister for Finance's comments in the Dáil yesterday, the day on which details of the proposed recapitalisation of the banks were to be announced, we made the Minister's role the main story. By doing so, will we ensure that those who created the current problem get off the hook again?

Senator Fitzgerald is correct to highlight the loss of another 1,100 jobs. It is terrible to listen to the news each morning. Let us imagine how the families of each of the 1,100 employees in question must feel. Those working in Dell, Waterford Crystal and the many small businesses which are closing are in the same position.

**An Leas-Chathaoirleach:** Does the Senator have a question for the Leader?

**Senator Labhrás Ó Murchú:** Notwithstanding the mistakes that have been made, I appeal to everyone to unite for the good of the country. Senators will expect me to say this but I genuinely believe the Minister for Finance is a decent, honest, capable and competent man. Good will come out of his most recent decision.

Senator Ross's view that the banks have been the victors may be correct. The banks have always been able to thumb their noses at the State.

**Senator Shane Ross:** Hear, hear.

**Senator Labhrás Ó Murchú:** As the fuel in the economic engine, they did not recognise the driver - the State - or the passengers on board. Once the State is inside the door, it will be possible to hold the banks accountable in future. Let us all work together to that end.

**Senator Feargal Quinn:** Senator Coghlan referred to the strange silence of the pension and investment communities about the most recent affair and the insider trading which took place last year. The House will debate the Electoral (Amendment) Bill 2008 today. I am concerned that we are being strangely silent at the time we should be debating the issue at the forefront of all our minds. If we fail to make the House more relevant, we will deservedly be criticised and confidence in us will decline.

Senator Mullen referred to ethics. The international community had, until today, lost confidence in our efficiency and was asking what type of regulators and banking community were in place in Ireland. Today, however, it is questioning our ethics. We talk about being strangely silent but the investment community backed up insider trading last year and did not utter a word of criticism until we did something about it.

All those who entered politics to help the country must do something. The reputation of this House will be seriously tarnished if we do not debate financial issues and the proposed recapitalisation. We must do so today because failure to discuss these issues will create greater problems.

I do not believe that people in the Netherlands and France voted on the text of the proposed constitution for Europe. They chose instead to give their respective governments a bloody nose because they did not have confidence in them. There is a serious danger that Ireland will be sidelined in Europe or forced to leave the European Union if we vote "No" again. This outcome could emerge, albeit for all the wrong reasons. The House should debate the issue on everybody's mind today.

Yesterday, the Association of Graduate Recruiters in the United Kingdom spoke of encouraging graduates to search for jobs and, where necessary, start at the bottom or do voluntary work. Too many people here are asking undergraduates and graduates to consider emigration arguing that Ireland does not have a future. This country has a strong future but it is in our own hands. I urge those who are studying, those hoping to graduate this year and recent graduates——

**An Leas-Chathaoirleach:** The Senator must put a question to the Leader.

**Senator Feargal Quinn:** Will the Leader ask the Minister for Enterprise, Trade and Employment to indicate to those citizens upon whom we will depend in future not to expect to start at the top? In my experience, graduates too often seek to start jobs at the top and are unwilling to start at the bottom. Let us encourage them to start at the bottom, even by doing voluntary

work, where they will not be paid as highly as they may expect. They need to prove to themselves that Ireland can repeat its past success.

**Senator Ivor Callely:** I concur with Senator Quinn's remarks on the future of the country. While we should not underestimate the challenges we face, equally it is important not to overstate the difficulties we are experiencing. Most important, we should be positive about our future. People are able to consider what we achieved, how we achieved it and how we can travel that road again. To do so, we will need unity of purpose, firmness of resolve and a belief in our ability to succeed. We must send out this message clearly.

I welcome the €7 billion recapitalisation of Allied Irish Banks and Bank of Ireland to assist the stability of our financial institutions, instil confidence in both banks and facilitate them in lending and providing facilities for customers. This is an important and welcome initiative. We should also welcome the structure of the recapitalisation programme, including the stipulation that where a customer experiences difficulties, the banks will give the customer reasonable time to seek to agree an approach to resolve problems and provide appropriate advice. This is an important development as this approach has been absent. The issue of credit availability is another extremely important issue which should be welcomed.

I have every confidence in the Minister for Finance, Deputy Brian Lenihan, who has done a great job to date. We should be conscious of the major sensitivities associated with the reports available to the Minister.

**An Leas-Chathaoirleach:** The Senator must ask the Leader a question.

**Senator Ivor Callely:** No one would give the Minister credit for divulging sensitive and commercial information about banking activity.

**Senator Fidelma Healy Eames:** The Minister did not know about the activity.

**Senator Ivor Callely:** He did know about it.

**Senator Fidelma Healy Eames:** He did not read the report.

**Senator Ivor Callely:** This type of innuendo is not good for any of us. We need unity of purpose and firmness of resolve. We cannot come out with cheap lines.

**An Leas-Chathaoirleach:** Does the Senator have a question for the Leader?

**Senator Ivor Callely:** The report was fully read and understood, and the appropriate action was taken. That is the reason recapitalisation of the banks is taking place.

**Senator Paschal Donohoe:** Earlier in the week in the United States, the director of the FBI appeared before the House banking committee and gave testimony to the effect that his organisation would investigate the misselling of financial services and products. Why can we not take the same approach given that we are talking about financial activities which have placed our economic interests at grave risk?

I wish to respond to some of the points colleagues on the Government side of the House made about the banks. They rightly talked about treachery, treason and so on. There was an opportunity in the agreement with the banks to take action. I encourage any Member who has not read the agreement to do so and to ask why it took so long to produce it. It is available in at least one newspaper this morning. If we are talking about treachery and the damage done to our economic interests, why were issues of competence and ethics, which are at the heart of what we are dealing with, not dealt with last night? We deserve an answer to that question.

[Senator Paschal Donohoe.]

I support Senator Rónán Mullen's call to begin an early and open discussion on the Lisbon referendum. Many sensitive and important discussions are taking place in the dark which should be brought out into the open so that we can ensure we are anchored in the heart of Europe.

Senator Ivor Callely made an appropriate point on hope for the future. I have no doubt we can get through all of this. The mistake we made during the boom was that we believed it would never end. The mistake we must not make during the so-called bust is to forget that it also will end. However, the secret to doing that will be to ensure the kind of questions my colleagues and I raised this morning are answered.

**Senator Ann Ormonde:** I listened to all the points raised this morning. I welcome the recapitalisation of the banks and echo the points made by Senator Rónán Mullen. Now that recapitalisation will take place, let us have a root and branch review of the banks. That is what ordinary people want. We want to restore integrity in the banks. Nobody is denying integrity has not been lost. There has been bad ethics and bad behaviour.

The reputation of the top executives has been damaged and no amount of money can restore it. Their reputation is ruined in the eyes of the people and the international community. I would hate to be in their position. I would rather a cup in the corner of the table and have my reputation than all the money they received because it is no good to them. The best thing they can do is to walk away. Let us have a clean sweep to restore confidence in the banks. The ordinary people want to start again and to get our banks up and running. The banks must help our society. Until the top layer has gone, confidence will not be restored.

I echo the points made by Senator Labhrás Ó Murchú that we need to work together and stop this nit-picking and character assassination. We must try to work to rebuild our country and give hope instead of pulling people down with character assassination. Let us have another discussion on the banks so we can try to tell the public that we will do what we can to restore confidence in banks.

**Senator David Norris:** Once again the entire Order of Business is consumed with our financial woes, and that is highly appropriate. As far as I can see, it is not being done on the Order of Business anywhere else. That shows the significance of this opportunity to discuss these matters and to be relevant. This is not a drip, drip situation but a splash, splash one. We are being inundated with bad news.

The Minister for Finance is a decent, highly intelligent man who has a huge and unenviable responsibility. Clearly, he is working around the clock and has behaved with considerable dignity under enormous pressure. However, there are questions. I am not mathematically gifted or an accountant but I can see that €7 billion was passed covertly between two banking institutions to mask a problem and deceive the shareholders. That was at a time when that investment, if one wants to call it that, was not covered because the guarantee scheme had not come into place.

We were told the Minister did not read fully the brief, which is unusual, especially for a barrister. It is was left to his officials who passed it to the Financial Regulator. There is a broken reed if ever there was one. Passing it to that busted flush would not guarantee any confidence but, in any case, they did so and the Minister was not told.

We were told this was a routine matter and that issues were raised with the regulator almost daily but not issues such as €7 billion. Senator Rónán Mullen appeared to represent this as insignificant. It is only insignificant in the sense that it is off the radar as far as most people are concerned. I cannot imagine what €7 billion is.

Due diligence——

**An Leas-Chathaoirleach:** Do you have a question for the Leader?

**Senator David Norris:** Yes, can we have this debate and raise these specific points either in the debate or with the Minister?

Due diligence is being performed after the investment is being made. Talk about buying a pig in a poke. That is almost looking around to see if there is a poke with a pig in it in which we can invest. I do not have great confidence.

If I was to choose a Minister for Finance at this stage from the talent pool in the Dáil, it would unhesitatingly be Deputy Richard Bruton because he has addressed the situation honestly. He has told it as it is, looked at the stark facts and has come up with a solution.

One thing I find really sickening is that we have been told this was in light of the facts known at that time. Why can we not get all the facts out in the open? The banks should be told in an uncompromising fashion that it is cards on the table time.

Yesterday, we managed to pass a motion unanimously at the Oireachtas Joint Committee on Foreign Affairs supporting the Government in its initiatives to establish an investigation into possible war crimes during the Gaza offensive. Will the Leader arrange even a half hour debate to pass this motion? We do not even need a Minister present. I understand the motion will also be tabled in the Dáil.

**Senator Lisa McDonald:** I fully acknowledge the sense of frustration in regard to the cancerous issue of the banks. The Opposition is going up a blind alley calling for the head of the Minister for Finance. Heads should roll. I have my ear to the ground and I speak to people as much as anybody else in this House. The public want banking heads to roll.

I have listened to the debates on the Order of Business over recent days and people want to bring in inspectors, the serious fraud squad, internal and external auditors, the Pensions Board and IFSRA, none of which has any teeth. There is a body with powers of arrest, namely, the Office of the Director of Corporate Enforcement. Since the enactment of the Company Law Enforcement Act, we do not need to appoint a High Court inspector. What is this body doing? It has five solicitors, three accountants and detectives. It has powers of arrest but it is doing nothing. How many searches and arrests has it made? How many interviews has it carried out? It has the teeth to investigate this because part of its mission is compliance with company law. This is a clear breach of company law in that it is the worst possible case of false accounting. However, all this body is interested in is management companies, lights in apartment blocks, etc. and getting convictions in that regard.

**An Leas-Chathaoirleach:** Do you have a question for the Leader?

**Senator Lisa McDonald:** Yes. It has the teeth but it appears another part of its anatomy is missing. Will the Leader find out why for me and the public?

Senator Paschal Donohoe mentioned the FBI. The best organisation in this country for enforcement and compliance is the Criminal Assets Bureau. It is the organisation that can deal with such issues. All these little people have failed the State, including the Office of the Director of Corporate Enforcement. I want to see all these agencies abolished and brought under the umbrella of CAB, which should do the work so at least the Irish people know what is happening.

If we do this as a nation, we are effectively saying we have recapitalised our banks, dealt with many of the issues and know about the disgusting behaviour that has been going on in

[Senator Lisa McDonald.]

the banks regarding the finances of the people of Ireland. I do not consider those with pension investments in Irish Life & Permanent are small people. The small people in all this are the directors of the bank because they are the ones who have not stood up and been counted and they are still hiding away.

I want a debate on regulation. Do we need to go back to the 1930s and the commission of Mr. Joseph Kennedy or would CAB suffice? We need to shut down the Office of the Director of Corporate Enforcement, revamp it or let it use the liathróidí it has.

**An Leas-Chathaoirleach:** Senator Healy Eames has 30 seconds and will be the last speaker.

**Senator Fidelma Healy Eames:** I thank the Leas-Chathaoirleach for giving me some time. The debate must take place today and it should be on what will constitute good recapitalisation, with proper terms and conditions. International best practice says when there is gross malpractice, professional misconduct and, quite likely, fraud such as we have seen in the banking system, we should clear out all the boards and start afresh. My question for the Leader is why is the Minister for Finance, Deputy Brian Lenihan, pussyfooting around with the banks. What is he afraid of? Why is he so tentative? Why is he saying there should be only a quarter of new appointments? As Senator McDonald said a few minute ago, it is all wrong. We have seen gross malpractice. What is going on?

**An Leas-Chathaoirleach:** Does the Senator have a question for the Leader?

**Senator Fidelma Healy Eames:** Yes. My question is why is the Minister signing off on what could be another bum deal? We are on his side and want to get the right decision. I disagree with previous speakers, in particular Senator Mullen. We need to have great belief that our Ministers will read reports and their officials will inform them of important information. We do not have that belief now. The Taoiseach, Deputy Brian Cowen, did not read the reports—

**An Leas-Chathaoirleach:** Has the Senator a question for the Leader.

**Senator Fidelma Healy Eames:** —former Deputy Charlie McCreevy did not read them, the Minister of State, Deputy Barry Andrews, did not read the report on child abuse—

**An Leas-Chathaoirleach:** Has the Senator a question for the Leader?

**Senator Fidelma Healy Eames:** —and now the Minister for Finance, Deputy Brian Lenihan, did not read the report. We need to move forward with confidence.

**An Leas-Chathaoirleach:** Has the Senator a question for the Leader?

**Senator Fidelma Healy Eames:** I have stated that we need a debate on proper recapitalisation so we will not be let down again. We have come into this House for the third time to discuss this issue. We have had State guarantees, the nationalisation of Anglo Irish Bank and now recapitalisation, but we may be back here again unless we get it right this time. My concern is that the Minister, Deputy Brian Lenihan, is too tentative.

**An Leas-Chathaoirleach:** The Senator is out of time.

**Senator Fidelma Healy Eames:** He is too afraid. There must be something he is not telling us again.

**An Leas-Chathaoirleach:** I ask Senator Healy Eames to resume her seat. I am sorry I was unable to facilitate Senators Walsh, White, Bradford, McFadden and Bacik. I call the Leader of the House.

**Senator David Norris:** We should consider extending the Order of Business. It is the only relevant point in the entire day and we are mad not to do it, particularly in these times. The Electoral (Amendment) Bill 2008 is rubbish.

**Senator Donie Cassidy:** I propose an amendment on the Order of Business, "That statements on the planned recapitalisation of Allied Irish Banks and Bank of Ireland be taken between 12.30 p.m. and 2.30 p.m., with spokespersons having 12 minutes, all other Senators seven minutes, and Senators may share time, and the Minister to be called upon ten minutes from the conclusion of the debate for concluding comments." I thank the leaders of the groups for their understanding. I was trying to get the Ministers available for it to take place and I could not order it at the start of the Order of Business.

Senators Fitzgerald, Mullen, Hannigan, Boyle, Regan, Glynn, Coghlan, Butler, Ross, Daly, McCarthy, Ó Murchú, Quinn, Callely, Donohoe, Ormonde, Norris and Healy Eames expressed their views on the recapitalisation of the banks, which we all now know took place following the Government meeting yesterday. It is to be welcomed because everything that has been done since last September has been done with one thing in mind. The Government and the Oireachtas are trying to do the best they can for the economy and to sustain or maintain the economy at the best possible level.

When one sees reports on television about America, Australia, UK and other much stronger nations than Ireland it brings home the serious downturn in the global economy. Everything that can possibly be done is being done to bolster the economy for the banks to be able to play their part. I welcome the commitment this morning for 10% extra funding to go into mortgages for first-time buyers of new homes. I welcome Ulster Bank's announcement yesterday on its new mortgage package, which guarantees for five years the price at which the house is purchased, less 15%, which I understand contractors and builders will underwrite. All these things are being done at a time when there is an unprecedented downturn in the global economy.

The Government made the correct decision in guaranteeing all the deposits and this House had to sit all night to pass the Bill. The Government made the correct decision to capitalise the banks, although €7 billion may not be enough. Those in the country who know much more about it say it will be the start of possible future investments which may have to be made. All these things have been made right and done right.

If there is something that needs to be done, the regulations on enforcement and the power of the regulator must be strengthened, and this must be done within the next two weeks. Perhaps we should look at the United States and the standards and types of enforcement necessary. If enforcement and regulations are in place, all good people working under the laws and regulations will abide by them. If anything is wrong at present it is that the regulations on enforcement are not strong enough and the Oireachtas should make this a priority. The Minister for Finance, Deputy Brian Lenihan, said on air this morning that this must be looked at and I know he is doing so as a matter of urgency.

Of course this side of the House has confidence in the Minister for Finance. He is an incredibly intelligent, hard working, decent man. The man or woman who has never made a mistake has never achieved anything. At least he did the honourable thing, as was said in the House, and said he did not read page 129. It is difficult to accept, but it is reality and the man has been honest and decent to tell the nation this was the case. The Minister was in the House on



[Senator Donie Cassidy.]

many occasions, often at very short notice, to update us on his portfolio. We look forward to working with him for very many years to come.

Regarding the concerns of Senators Hannigan and Butler about the one-year agreement with the banks on the repossession of homes of those who are not paying their mortgages, in most cases probably because of unemployment, their views can be expressed with the Minister present later today.

It is terrible to see the workers losing jobs from Waterford Crystal, Dell, as Senator Ó Murchú mentioned, and now SR Technics, where 1,100 jobs are being lost. I remember when there was a recession in the 1980s and former Taoiseach Charles Haughey took a personal interest to ensure this particular project was set up because it would give hope to the people of the north inner city and, in particular, north county Dublin, as well as Meath, Louth and the surrounding counties. It must be said loudly and clearly that competitiveness is our greatest challenge for the future. At that time the cost of living, including labour costs, were pretty low. Over the past 20 years, however, everything has changed considerably. According to the cost graphs, we have a long way to go, probably involving a 20% reduction in wages and goods, to maintain the same competitiveness as when we had the edge 20 years ago. I wish the workers well in their deliberations today. I hope the unions, employers and Government agencies, as well as the Tánaiste and Minister for Enterprise, Trade and Employment who is taking an active part in this, will try to find a solution because this is the high-tech end of industry. Passenger numbers are increasing and Dublin Airport is ideally situated in Europe to provide services. At present, 70% of the workforce is employed in service industries. This is one area in which we should be trying to hold contracts or even increase them. I understand the contracts were lost on price, not on work quality or staff efficiency, which are excellent. We will certainly have to examine competitiveness seriously as well as debating it in the House as often as we are requested to do so.

Senator Butler referred to the HSE and Bethany House in Carlow. I will convey his concerns to the Minister for Health and Children after the Order of Business. Senator Daly mentioned the reduction in professional fees, as well as figures in the Estimates for his native Kerry. I can certainly pass on his views to the Minister. I will also assist him in any way he wishes as regards having a debate on these matters, including the examples he has highlighted.

Senator Ó Murchú cited the example of two children who were born in jail because their mothers were imprisoned. That brings home the stark reality of both sides of life that were discussed on the Order of Business this morning. We must take those serious concerns into consideration and I will pass the Senator's remarks on to the Minister.

Senator Quinn referred to jobs and the necessity of keeping our young people at home in Ireland. The greatest education any young person can get when starting out in life is to begin at the bottom. Then, and only then, can one appreciate the good fortune, opportunity, success and progress one makes in life. The fear of ever going back is a driving force in this regard. People may say they are only working 40 hours a week, but others have to work 80, 90 or 100 hours a week. We know that if we do not do it, we may not have the privilege of sitting in the Oireachtas to represent our constituents. We must therefore put in the hours and it does not really matter at the end of the day. One always hopes that one can stay and not go back to where one started from.

Senator Norris referred to yesterday's sitting of the Joint Committee on Foreign Affairs and the issue of war crimes. I will leave time aside for statements on this matter.

**An Leas-Chathaoirleach:** The Leader moved an amendment to the Order of Business: “That statements on the planned recapitalisation of Allied Irish Banks and Bank of Ireland be taken between 12.30 p.m. and 2.30 p.m.”. Is that agreed? Agreed.

Order of Business, as amended, agreed to.

#### **Electoral (Amendment) Bill 2008: Committee Stage.**

Sections 1 to 3, inclusive, agreed to.

#### SECTION 4.

Question proposed: “That section 4 stand part of the Bill.”

**Senator John Ellis:** I wish to comment on the way in which the electoral commission prepared its report for the Minister.

**Acting Chairman (Senator Cecilia Keaveney):** Is the Senator speaking on section 4?

**Senator John Ellis:** Section 4 is probably the most relevant one because it also deals with electoral divisions. On Second Stage, I raised with the Minister the question of how the commission had gone about its business. Its terms of reference stated that it should examine county and geographical boundaries, and all other considerations. It had the right to work with between 166 and 168 Members of the Dáil. On the last occasion we debated this legislation, the Minister confirmed the commission took a decision, before doing anything else, to confirm that Dáil membership would remain at 166. If that is the case, the commission broke with its terms of reference as given to it by the Department and by the previous Minister, Deputy Dick Roche. Can the Minister confirm that he sought the advice of the Attorney General on whether proper procedures had been followed? Having taken separate legal advice, my understanding is that if the entire process did not include the consideration of up to 168 Members of the Dáil, the commission did not act within the terms of reference given to it by the previous Minister. Can the Minister confirm whether this is the position?

I also note from the Minister’s statement on Second Stage that the first decision taken by the electoral commission was that there would only be 166 Members of the Dáil. I am querying that because we have no way of knowing if that was the case. Under the Freedom of Information Act, I sought papers on the discussions, but that request was refused on the basis the commission became extinct having prepared its report. In any fair-minded system, we should be entitled to use freedom of information legislation to obtain such data. For example, information on Members’ or Ministers’ expenses would be readily available under freedom of information legislation.

I am contesting this because the Minister already made it clear to the House and confirmed it. One of the main features of the electoral commission’s 2007 report on Dáil constituencies is that there be no change in the existing level of Dáil membership - that is to say 166. If that decision was taken first, prior to the others being assessed, as stated by the Minister, the commission’s report is inaccurate. If it was not so, we need to see the relevant papers to justify that this was the position and that every consideration was given. The Minister has confirmed this, but I am not blaming him because he is acting on the information he was given. If that is the case, this section - as the relevant section on constituency boundaries for Dáil elections - is irrelevant. It will have to be revisited by a new commission. Perhaps the Minister might be able to confirm that point. He may not be able to confirm it because if the documentation that was used for the process has been destroyed or is unavailable under an freedom of information request, I presume it is not available to the Minister.

**Senator Paul Bradford:** I welcome the Minister and welcome the contribution made by Senator Ellis. Our argument is not about whether 164, 165 or 166 Members of the Dáil is the appropriate number, but about the procedure followed to arrive at the number. It is disappointing that despite freedom of information and various mechanisms which allow Members of the Oireachtas and the public inquire into the thinking and political decisions of Departments on major public policy issues, we cannot get similar information with regard to the work that led to this legislation.

I trust that during the course of the morning we will get into greater detail on our views on the make up of certain constituencies. Senator Ellis, through his work and efforts to obtain documentation, has highlighted the need for greater clarity on the thinking and policy decisions which have brought us to this legislation. It is important now that we ascertain from the Minister as far as possible the starting point for the Department. Was it the number of Deputies to be returned? Was it the effort to bring a proper regional or geographical base to constituencies? Was it to maintain particular boundaries, county, provincial or otherwise? We would like to know what starting point of political thinking led to this legislation. Was it a set number of Dáil seats or was that the result of the procedure?

I am interested in hearing an explanation as to why the documentation sought by Senator Ellis, and perhaps others, was not available or is not available. Why has it disappeared? I thought the era of shredding documentation was gone. Why are we unable to obtain greater clarity as to the decision making process which has resulted in this set of proposals?

**Senator Paschal Donohoe:** I support the requests of my colleagues for greater clarity as to the reason for this decision. This would benefit everybody looking to participate in politics and to understand how decisions of such importance are made. At this time, it is inconceivable that we would recommend an increase in the number of Deputies or Senators. Given the challenges and difficulties the country faces currently, the challenge is how to make what we have currently work better. While there is a need to understand how these decisions are made, I am glad I have not proposed an amendment seeking an increase in the number of Dáil Deputies.

**Minister for the Environment, Heritage and Local Government (Deputy John Gormley):** The discussion has been interesting, but it does not relate to any particular amendment. I appreciate the contributions that have been made and the concerns expressed. I am aware Senator Ellis is concerned with regard to his constituency and that is understandable. Other constituencies are equally affected by the deliberations of this particular commission. Deputies and Senators in the Green Party have also been affected by the decisions made by the commission.

I will start by correcting some misconceptions. I never stated the decision on the number of Deputies was the first decision. Various decisions were made, but I was not privy to them. I am in the same position as any Deputy or Senator in these Houses. If I could influence the way the commission thinks, that would be marvellous. It would give me as an individual a huge amount of power. In the past, we have seen the difficulties where Ministers could intervene in some way. Unfortunately, the consequences of such interventions were negative. It is for that reason we have an independent commission to adjudicate on these sensitive issues.

The commission could of course have decided to move to a higher number of Deputies, but it did not. It made its decisions and there was widespread disquiet on a number of the issues from people in all parties, including Ministers. Some Ministers have spoken to me about the issues, but I do not have any information about the process or substance of the deliberations.

Senator Bradford asked what was the starting point for the deliberations. The starting point was the terms of reference and these were made available to the public. I have experience with

regard to terms of reference. For example, the commission working on the terms for the local elections was asked to ensure villages remained intact. However, I know, because it affects my area, that a line was drawn through villages. This had negative consequences for me. People asked, as I am the Minister, if I could reverse those decisions, but I would not do that. I cannot interfere. Every commission report has been accepted by previous Ministers and it would set a very poor precedent if I was to tell the commission to go back to the drawing board because I did not like the result.

I know that is not the sort of answer Senator Ellis wants to hear, but I appreciate his concerns. I remind him that I have started the process of setting up an electoral commission and we have published a very interesting document which I urge all Members to read. One of the ideas in that document is that we set boundaries to which no changes will be made. What will be changed instead will be the number of Deputies representing the area. This seems to me an eminently sensible way to proceed. I hope Members will have an input into that and support this recommendation.

**Senator Donie Cassidy:** Is that recommendation on the boundaries available to the public and does it protect county boundaries?

**Senator John Ellis:** I appreciate the Minister's problem. I suppose not many of us appreciate that some of our colleagues have had their areas cut in two. We all accept this happens. My gripe with the commission concerns its report. The commission was given terms of reference that stated that county boundaries should, where possible, be sacrosanct. However, it broke the county boundaries in many places and made many unwarranted changes to constituencies throughout the country.

For example, my county was divided in two and has been further divided recently. This ensures that no party can elect a candidate in Leitrim because some 15,000 of the population of Leitrim are lumped in with Roscommon and 15,000 in with Sligo. The commission could have made far simpler changes. The figures would fall exactly in place if Leitrim and Cavan were combined as a four-seater constituency. Perhaps the Minister would agree with me on another thing that could have been done, but the terms of reference did not allow it. The figures for Sligo, Leitrim and Roscommon fall exactly on the button for a six-seater constituency. We probably should have put that suggestion to the Minister earlier before the Bill came to the House, but if it was done it would mean changing the terms of reference.

The big gripe for everybody is the breaking up of counties, for example Senator Cassidy's county. North Westmeath has been put into Meath West. A portion of east Meath has been put into the constituency of Louth. To me, it is totally ridiculous to have parts of three different counties in one constituency and shows the commission did not live within its terms of reference. West Limerick has been put into the constituency of Kerry North despite the fact that County Kerry on its own justified being a five-seat constituency.

I do not know what way to describe the commission. It is a good job we have privilege or we could be taken to task. To put it mildly, the commission was negligent in doing this. It took 5,000 people, not 5,000 votes, in south Offaly and shoved them into Tipperary North. It broke its terms of reference across the board. Yet when we seek to know why it did this, we are not able to get the information.

My honest opinion is that if the Bill is challenged, the commission will have to put up or shut up. It will have to show the reasoning behind what it did or it will have to be referred back to the Minister to deal with it again which could involve a new commission. The changes

[Senator John Ellis.]

in population in certain areas since the previous general election or census already warrant change. We have seen population decline and people emigrating. We see all sorts of problems.

I want to get to the root of how the boundary commission came up with the decisions it made throughout the country and not alone in the Leitrim scenario. Of the submissions to the boundary commission, 74% came from County Leitrim. They came from across the political spectrum and not from one side or the other. In doing this, the boundary commission has left every one of us involved in this in limbo.

I can understand Senator Donohoe stating that increases might not be what would be accepted. This is grand if one lives in an urban constituency. However, let us take some of the sprawling constituencies in the west. As time progresses, the west and rural Ireland will continue to lose seats to the detriment of the people represented. It is easy for someone in Dublin who is not more than ten or 15 minutes from one end of his or her constituency. One would be better off going from Dublin to Cork than going from Blacksod to Cong in Mayo. The areas and distances involved in some constituencies are frightening.

I welcome the Minister's statement that he will change the situation with regard to terms of reference and that rather than changing areas that the number of seats might be changed.

**Deputy John Gormley:** This is a recommendation.

**Senator John Ellis:** I accept that. However, the first thing that will happen is that the Minister will run into the Murphy judgment which states that the tolerance should be no more than 2.5%. This is part of the problem. Until we decide that we will be flexible with regard to the number of Members of the Lower House, we will have problems. Rural areas will see themselves as losing representation and the one thing people like to have is representation in the Dáil. My county has no chance under this. No party can elect a candidate because it does not have the physical numbers.

If we allow this to continue, a case can be made that people are being disenfranchised because they are. While they have the right to vote for somebody they do not have the right to vote for somebody from within their own area. Everything in this country is based on local government areas. Health boards were based on county council areas apart from the North Western Health Board which serviced part of west Cavan despite the fact that it was in the Eastern Health Board area. This was because hospital facilities were closer in Manorhamilton which was only five or six miles away than in Cavan town which was 40 miles away. These were minor changes.

The commission broke every term of reference it was given. I accept that from the Minister's point of view there is nothing he can do. All he could do, and I do not think anyone could expect him to do so, was to reject it. Perhaps when commission reports are prepared in future there is a need for the Houses to debate them prior to their being finalised and that tweaking would be allowed by both Houses. I know the Minister is considering this.

I have no doubt that the Opposition parties are equally as concerned about areas divided and sub-divided without any reason. We are all trying to establish the details of this commission report but we are not getting them. I tried under freedom of information and went up the line to the Department of the Environment, Heritage and Local Government and the Ombudsman and the answer was "No". Because the commission report is handed in, all detail with regard to its work and preparation is supposed to be unavailable. It is totally wrong and unconstitutional that somebody can prepare a report and effectively disenfranchise people without giving a reason for so doing. This is where we are coming from. We are not coming from any other angle.

I could live with a Dáil of 146 Members if every county had the opportunity to elect somebody. I come from the county with the smallest population, which had this situation prior to 1981 and campaigns were fought for 20 years to change it. Until then it was a political decision and the Ministers of the day decided the boundaries. I look back and consider the representation in the early days of the State when, under the original Constitution, every 16,000 people had a representative in the Dáil. Some constituencies were made up of 12,000 or 14,000 people because of geographical or other problems.

I wonder how we will address this problem and not alone now, because I believe the only way to address it now may be through the legal route and I know the Minister will not make any comment on this and I do not want him to do so. Was the Attorney General's opinion sought on this? I sought legal opinion and was told that the documentation should have been made available and that if a case proceeded to court, the Minister and Secretary General who sat on the commission would be called as witnesses and would have to state their position.

There is an electoral Act which states that once it goes down, that is the end of it, but as far as the people I represented for 20 or more years are concerned, they want to see how they will have the opportunity to elect a Member of the Dáil again. Leitrim almost always had one representative from Fianna Fáil and one from Fine Gael in the old four-seater Sligo-Leitrim constituency. We might have been the smaller part of it but we had sufficient votes and they were managed reasonably well so that the people of Leitrim could elect two Members. On most occasions we elected two.

Now, we are heading into a situation where people will not be able to elect a Deputy from within their own county. The next census is due in 2011. Once the preliminary figures are available for this it will have to be reassessed and only a short period is available to make the report. However, it will be done on the preliminary figures. Everyone would be happy if this were the case and the Dáil were to run full term to 2012 because another revision would be done then. At present, people face the prospect of not being able to elect a Deputy for Leitrim. The members of the commission who made this decision should be made accountable, either to the Minister or the State at some level. We cannot allow circumstances to continue in which people make decisions without revealing the grounds on which they make them.

I could understand the decisions of the commission if there were only one place in which it broke county boundaries but its terms of reference state specifically that county and natural boundaries are to be adhered to, where possible. It is not as if this were impossible for the commission because it could have adhered to them. All the tweaking and turning it did in respect of counties Meath, Louth, Westmeath and Leitrim could easily have been dealt with by breaking county boundaries only once or twice. A portion of Louth could have been included with Monaghan, and Leitrim and Cavan could have been put together. Roscommon and Sligo could have been put together, creating a four-seater constituency without any problem. The commission had several options but chose to divide what it regarded as the weakest county, despite the fact that the chairman made it quite clear that he wanted to maintain Leitrim as an entity. We are not supposed to know that but, as with everything else, leaks emerge.

If the commission did not consider every option available, including increasing the number of Deputies from 166 to 168 or reducing the number to 164 – the figure can vary between 164 and 168 – it should have done so. It had the opportunity to operate within its terms of reference, yet it decided not to do so and it has disenfranchised the people of County Leitrim. That is putting it mildly. Whatever is necessary to get to the bottom of the decision must be done.

I accept fully that the Minister is not to blame. He received the report just like the rest of us. Had he interfered with the commission, there would have been continuous uproar. I know

[Senator John Ellis.]

he is not happy with the report. His colleague, the Minister of State at the Department of Agriculture, Fisheries and Food, Deputy Sargent, has had his area cut in two, and Deputy Cuffe will be affected by the reduction in the number of seats in Dún Laoghaire-Rathdown from five to four. We know of representatives affected throughout the country. Every part will be affected to some extent.

I cannot understand why the commission did not decide to operate within its terms of reference. It made its decision on Leitrim on the basis that it is a small county with only 30,000 inhabitants. In County Meath, Kells has been shoved to Meath East. To make up for doing so, the commission included a bit of Meath East with Louth. I do not know who the mathematicians were but they basically took a slide rule and made decisions on the basis that there should be no more than a certain population per Member.

Senator Hannigan probably welcomes the fact that he has been shoved into Louth.

**Senator Dominic Hannigan:** I have lost 2,000 votes.

**Senator John Ellis:** That is part of what I am getting round to. If one sets off on a political career with a base, one does not like to see it cut in pieces at the first available opportunity. While I know we will never get to the bottom of the decisions made, I believe they were made deliberately to get at certain individuals within the Dáil. I am not saying I was one of those because I was not a Member when the report was published, but I can see the claw marks of certain people and that is the sad aspect of the matter.

The Judiciary alone should be preparing constituency reports in that it is transparent in what it does. The clerks of the Dáil and Seanad are members of the existing commission, as is the Ombudsman. How could the Ombudsman decide whether I was entitled to obtain the commission's documentation? There was a total conflict of interest and this is part of what is wrong with the system and what must be dealt with. If we are to receive respect from the public in regard to what is happening, we must deal with the matter and become transparent.

Credit is due in that freedom of information applications are normally dealt with favourably, unless a matter is regarded as very sensitive by various Departments. That the most important decisions taken with regard to people's lives and representation are not available through freedom of information requests is unacceptable. Perhaps the Minister will tell us what we can do to redress the matter. Perhaps he will make an order, in the context of a new electoral amendment Bill, stipulating that all documentation will have to be made available. One must remember the submissions are available, as are the names of those who made them, yet the commission's recommendations are not. Perhaps the Minister will clarify this for me.

**Senator Paul Bradford:** At the risk of becoming repetitive, I concur with Senator Ellis. I appreciate that the Minister had little discretion because there is a tradition that constituency commission reports are always accepted in their entirety. This poses the question as to why the input of politicians might be regarded as improper, unwise or even illegal. We have reached a stage where we have farmed out responsibility for almost every difficult decision to outside agencies and consultants. That may have been appropriate in the late 1970s. It was in 1977 or 1978 that the idea of an independent commission was introduced. It may have been appropriate then because a number of Governments had basically attempted, generally to their own disadvantage—

**Senator John Ellis:** Detriment.

**Senator Paul Bradford:** —to arrange and rearrange constituencies. What was right in 1977 may not be right today.

The Oireachtas Committee on the Environment, Heritage and Local Government would surely be an ideal vehicle to discuss these issues. Issues could be debated and suggestions could be made in both Houses, yet an independent commission is given full power. The politicians' input is basically zero and our attempt to redress any difficulties caused is in vain.

I support what has been said about the changes. The terms of reference concerning county and provincial boundaries and contiguous areas have been breached left, right and centre. Nobody, no matter how hard he or she tried, could justify the decision on Kerry and Limerick. There is absolutely no justification for including part of what was Limerick West with Kerry North. Nobody could justify what was done in respect of Laois-Offaly and Tipperary North. One could perhaps make a mathematical argument for it but one must bear in mind that certain alignments and arrangements date back almost to the foundation of the State. Those who may not be particularly interested in party politics or any sort of politics knew what constituency they were in, be it Carlow-Kilkenny or Laois-Offaly.

We have now decided to create Kerry North-West Limerick and call the remaining portion of County Limerick "Limerick" while taking a seat from the constituency to be called Limerick City. In addition, there are to be new configurations called Sligo-North Leitrim and Roscommon-South Leitrim. Difficulties arise in respect of Louth and Meath. Perhaps the commission fulfilled the legal requirement according to its terms of reference but it breached the spirit of them. The changes made in Cork will affect me. Part of the traditional constituency of Cork East has been removed and a large proportion of the population has been transferred to a constituency that is based on the city of Cork located 25 miles away. It is absolutely daft that people in the city of Cork are now in the same constituency as people almost on the border of County Kerry. There is no geographical, socio-economic or political sense to it. I accept there will be winners and losers and we cannot do anything about that, but if the constituencies were being drawn up from a common sense perspective then at least seven or eight of the new arrangements would be discarded.

It would be both interesting and important to hear about the thinking that led to the decision-making process. We can obtain the documentation on the thinking that leads to major Government decisions at budget time. In a few months or a few years we can read the documentation leading to the recent Government decisions on banking. For better or worse it is appropriate that we would be in a position to obtain and reflect on all of that documentation, yet we are not told about the thinking behind the creation of some of the new constituencies, the dissection of other constituencies and the political decimation of County Leitrim. That is disappointing.

If democracy is sacrosanct we need to have constituencies that are fair and balanced and give every area of the country an opportunity to be represented. Perhaps we are straying slightly beyond the section but when the Minister referred to geographical and population constraints I was reminded of a point of political argument that is made regularly in the House by a person who is not a member of any political party, namely, Senator O'Toole. He may have spoken on Second Stage. On many occasions he has reflected on the fact that the western seaboard and the most rural constituencies are losing representation under the current rules and regulations. He has frequently and effectively made the point made by Senator Ellis that rural representation may have to be bigger in terms of numbers per head of population than urban representation to ensure geographical balance and to give due recognition to the fact that rural representatives have to travel long distances. We should not ignore those considerations in any future deliberations.



[Senator Paul Bradford.]

I speak with a sense of a slight personal disappointment about what is happening in regard to County Cork, but I have no personal reason for my disappointment with the other constituencies, which concern me purely from the perspective of their construction. There is no justification for changes made in Kerry, Limerick, Offaly, north Tipperary, parts of Connacht, Louth and Meath.

I look forward to clarification from the Minister on when the next opportunity for constituency boundary revision will come. Reference was made to the notion that provisional census figures will be available, but does that mean they will be used? Will there be an option to set up a new commission once provisional census figures are available or is the Minister mandated to do so? I hope we will have a commission that will work in a more transparent fashion and that will take on board advice from the various Oireachtas committees and the Houses because the current system may well have outlived its usefulness. It probably sounded like a great idea in the autumn of 1978, 12 months after another constituency gerrymander went wrong, but what was right in 1978 may no longer be useful in 2009. I hope the Minister is willing to bring about changes that are more appropriate to today's needs.

**Acting Chairman:** Senator Glynn is offering but I draw his attention to the fact that the debate will conclude at 12.30 p.m. and he may wish the Minister to conclude, following which he can comment or *vice versa*.

**Senator Camillus Glynn:** I will be brief. When politicians had the responsibility of overseeing constituency boundary changes, if the result did not find favour it was called gerrymandering. Do we call this “commiemandering”? I do not think any politician in the history of the State who was responsible for the redrawing of constituencies would have done a worse job than has been done. Whatever *modus operandi* was used to come to the conclusions that were arrived at, common sense did not play a part. It is the most ludicrous result I have ever seen. I am not being patronising because Senator Ellis is sitting in front of me, but to dissect Leitrim, the smallest and most disadvantaged county, in the manner that has been done, with the effect of denuding that county of any representation in Dáil Éireann is nothing short of disgraceful. The people who produced the report that brought about that result should hang their heads in shame. If politicians had brought forward that result their heads would be called for on a plate many times.

As far as I am concerned anything I could say from here on has been said and would be deemed to be repetitious. When one devolves ultimate authority to an entity to produce a report, this is what one gets. There is no redress. The commission got the autonomy to do what it did and boy oh boy did it make a hames of it. If one employed a team of planning consultants to make a hash of it, I doubt it would have done as good a job. As is said in another forum, with that I rest my case.

**Deputy John Gormley:** We have spent quite a bit of time on this section but we are not discussing an amendment.

**Acting Chairman:** On a point of information, people can vote on a section also.

**Deputy John Gormley:** It is an interesting debate. Senator Hannigan had tabled an amendment but he appears to have left the Chamber in a bit of—

**Senator John Ellis:** He can take up that amendment on the next day we resume discussion of the Bill.

**Deputy John Gormley:** One point needs to be made in response to a number of issues that have been mentioned, namely, that existing legislation states that in regard to general elections one cannot go above five seats. That is the sort of flexibility the commission would require, but there are genuine political difficulties in that regard because for obvious reasons the two biggest parties, namely, Fianna Fáil and Fine Gael, are not too keen on six-seat constituencies. In the same way, the Green Party is keen on six seaters and above because it gives greater proportionality and it gives smaller parties a greater opportunity. Be that as it may, this is where we are at and the legislation states clearly that we cannot go above that.

We need to put on our thinking caps in regard to the electoral commission and ask whether we want representation, for example in Leitrim, or to maintain county boundaries, or whether we should be looking at a system that allows that flexibility and to go above five seats. It is my view that we should. Then the representation will be achieved. The problem is one may not achieve the representation one particularly likes. That is the reality.

**Senator John Ellis:** One cannot win them all.

**Deputy John Gormley:** Yes, but proportional representation is an excellent system. The concept behind it is that the people are proportionately represented by political parties of every hue. I ask Senators to read the report on the electoral commission because the ideas it contains offer a solution to the issues raised by Senator Ellis.

**Acting Chairman:** By order of the House, we must conclude the debate and move on to the next business. Is it agreed to adjourn the debate? Agreed.

Progress reported; Committee to sit again.

### **Recapitalisation of Allied Irish Banks and Bank of Ireland: Statements.**

**Minister of State at the Department of Finance (Deputy Martin Mansergh):** I am pleased to present to the House the details of the Government's recapitalisation package for Allied Irish Banks and Bank of Ireland. The recapitalisation of our two largest banks is a central element in the Government's broader strategy for addressing the financial crisis, ensuring our two major financial institutions remain sound and stable and in position to fulfil their vital role in the economy. The Government has also progressed the other main elements of its approach to securing our financial system, including the package to address the concerns of ordinary customers of the banks, and I will later take the opportunity to outline to Senators the position on these other measures.

Without covering old ground, in introducing the recapitalisation package to be offered to AIB and Bank of Ireland, and the substantial State funds that this involves, it bears noting the unprecedented conditions that persist on international financial markets and in the international economy generally. Sources of funding for banks globally have been under significant pressure, while the expectations of international markets have increased on the levels of capital that should be held by banks to cover potential losses. At national level, the contraction in economic activity seen in the past year, and the related fall in property values, places pressure on the asset side of the banks' balance sheets. All these pressures, national and international, have come to the fore at a time when the need to maintain the flow of credit to the wider economy is, perhaps, more vital than ever to ensure funds are available for sound businesses and entrepreneurs to enable them to provide the employment and the output which will be the base of our economic recovery.

The Government's strategy to address these various financial and economic pressures in the banking sector has been comprehensive. It was in a context of fear and uncertainty which

[Deputy Martin Mansergh.]

permeated international funding markets that the Government quickly moved last September to introduce the guarantee of Irish bank liabilities, which has provided certainty to depositors and investors alike regarding Irish banks and which was successful in securing the liquidity requirements of our banks. The Government's recapitalisation programme, announced in December, addresses both the expectations of international markets on Irish banks' capital levels and the needs of our major financial institutions in covering potential loan losses in the coming years.

Following the announcement of the recapitalisation programme, the Government initiated further intensive discussions with Allied Irish Banks and Bank of Ireland with a view to securing the position of our two largest banks. As a result of these discussions, the Government has decided on a comprehensive recapitalisation package for the two banks, which will reinforce the stability of our financial system, increase confidence in the banking system here and facilitate the banks involved in lending to the economy.

The Government will provide €3.5 billion in core tier 1 capital for each bank. The capital to be provided to each bank was determined following detailed engagement with the banks and with the benefit of survey information of the banks' loan books, which was conducted on behalf of the Government by PricewaterhouseCoopers. A careful assessment was made of the potential losses that the banks face on their loan books in the coming years, taking into account the impact of likely trends in property values and various stress scenarios for the economy. While the Government was criticised in some quarters for taking too long to proceed with a recapitalisation of our major financial institutions, the time taken to assess as accurately as possible the capital requirements of each bank is worthwhile in terms of the assurance that can be offered to markets on the levels of capital in the two largest banks, and the fundamental strength of their position in the coming years. The capital being provided by the State will boost the core tier 1 capital ratio of AIB to 8.5% and that of Bank of Ireland to 9%. These are high capital ratios by international standards and the banks will, therefore, be in a strong position to raise the funding they require on international markets and withstand loan losses arising.

In return for the substantial investment being made, the State will hold preference shares which have a fixed dividend of 8% of the total sum invested, payable in cash, or with ordinary shares in lieu in the case where the banks do not have profits to pay a dividend to its shareholders. The banks can redeem the preference shares to the State at par value within the first five years and at 125% of face value thereafter. Warrants for the purchase of shares also give the State an option to purchase in five years up to 25% of the ordinary share capital of each bank at predetermined strike prices, which are based on the current market share prices. These warrants provide the State with access to the future upside of the investment it is making in the banks as this will be reflected in future increases in the banks' share prices.

As part of the terms of the investment the Minister for Finance will have the right to appoint 25% of the directors in total to the board of each bank. The Minister will also hold 25% of the total ordinary voting rights in the two banks in respect of certain key functions, including decisions on change of control and board appointments. These terms provide for an adequate degree of State representation in the corporate structure of the two banks, given the substantial investment it is making. However, the Government has been clear that it does not intend to take control of these banks and the terms of the recapitalisation carefully provide for this. Following this recapitalisation, the State will not hold ordinary shares in either bank, other than existing NPRF holdings, while the option to exercise warrants in the future is capped at a defined level of shareholding.

In addition, the terms of the recapitalisation provide that each bank will have the possibility of redeeming up to €1.5 billion of the State's investment by raising privately sourced core tier 1 capital prior to 31 December 2009. In this case the warrants held will be reduced *pro rata* to that redemption to an amount representing not less than 15% of the ordinary shares of the bank. The Government has made clear on a number of occasions that it encourages the banks to access private sources of capital where possible, and the banks are therefore incentivised to do so under the terms of this recapitalisation. Equally, the terms of the deal convey a clear message internationally that the State will not inhibit private investors now or in the future in the Irish banking sector. Ireland, as a small, open economy, is by nature dependent on the investment it can attract internationally and the key task now for the two banks is, therefore, to raise funds to enhance their funding and capital position and expand the contribution they make to our economy. The terms of the recapitalisation provide a clear path for the two banks to remain privately run, privately owned institutions, not least because this is by far the most efficient way to organise the vital role played by the banks in the economy.

While the State is clear in not seeking to take control of the banks, the terms of the recapitalisation provide an appropriate return to the State for the investment it is making in the banks, in the context of current financial market conditions, while avoiding the mistake of placing overly stringent costs on the banks, which would impede them from lending. The capital investment also brings a clear return to our economy. Our two largest financial institutions are in a strong position, able to withstand losses arising on their loan books, and equipped to maintain the flow of credit to our economy. I will outline later the commitments the Government has secured from the two banks in terms of their lending to the real economy.

The recapitalisation programme will be funded from the National Pensions Reserve Fund. Some €4 billion will come from the fund's current resources while €3 billion will be provided by means of a frontloading of the Exchequer contributions for 2009 and 2010. The necessary amending legislation to the National Pensions Reserve Fund Act will be introduced shortly.

The recapitalisation package for the two banks has been recommended to the Minister by the Governor of the Central Bank, the Financial Regulator, the Minister's financial advisors and the National Treasury Management Agency. The Financial Regulator has confirmed that the preference shares qualify as core tier 1 capital, meaning that such funds are of maximum utility to the banks in terms of the buffer provided against loan losses.

The recapitalisation package is subject to the approval of the ordinary shareholders of each bank, at general meetings which will be convened without delay. The Government's proposals on recapitalisation have also been designed having regard to the European Commission recapitalisation communication and are subject to EU state aid approval.

The Government is continuing its discussions with the other covered institutions, Irish Life & Permanent, EBS and Irish Nationwide Building Society, concerning their respective positions. While capital is available where such is required, any possible requirement for these institutions would of course be substantially less than that for the two main banks. As Senators are aware, Anglo Irish Bank, now under full public ownership, will continue to trade as a going concern with appropriate Government support as necessary, following consultation with the EU authorities, to ensure its viability.

I turn to the other aspects of the Government's strategy for addressing the impact of the financial crisis in Ireland. The Government is committed to underpinning its recapitalisation proposals with further measures to strengthen and secure the Irish financial system. In that context and within the six-month review of the guarantee scheme to be completed by mid-April 2009, the Government will examine how the guarantee scheme could be revised in ways which include supporting longer-term bond issuance by the banks. This review will be subject

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to European Commission approval and consistent with EU state aid requirements. Such a review would be in line with international and EU trends where the average term of state cover for bond issues extends beyond 2010.

The Government is also conscious that in current market circumstances there is a need to bring greater certainty and transparency to the operations of systemically important financial institutions, in particular for specific asset classes currently perceived as carrying a higher than average risk. Irish institutions have engaged in lending for land and property development which exposes them to specific risk at a time of falling property prices and difficult economic conditions.

In line with developments internationally where the UK and US have made specific proposals, and current discussions at EU level, the Government will examine proposals for the management and reduction of risks within financial institutions with respect to specific land and property development exposures. Ongoing work at the level of the European Central Bank and in the EU will inform this process.

I have already outlined to Senators the conditions attached to the recapitalisation proposals to protect and ensure a return for taxpayers. I would like to highlight broadly further measures to which the banks have committed regarding credit supply and their interaction with customers.

The continued flow of credit is vital for our economy. To establish the exact position regarding the availability of credit, the recapitalised banks have agreed to fund and co-operate with an independent review of credit availability which will be managed jointly by the banks, Government and business representatives. The recapitalised banks have also agreed to work closely with IDA Ireland, Enterprise Ireland and State agencies to ensure the supply of appropriate finance to contractors engaged on major projects sponsored by them. They have also agreed to engage in a “clearing group” to identify specific patterns of events or cases where the flow of credit to viable projects appears to be blocked and to seek to identify credit supply solutions. The banks have also agreed to provide €15 million each to a new seed-capital fund.

Importantly, statutory codes of practice on business lending and mortgage arrears have been finalised and will be published by the Financial Regulator this week. The codes will be put in place to ensure all banks operating here deal in an honest way with customers and that consumers in particular are treated in a reputable and respectable fashion. The business lending code will require banks to offer annual review meetings to inform customers of the basis for decisions made and to have written procedures for the proper handling of complaints. Where a customer gets into difficulty the banks will seek to agree an approach to resolve problems and provide reasonable time and appropriate advice.

Under the mortgage arrears code where a borrower is in difficulty the lender will make every reasonable effort to agree an alternative repayment schedule and will not commence legal action for repossession until after six months from the time arrears first arise. The two recapitalised banks will not commence court proceedings for repossession of a principal private residence until after 12 months of arrears appearing, where the customer continues to co-operate reasonably and honestly with the bank. The recapitalised banks have also assured Government that in the normal course of events they will make every effort to avoid repossessions, as has been evidenced by the low level of repossessions by them to date.

It is important that I address the issue of remuneration in banks. The Government is of the view that significant reductions in the remuneration structures of banks are required. The banks benefiting from State capital, AIB and Bank of Ireland, accept that pay restraint is important in the overall context of the economy and the supports being provided by the taxpayer, and

will act accordingly. As a step in this direction, they accept that the pay of senior executives will be curtailed. Total remuneration for all senior executives will be reduced by at least 33% and no performance bonuses will be paid to these senior executives and no salary increases will be made in respect of 2008 and 2009. The two banks have also accepted that, for non-executive directors, fees will be reduced by at least 25%.

In addition, the report of the covered institution remuneration oversight committee, CIROC, is expected shortly. As Senators will be aware, the role of CIROC is to consider the remuneration plans of each of the institutions covered by the Government guarantee. The Minister for Finance has indicated he will be writing to the chairman of CIROC, Mr. Eddie Sullivan, to ask him to examine whether an overall cap on executive remuneration can be introduced for the banking sector, in light of the significant State support that is being provided to the sector, and the pay restraint which is now a feature of other sectors, including the public sector. The banking sector will need to play its part, along with other sectors, in reducing our cost-base to ensure our competitiveness in the years ahead. The Government will therefore be bringing forward proposals regarding remuneration in the banking sector on receipt of the CIROC report.

The Government's recapitalisation package for AIB and Bank of Ireland and the associated measures I have outlined represent the taking on of a significant and indeed unforeseen role by the State in securing the banking sector. There have been important issues for the Government to address in taking on this role, at a time when we also need to ensure fiscal prudence, taking difficult decisions to ensure our competitiveness internationally. The proposals presented by Government crucially provide for an adequate return to the taxpayer who is making the investment, appropriate representation for the State in the banking sector and most importantly the future health and viability of our banking sector.

A priority for the Government has been to ensure that all intervention in the banking sector has the ultimate goal and effect of benefiting and securing the position of customers of the banks - account-holders, mortgage holders, businesses and entrepreneurs. The bank customer package will ensure the interests and concerns of consumers are to the fore.

In all, the Government's recapitalisation proposals for AIB and Bank of Ireland represent a comprehensive Government commitment by the State to maintaining the two main banks as strong, forward-looking, confident institutions, able to play their part as the primary financial services and credit providers in this country.

**Senator Paul Coghlan:** I welcome the Minister of State and thank him for his explanation of the Government's intention regarding the recapitalisation scheme. I wish to share time with Senator Paul Bradford.

**An Leas-Chathaoirleach:** Is that agreed? Agreed.

**Senator Paul Coghlan:** We all accept we are in very difficult and dangerous times with the economy and because of the banking situation. If our economy is to have any future success - which we all wish for - and if it is to get out of these doldrums, the stability of the banking sector is vital. While Fine Gael might not agree with the proposal outlined, we still hope it will be successful. My party's spokesperson on finance, Deputy Bruton, has outlined another model worthy of consideration and to which I will refer later.

The shocking situation was referred to briefly on the Order of Business and there have been daily revelations which have not been doing us any good. We thought that the difficulties were largely confined to the concealment between Anglo Irish Bank and the Irish Nationwide Building Society but now we have learned of the exceptional support offered by Irish Life & Perma-

[Senator Paul Coghlan.]

ment. I am not quite sure whether this was offered under the cover of the guarantee scheme as there seems to have been conflicting views but it had the effect of artificially boosting the deposit base of Anglo Irish Bank at a crucial time. The guarantee scheme is very important and the Minister of State referred to it in his speech. Investor confidence will be hindered unless the Government extends that scheme and I presume it has made provision to do this beyond 2010. It does not really matter what we think but the markets will not react properly unless they have trust and confidence. The Government has superior control and moral authority because the banks have their hands in the lion's jaw, so to speak, and the Government can oppose the appointment of directors and the scale of remuneration. This approach is supported by Fine Gael. However, it is crucial the Government takes further measures as necessary to extend the guarantee scheme beyond 2010.

The assistance given to Anglo Irish Bank by Irish Life & Permanent and the routing of this assistance through the investment management arm of Irish Life & Permanent is a practice upon which there has not been a word from the Irish Association of Investment Managers or from the Pensions Board. They have been strangely silent but they should have something to say. We thought this sort of malpractice had finished but now it seems to have extended to Irish Life & Permanent. It is to be hoped that Allied Irish Banks and Bank of Ireland were not involved in anything of that nature but if anything turns up in this regard, it will damage confidence further. The other three institutions were caught using practices which some would regard as fraudulent, which they may be. Is the appointment of an inspector required? The Government has appointed independent directors to Anglo Irish Bank and they are carrying out an investigation. I do not know the results of this investigation and other investigations and I do not know the timescale for the investigations. I ask the Minister of State to comment in his reply.

Following the putting in place of the guarantee scheme, the Minister spoke about the necessary recapitalisation and also about restructuring of the banks. He said that the six banks covered amounted to too many in number for this economy and I think he thought it desirable that this number should be reduced to two or certainly three. What is the Government's plan because we have not heard anything of late? I await the Minister of State's response on this matter. There is no doubt about the very cosy insider arrangements in place in all the interbank lending that took place and this damaged confidence and was the cause of our current problems. It would appear as though there was a golden circle in place to whom the normal rules did not apply and they thought they could make it up as they went along. This has been a sad event for the country and it has damaged our reputation abroad. However, this is the situation we find ourselves in and we have to get out of it.

Despite Fine Gael's reservations we welcome this proposal and wish it success. However, in our opinion there is another way of dealing with this issue and that is to set up new banks out of the old banks and leave behind a legacy bank. I know that Senator Butler and I are at one in this view. We have to stir things again and assist small and medium-sized businesses throughout the land. We know that these people are starved and choked at the moment because the ability of the banks to lend is impaired and we have to free this up. The Government's proposal to recapitalise the banks to the sum of €7 billion will not result in the banks making that amount available as they will just use it to improve their ratios. I agree they must be prudent in their lending policies but if Deputy Bruton's proposal had been adopted by the Government, we could have a new bank, pay the legacy bank for what it would undertake to buy and the banks could begin with a clean balance sheet and have capital available. This would better inspire investor confidence and perhaps bring in outside private funding. I ask the Minister of State to state his views on this proposal.

**Senator Paul Bradford:** I welcome the Minister of State to the House for this debate on the crisis in the banking system. We are now entering the Donald Rumsfeld world of the known unknowns and unknown unknowns and over the past 48 hours, more of the unknown unknowns have appeared and have reduced even further the public confidence in our banking system. This side of the House recognises the absolute and urgent need for a credible banking system which is working properly. Without such a banking system we cannot have an economy and without an economy we cannot have a proper functioning society. A debate on bashing the banks is not sufficient because we need to respond to the crisis which has been caused and recognise what is at the heart of it and try to ensure it cannot happen again. We need to restore public confidence along with investor confidence and international confidence. We may not all readily be able to have a full understanding of the banking system. When the man and woman on the street talk about the banking system, they talk about the scandals, the persons involved and the levels of remuneration. They also note those who led us into this crisis continue heading up the banks. The cry on the street is there must be changes in personnel at the top of banking management with significant levels of resignation at executive level. For better or for worse, that is necessary to restore public confidence in our banking system.

There is a deep anger among people, particularly those who have lost their jobs, at the banking system and the mechanisms which have resulted in the current economic crisis. It cannot be readily addressed or properly analysed. However, when people see top banking officials going unpunished for what they have caused, that must be addressed.

Maintaining international confidence in the Irish banking system is the gravest concern. The revelation in the past 48 hours of yet another sweetheart deal for Anglo Irish Bank has damaged international confidence. It is not just a question of international investors wondering about the competence, or otherwise, of the political system. As was said this morning by Senator Quinn, they will also question the ethics behind the conducting of banking and business in this country. That needs to be addressed as a matter of urgency.

Over the past several months, all Members have raised the recapitalisation issue. Clearly, not enough money was going around the banking system to generate economic activity. Recapitalisation of some form was urgently necessary. The Minister of State has presented one such proposal to the House while Senator Coghlan outlined the Fine Gael Party's proposals. Where they differ is in the separation of the toxic debts. Will the Minister of State outline how the recapitalisation programme will respond to the bad debt crisis? The House could have an all-day debate on this issue because we still have not grasped the scale or level of toxic debt in the banking system. The investment of €7 billion, a large amount which only a few years ago would have run the country for a year, is being pumped in on one side while there is an unknown level of toxic debt on the other side. This is a concern, not just simply from a political perspective but a broader economic one, when we are investing pension funds into a black hole the size of which we cannot comprehend. Will the Minister of State give his views on the toxic debt issue?

I was initially concerned about the proposed 8% dividend from the banks because a similar proposal was introduced by the British Government in its recapitalisation programme. It demanded a dividend of 12%, which simply did not work as it did not allow the banks have a sufficient liquidity ratio to put money back into circulation. However, I now accept there is some flexibility in the Government's 8% dividend in that if the banks are not in a position to pay by way of cash, it can be resolved by way of ordinary shares in lieu. That is an improvement on what I thought was the original proposal. We would like to ensure the banks repay the taxpayer and the Government as soon as possible. Being realistic however, the most urgent necessity is to ensure money flows into the economy again.



[Senator Paul Bradford.]

The proposed 33% increase in mortgage availability and the 10% increase in assistance to small business look positive on paper. As Senator Ross pointed out earlier, however, these increases are occurring when there are zero flows in both areas. It is not enough and we should be demanding a quantifiable pool of money being made available for mortgages which would allow 20,000 people, say, over the next several months to buy homes. The same principle of a defined amount should be applied to loans to small businesses. Vague percentage figures are not sufficient. We need to get precise numbers and figures as to how many couples and young people will be facilitated to buy houses, getting the property market moving and increasing State revenue. We need precise figures of the loans to be made available to small businesses. On every high street, low street and no street, small businesses are shutting down because of zero capital. Ten percent of zero is still zero. The Minister needs to put further pressure on the banks regarding that figure.

The so-called sacrifice by banking personnel to reduce salaries at the top scale by 33%, while a step in the right direction is still a token response to the scandalous levels of executive pay which existed and resulted in this disaster. I am disappointed the penalty they are paying is not in any way in proportion to what it should have been.

I recognise the scale of the crisis. The Government's policy is set out in this programme. I am, however, concerned about the level of toxic debt which we cannot quantify. I am also concerned about the levels of moneys being made available for mortgages and small businesses. While they are there in theory, they may not be there in practice. The next few crucial weeks will decide the future of the banking industry and the short to medium-term future of the economy. We cannot yet fully grasp the grave economic crisis facing the country. Banking is at the core of it, which means it is important for all of us that this programme works. It will require closer regulation by the Department to ensure the commitments, both verbal and written, come to pass, money flows again and economic activity is generated. If that does not happen, the country will go down the tubes, a tragedy for all of us.

**Senator Larry Butler:** I welcome the Minister of State's speech on the recapitalisation programme. It is important we focus on our banking system. Running a small business, I had dealings with the banks for over 35 years. My business could not have continued without a good credit and banking system. I always had good relations with my bank and kept it up to date with my business activities. The old system meant the bank manager used to visit my business projects to evaluate them. Some ten or 15 years ago, that all came to an end. One never saw one's bank manager because he was obliged to refer matters to head office. As a result, customers who were dealing with banks for perhaps 35 years have become mere numbers. The banks have lost all the contact they had built up with customers under the system that previously obtained.

Perhaps it is time the banks reviewed what they are doing wrong. They do not know their customers, they lent money in an irresponsible fashion, they did not evaluate when the market was going to fall and there was no consistency with regard to the actions they took. Everyone is paying as a result. The banks went completely out of control and taxpayers will now be obliged to support them.

We have a responsibility to taxpayers. We must draw up new rules and regulations and we must put legislation in place to protect the investment that is being made in the banking system on behalf of taxpayers. We are due to receive a return of 8% on the money that is being invested and we must ensure that this will be forthcoming. In addition, we must ensure that our capital investment is safe. I would prefer us to invest in something tangible, such as our banking system, which will help our economy, than to make investments abroad. Doing this

represents a much safer course of action. If we can manage this investment correctly, taxpayers will enjoy a good return. It is our job to ensure that it is managed correctly and that proper governance structures are put in place. There is no governance whatsoever in the banking system. Senator Ross has been making statements to that effect for a long period.

A number of Government-appointed directors are already in place in the banks. However, there should be such directors in the six institutions covered under the guarantee scheme. We must evaluate the agreements that have been reached in respect of recapitalisation to ensure that money is lent to small businesses. We must be informed as to what will be the increase in the level of loans made available to such businesses. It has been stated that 10% of the €7 billion used for recapitalisation will be made available in this regard. We must be able to rest assured that this money will be invested where it counts. If we ensure that those who require such money receive it, matters relating to business will improve.

The position is similar with regard to mortgage lending. It was announced that there will be an increase of 30% in such lending. However, 30% of nothing will come to nothing if people are not put in place to monitor the position. Government-appointed directors must be charged with examining lending patterns and the way the money that is being invested is managed. If this does not happen, the banks will again run rings around us and our investment of €7 billion will come to naught.

It would be extremely difficult to quantify the damage done to Ireland's reputation internationally by the banks. Matters must be put right in this regard and that should be the next item on the agenda. The Government guaranteed deposits in the banks and the financial system was stabilised as a result. However, we are now making a tangible investment in the two main banks and we must ensure that they put proper governance procedures in place. Those who got us into this situation are not fit to manage the banks, not to mention any other form of business, and we must get rid of them. If we do so, we will improve both our international reputation and the way the banking system operates. This is the type of action we must take and the Minister of State and the Minister for Finance will ensure that it is taken.

**Senator David Norris:** I do not mean to interrupt, but I am wondering who is responsible for providing Senator Butler with violin accompaniment.

**Deputy Martin Mansergh:** I apologise, my mobile phone went off.

**An Leas-Chathaoirleach:** Senator Butler, without interruption.

**Senator Larry Butler:** We must ensure that there are proper monitoring procedures in place. The Government-appointed directors have a job to do in that regard. It cannot be the case that directors merely sit and listen at board meetings; they must query what is happening. Senator Leyden suggested that a number of Members of this House should serve, *pro bono*, on the boards of the banks. There are a number of able Members, such as Senators Ross and Quinn, who would ensure that the types of proposals I am putting forward would be adopted. We must appoint people to the boards of the banks who are experienced with regard to business and the importance of credit thereto, and who are aware of the importance of obtaining a good return.

If a person submits a quotation in respect of, for example, a construction job, he is aware that his bank interest must be included in the equation. If he does not do so, he and his bank manager will be in trouble. There must be accountability in respect of the taxpayers' money that is to be invested in the two main banks.

[Senator Larry Butler.]

It was vital that agreement was reached with the two main banks in respect of a number of extremely important issues. People must realise that this may not be the last occasion on which we will be obliged to provide support for the banks.

**Senator David Norris:** It will not be.

**Senator Larry Butler:** It is good that the Bank of Ireland made an announcement this morning with regard to its intention to write down its bad debts. When the extent of those bad debts is realised, I am of the view that market support will be created and that the bank's shares will be revalued. Bank of Ireland's shares are quite low in price at present. All of the six institutions covered by the State guarantee should come clean with regard to their bad debts. It may be bad news but it will eventually emerge so why not make it public now?

People should remember that the financial institutions under discussion are in possession of sizeable land banks. While the value of this may be low at present, once there is a scarcity of land and there is an upturn in the economy and demand returns, the price of land will rise. There is a scarcity of land for development in Dublin and other cities. The value of land will increase again in the future.

If we put in place what is termed a "bad bank", perhaps it could operate in the same way as the National Treasury Management Agency in the context of managing the national debt on a long-term basis. This would give an opportunity to address the issue of public housing. It is a disgrace that county councils have 40,000 people on waiting lists for local authority housing. We should address the problem using the land bank. This would be an investment for the future.

This debate provides an important opportunity to receive from the Minister of State a full report on the proposed recapitalisation of the banks and the conditions attaching to it. The directors appointed by the Minister to the boards of the banks must be able to act in accordance with the wishes of members of the public on whose behalf the Government is investing this capital.

**Senator Shane Ross:** I propose to share time with Senators Norris, Quinn and Bacik.

I thank Senator Butler for his free investment advice on buying land. I remind him that the Senator Cassidy offered similar advice from the same seat not so long ago.

**Senator Larry Butler:** I was offering a long-term view.

**Senator Shane Ross:** About 18 months ago, Senator Cassidy told us to buy property. While I do not know what would have been the results of any such investment, I doubt if Senator Butler is in the right place to offer similar advice.

I welcome the Minister of State to the House. His speech amounted to a statement by the Government that it is waving a white flag. It is an appalling document which demonstrates an appalling surrender. I cannot believe negotiations have taken place. The Government has offered, with some conditions attached, €7 billion to people who have behaved appallingly and in some cases unethically. Much more remains to be revealed in this regard. It appears all these conditions melted away during the negotiations.

This entire process involved, on one side, a Government with good motivations rescuing the banks because the economy needs them, albeit not the banks in question, and, on the other side, a group of clowns who have disgraced themselves over many years negotiating one thing alone, as is clear from the document, namely, how to save their jobs. From the point of view of the bankers, the negotiations were about nothing else. What happened? Not only did the

bankers save their jobs but the concessions they gave are comical and laughable. According to the document before us, the Government gained virtually no concessions. I cannot understand the reason it did not get what it wanted. Despite holding all the cards, weapons and money, it has emerged from the process almost empty-handed.

The Minister of State's speech was devastatingly weak on the important issues. I presume his words about the "flow of credit to the wider economy" refer to lending to small businesses. He stated "the recapitalised banks have agreed to fund and co-operate with an independent review of credit availability which will be managed jointly by the banks, Government and business representatives". Why on earth do we need an independent review? The Minister of State added that the banks have also agreed to work closely with the IDA, Enterprise Ireland and State agencies. This is not a concession. How dare the banks even consider not doing this? He also noted that they have agreed to provide €15 million each to a new seed capital fund. This is a laughable amount of money which, in banking terms, amounts to very little.

Will the banks somehow save small business? A completely mistaken impression is abroad, one which has been deliberately given by the Government, that this money will somehow help small business. Not a penny of the €7 billion will go into small business and it is about time people were told the truth and not given the wrong impression. The money is being made available to protect the property developers and the shock they imposed on the banks. None of it will go to small business and the attempt to make a gesture to small business is nonsense. There is nothing in the proposal for small businesses or mortgage holders.

Yesterday, I was informed by a man who was involved in a bank engaged in mortgage lending that the concession to mortgage holders under the proposed arrangement did not amount to a concession because the period involved is exactly the same as the period banks normally would allow.

Nothing has changed on remuneration. The decision to reduce salaries of millions by 33% is crazy and is being presented to us by the Minister and Government as some sort of concession. Senator Bradford is correct. Everybody is crying out for bankers to resign because they are responsible for this disaster. It is not unfair to describe them as the principal culprits in landing the economy in the manure business, yet they have brilliantly secured their own positions by making so-called concessions which are not concessions. In doing so, they will continue to wreck the economy.

I read carefully the concessions on remuneration. It is absurd that a committee, the covered institution remuneration oversight committee or CIROC, has been established. Why do we need a committee for everything when we should tell banking executives what pay they will receive? Under the new arrangement, bonuses will not be paid for the foreseeable and annual salaries will be reduced by 33%. This will reduce top salaries to about €1.5 million. Why have options not been addressed? The reason is share options are one of the greatest rackets operated in the banks in recent times. The Minister of State should mark my words, if the issue is not addressed in the document, the executives in the banks will write themselves share options galore within months or years of this arrangement entering into force. Share prices are at rock bottom. The Minister of State should not tell me that these guys would not do such a thing. They are the very guys who would do so and they will have spotted the omission a mile away.

The banks have outwitted the negotiators whoever they are - we never find this out - because while bonuses and salary increases will not be paid for several years, share options are the great gravy train. It is there that the millions are being made. Any annual report will show that these guys hold millions of shares, most of which they have received for free. This practice of awarding share options will continue.

[Senator Shane Ross.]

The document is a complete surrender. I cannot believe a Government which held every card did not use these cards to get rid of every member of the boards of the banks, including the chairmen and chief executives. It is a disgraceful sell-out to the banks which have won an incredible victory.

**Senator David Norris:** The picture painted by Senator Ross is both accurate and grim. We have been confronted with an apocalyptic scenario. Good governance has been absent at senior levels in the banks, regulation has been poor, the banks have engaged in speculation on private accounts and mischarging of accounts and have provided assistance with tax evasion. The record is astonishing. Appalling investments were also made from which the taxpayer had to rescue them. That is the context in which the House debates this issue.

The following statement by the Minister of State is highly significant:

Importantly, statutory codes of practice on business lending and mortgage arrears have been finalised and will be published by the Financial Regulator this week. The codes will be put in place to ensure all banks operating here deal in an honest way with customers and that consumers in particular are treated in a reputable and respectable fashion.

What an innovation. How extraordinary. Does the Minister believe the banking system will survive this? Is this new? Suddenly, starting now, the banks will be honest and treat their customers in a reputable and respectable fashion. This is the measure of the utterly scandalous behaviour at the top of banks.

The €3.5 billion being given to each bank is certainly not enough. Every commentator we hear says it is not enough. When will it be enough? When will we have full disclosure? When will we know the extent of the exposure? From time to time, I listen to the economic analysis from RTE. George Lee is a most balanced, moderate man. One could hear from the tone of his voice last night——

*(Interruptions).*

**Senator David Norris:** Those on the Government side are sniggering. I would not be laughing at this particular situation.

**Senator Cecilia Keaveney:** It was Senator Norris's description of George Lee as balanced.

**Senator David Norris:** He is extremely balanced and he told the truth when those on the Government side concealed it. That is why they want to deride him. I have a lot more reliance on people like George Lee. Listening to the quality of his voice on the recording last night, there was despair, bewilderment and fury in it. That is what the people feel. If the Government does not get into tune with it, it will certainly find it will get its marching orders at the next election, if not before.

The Minister said the terms of the recapitalisation provide that each bank will have the possibility of redeeming up to €1.5 billion of the State's investment by raising privately sourced core tier 1 capital prior to 31 December 2009. Let us hear the laughter from the Government benches. There is no laughter or sniggering because this is the most idiotic thing I ever heard. Who exactly will invest in these completely discredited institutions? This is on Bloomberg as we speak and is being reported all over the world. Who will invest? This is a completely empty thing.

We must look at this whole circular transaction. Apparently, the money originated in Anglo Irish Bank but from where it got it, I do not know. It then went through Irish Life & Permanent.

I read this morning that, apparently, it was divided into two lots. First, €3 billion was put in, which was complete exposure of investors' money as the guarantee scheme was not in place. Then when the guarantee scheme clicked in, it put in another €4 billion. This is endemic and is a disaster for the way in which we appear in the world.

The Dublin Docklands Authority invested in property speculation with Anglo Irish Bank and it has openly said it has not paid a penny in interest in the past six months. What is happening? Get all the toxic assets and dump them into Anglo Irish Bank. That is what it deserves as it has no reputation left and make it a national property management agency.

**Senator Feargal Quinn:** I welcome the Minister of State but I am not sure I welcome this proposal. I want to be convinced that it will solve the problems facing this nation and the citizens. I tore a page off the calendar yesterday and it said that if we do not take care of the customer, somebody else will. A very important customer in Ireland is the foreign director investor who has lost confidence because of the inefficiency of our regulation system. I want the Minister to convince me that his proposal will restore that confidence. What emerged last week was not only a lack of confidence in the efficiency but a huge lack of trust in the ethical behaviour of our bankers. Will the Minister's proposal solve that? I want him to convince me that is what it will do.

*The Sunday Times* last Sunday talked about British banking and stated that problems there were caused by irresponsible bankers who had to turn cap in hand to the government to be bailed out. Will the Minister's proposal ensure that irresponsibility will not be rewarded and that it will be eliminated? I want him to convince me of that too.

Our economy depends on the banks and the availability of credit, about which Senator Butler spoke. Lending to business once again, especially to small and medium sized business, is essential. Without that credit and that banking system, activity will slow down, jobs will disappear and we will not have a successful economy. I want the Minister to convince me that his proposal is going in that direction and will solve that problem too.

I have a problem with this whole area of risk. I have a relative who sold her house ten years ago. The stockbroker or whoever her adviser was told her to put the spare money into something safe and not to risk it at her age as she was in her 60s. She put it into Allied Irish Banks, Bank of Ireland and Anglo Irish Bank shares. This year she got no dividends and her shares are worthless. Will the Minister's proposal ensure safety while at the same time ensure banks are risk takers as well?

I worry there will be many stipulations. When I see the heavy-handedness of the State running the banks, or believing it has such a say in the banks, I fear the banks may not be risk takers anymore. That is as big a danger as being irresponsible.

A business wants the best people to work in it, so I have a problem with the Government saying it will control the salaries of the people working in the three banks. I was stunned by the huge amounts of money being paid but what happens if the best people say they are being attracted elsewhere? Will the heavy hand of the State mean we will not have the best people working there in future because they will say there are other banks which are not controlled? I want the Minister to convince me that we will have the best people working here.

Ten years ago I became a banker. My company, in conjunction with a financial institution, opened 14 branches of a bank called Tusa, but it failed. It failed because we stuck to the rules which were not adhered to by our competitors. Perhaps that is an excuse on my part and we were bad at running that business. However, we failed and had to close 14 branches and say to those working in them that we had lost the business.

[Senator Feargal Quinn.]

As a taxpayer, I am a banker once again but I am not sure I am delighted about it. I want the Minister to convince me that his proposal is in the best interests of consumers, taxpayers, citizens, those who are threatened with losing their jobs and their businesses and, in particular, of getting the economy going again.

**Senator Ivana Bacik:** As Senator Quinn said, apparently we are all bankers. I welcome the opportunity to put on record two fundamental concerns about the proposed recapitalisation plan. It is essential we have a cap on remuneration. It is simply not enough to talk about percentage cuts and so on when the base amounts are so enormous. In terms of the public having confidence in what is being done, it is important that a cap is put on the remuneration of the senior executives, as has been done in the US, if nothing more than as a symbolic gesture.

The second, more fundamental concern is that it appears the banks played hardball with the Government. They negotiated with the Government, which is a very disturbing thing to read when we know that €7 billion of our money is going into the banks. Surely they were not in a position to negotiate and the Government should have dictated and imposed terms on them. However, it appears from the language of the Minister's speech that the banks accepted certain things and agreed other things. It seems conditions were not imposed in a way they should have been.

For example, there is no recognition of bankers being at fault, no commitment to a change in behaviour, no substantial commitment to free up credit for small businesses and no substantial commitment to ensure home owners will not be put out of their homes once the 12 month period, which is far too short, has passed. Ordinary people, quite rightly, have many concerns about this proposal and about the €7 billion of our money going into the two banks.

I express my concern about reports of the transaction which occurred between Irish Life & Permanent and Anglo Irish Bank. Again, €7 billion was involved. It was a back to back loan. We should not be afraid to use the "F" word and say this was fraud, this was fraudulent behaviour. It gives a lie to and undermines entirely what the Minister told us at the end of September when we were negotiating the bank guarantee. I am one of the few Senators who voted against that Bill. I voted against it because I did not trust what the Minister said at the time about the banks having a cushion of assets——

**Senator David Norris:** Same here.

**Senator Ivana Bacik:** ——which exceeded liabilities. Many of us had real doubts about what the Minister said. What we know, having heard about the back to back loan and fraudulent presentation of loan money being presented as a customer deposit and therefore part of the assets of the bank is that the cushion is exposed to have been a fiction.

What we do not know is how many other fictions we were legislating on the basis of and how many other fictions and back to back loans exist between individual financial institutions. We will find it very difficult to believe what the banks and the Minister for Finance, Deputy Brian Lenihan, tell us. I have a lot of respect for him personally but he should have read the report on Anglo Irish Bank. Everyone knew this was the dodgy bank. It was 120 pages; he should have read it and an alarm light should have gone on when he knew his officials had referred a particular matter to the Financial Regulator. That is incompetence.

**Senator Dan Boyle:** A successful, viable financial banking system needs a number of attributes, chief of which are trust and confidence. It is quite clear that Irish banking, at this time in our country's history, is sadly lacking in both. In dealing with the effects of the failure of

trust and confidence, the political system needs to deal in candour and honesty. I must admit I am at a stage where I do not believe either quality exists in sufficient quantity.

To regain the trust, initially of the citizens of this country and ultimately of the international community in identifying Ireland as a country worth investing in, we also need degrees of openness and transparency, which, as a country, we seem to have left long behind. If we address this question by trying to instill those qualities back into our political and business systems and into how we interact with the rest of the world, it will go some way to overcoming the maelstrom we have had to experience in recent months.

We in this House have an opportunity to discuss the heads of any Bill prior to it being introduced and that will help to inform the Bill when it is eventually presented to both Houses of the Oireachtas. The Minister's statement yesterday addressed several of the concerns that exist regarding our banking and finance industries. Chief is a recognition of the degree of the problems that exist among our major banks. The decision today of Bank of Ireland to mark down its loan book is the first sign of honesty which has been long missing in recent months in many of our financial institutions. At last one of our two major banks is identifying the scale of the problems it alone is facing. We as a State and group of taxpayers are investing in this bank.

Legitimate questions exist on whether €7 billion will be sufficient. Sufficient work has gone into identifying this amount of money as being necessary to kick-start and revitalise the financial institutions concerned. I am satisfied that safeguards exist, both in terms of the 8% return the State will gain for investing the money and the incentives for the money to be paid back earlier. Some of this money will be paid back up front by the end of this year. Many speakers were correct to highlight that where the Irish public want to see movement and precision in the Bill, when it is eventually presented to us, is in the Irish banking system.

There must be a realisation by the banks and those who have been managing them that they are now utterly dependent on this State to become viable again. There still remains a degree of arrogance and a lack of proper understanding of the failure of the institutions and the people who have been managing them as a reason for creating this economic crisis. To restore confidence we need to go as far as possible to make sure the people who have brought us to this position are not the people who will help to get us to where we need to get to, and I said as much in this House already.

Some Senators are correct in saying the preliminaries to this agreement and the eventual legislation are an affront. The idea of negotiating with people who have shown themselves to be incompetent in how they run their institutions is something the public find greatly to their distaste. That it continues to be done in a culture where salaries and remunerations are paid which are beyond the fantasies at the height of the Celtic tiger and beyond the realisation of 99% of the people of this country is something the individuals concerned still have to confront.

There is also a failure, which must be accepted, of the systems we had in place to protect the public interests regarding the proper behaviour of our banking system. We have had inadequate and flawed regulation in this country and for confidence to ever be restored we must first ensure such a system can be put in place. I am not sure if that can be done within our own resources or through the experience of Irish people in the financial services sector. One of the reasons we had flawed regulation is the degree of "clubbishness" and knowledge about individuals which people have, not only in the banking sector but in the political world and the general business world that permeates our society. Unless we are prepared to break those links it will be very difficult to bring in the systems of regulation we need.

I would go so far as to say we need to buy in that expertise. We need people from outside this country to come in, show us the remaining flaws that exist in our banking system and



[Senator Dan Boyle.]

expose them quickly so they can be dealt with quickly. We can then move on as a country. If we are prepared to engage in what happens far too often in this country, which is a high degree of self-regulation, there will be many moles in people's eyes which will remain unmoved because no one wants to talk about the consequences of doing otherwise. It is the domino effect and one person's reputation leads to the fall of another's reputation.

Until we are prepared to confront those contradictions, the minutiae of the legislation is one area we should be least concerned about. We will have a Bill quickly. I am happy the Minister's statement mentioned the areas of agreement needed and that the money, as and when it is invested, needs to go into small and medium enterprises and into certain areas of lending. People have concentrated on the mortgage market. I think the new financial products will bring viability to financial institutions.

The first thing we need to do is invest a new reality into our banks, which means new people, cultures and ways of acting. If today's debate helps to inform the Bill to help it happen, the €7 billion to be invested will, ultimately, benefit the people of this country. If we continue to go down dark alleys and ask questions of each other rather than of the financial system itself, I fear we will be running around in circles and the problems that exist in our financial system will remain untouched.

**Senator Dominic Hannigan:** Senator Boyle mentioned new people, new cultures and new ways of acting. This is exactly what we want but are not getting from this Bill and announcement. In my brief contribution I will discuss how I think we should have been dealing with the banks.

Regarding the current board, other Senators mentioned that the reality is that those who got us into this mess will stay in this mess. Furthermore, we will not really cut their salaries because a cut of 33% does not mean much when one is earning €500,000. It was stated in the speech that total remuneration for all senior executives will be reduced by at least 33%. We looked for a cap of approximately the same level of salary that the Minister for Finance, Deputy Brian Lenihan, draws. It would be much more appropriate.

There is also no mention of options in the speech, from what I can see. We do not think it would be appropriate to give senior executives options because of the risk that they would engage in some inappropriate egging on of the company. I would like the Minister of State to clarify a point. The speech states that total remuneration for all senior executives will be reduced by at least 33%. Does that mean that each individual's remuneration will be limited? Can he clarify that it is not the remuneration of the entire board that will be limited by 33% cuts, which would mean that some would not be subject to the reduction? Does the Minister of State understand what I am getting at?

**Deputy Noel Ahern:** Yes.

**Senator Dominic Hannigan:** I would like him to clarify that. We are disappointed that there was not a complete clean out of the boards so that we would, in effect, start again. That would have been important to show the people that we do mean business when we talk about changing the current culture of the banks. Confidence would have been helped also if the Minister had gone further on the moratorium on house repossessions. The measure introduced suggests 12 months but the Minister will be aware that many organisations, such as the Society of St. Vincent de Paul and the money advice and budgeting service, have called for a 24-month moratorium. The proposal, as I understand it, is that legal action can commence after six months. As well as that, it states, "until after 12 months of arrears appearing——"

**Acting Chairman (Senator John Paul Phelan):** What is the Senator quoting from?

**Senator Dominic Hannigan:** From the Minister of State's speech. He stated:

The two recapitalised banks will not commence court proceedings for repossession of a principal private residence until after 12 months of arrears appearing, where the customer continues to co-operate reasonably and honestly with the bank.

It is not at all clear what "reasonably" means or how one defines "honestly". Who will define these terms? I would be loath to allow the bankers themselves to define both terms given the mess they have got us into.

Yesterday, the Master of the High Court said he was so concerned about recent job losses that he expected an avalanche of repossession cases to come before him. He has seen a dramatic rise in such cases in recent months. The Minister of State also said:

The recapitalised banks have also assured Government that in the normal course of events they will make every effort to avoid repossessions, as has been evidenced by the low level of repossessions by them to date.

As I said, however, the Master of the High Court is indicating that he is seeing a large rise in applications for repossessions. I am concerned about that and I am disappointed that the opportunity was not taken to extend that period to 24 months because people are losing their jobs every day. There has been a horrible announcement at Dublin Airport today concerning the loss of 1,200 jobs in SR Technics, and we also saw the impact on Waterford Wedgwood at the start of the year. People have made significant contributions throughout their working lives to the tax base, but their taxes are now being used to bail out these banks. We must ensure therefore that their homes are not put at risk and that we bear with them through the rest of this economic depression. We must not put their homes in danger of repossession. That is a missed opportunity because I would like to have seen a longer moratorium period.

I also want the Minister to clarify the return that will come to the State from investing this money in these banks. The Minister of State said:

The banks can redeem the preference shares to the State at par value [which means face value] within the first five years, and at 125% of face value thereafter. Warrants for the purchase of shares also give the State an option to purchase in five years[? time.]

Can we exercise the warrants before five years are up? This statement does not say that. It says we can exercise the warrants "in five years". I am concerned that in four years' time, if the shares happen to rise, the banks will just buy them back at par value and in effect there is no upside for the State. If the value of the shares rises or even doubles within the next four or four and a half years, the banks will redeem the shares at face value. They will not wait a further six months before we can come along and exercise our warrants. It may just be a slip-up in the wording but, as I read it, it seems to indicate that we are unable to exercise these warrants until five years have expired.

I am also seeking clarification on what the strike price of those shares will be. The speech states that they can be bought back "at predetermined strike prices, which are based around the current market share prices". Why does it not say "which are based on the current market share prices"? The word "around" could be 20% or 50% out. I do not know, so I am seeking clarification on those points.

**Senator Cecilia Keaveney:** I am not an expert in economics or finance.

**Senator Eugene Regan:** Neither is the Minister for Finance.

**Senator Cecilia Keaveney:** I do not regularly speak on such matters but as others have said, we are all bankers now, so I suppose we have a vested interest. From that perspective, we should declare our interest if that is the appropriate thing to do at this point. It is a classic example of saying, if we were going where we wanted to go, we would not start from here at all. Nobody wants to be in a situation where legislation is going through the House to support banks. On the other hand, I have met people trying to get a car loan who are subjected to all sorts of hoops and hurdles.

Children attending the Oireachtas schools project will ask why we are bailing out the banks. We explain to them that if the banks cannot lend money and an entrepreneur cannot fund a business, there is a problem. Unfortunately, therefore, the State has had to come to the aid of the banks.

All I have heard from the Opposition is about share options and statements that we are not doing the right thing. Its Members cannot complain that we are not giving enough money and are giving too much all in the one sentence, which seems to be what I am hearing from across the floor. The idea of dumping everything into a toxic bank begs the question as to who will pay for that bank. We own Anglo-Irish Bank but if the only suggestion is that all bad debts should be put into it, surely it will create a massive hole for the taxpayer. I would prefer people who are more expert in such matters to explain how that would work and why it is as good a proposal as some people seem to think. If it were that easy, why are we not doing it?

There is a national problem because people are not spending money and neither are they getting money from the banks. There is also an international problem concerning whether people choose to invest here. Funds must be made available for sound business entrepreneurs to enable them to provide employment. Such funds should be used to start the country's economic recovery.

I recently attended a plenary session of the Council of Europe in Strasbourg where we spent a full day discussing the global crisis. Sometimes people think this is just an Irish phenomenon, but it is far from that. The Icelandic people were able to stand up and have a right go, as it were, at the United Kingdom because Iceland was placed on a website that put them it among al-Qaeda and other terrorist groups. When one sees countries such as France, Germany, Spain, Italy, Russia and Poland having to deal with this matter, one realises that it is a very big issue and is not particular to Ireland.

Given the shocking facts that have emerged in recent weeks and months, the question of confidence arises. The goal of this recapitalisation is important to reinforce the stability of the financial system and increase confidence in the banking system in Ireland. We must facilitate the banks to get them lending. I would be as strong a critic of what has gone on as anyone else in either Chamber. It is one thing to say we would not start from here, but we must find a mechanism to examine and evaluate what did happen. We must see why it happened, who was involved and who oversaw it, including the Financial Regulator and bank board members. They should be made to pay. We will be going nowhere until the public sees that we are dealing with those at the helm who did this.

Various issues have arisen in my constituency over the years, including people with Northern bank accounts who did not realise they were supposed to tell the tax man about them. They paid back their entitlements and more on top. They feel they were pursued and were victims of lack of information or that they were cajoled into things that were, technically, not above board, while the people at the helm were able to walk away from most of this. I found it difficult to listen to the 1 o'clock news today and hear a chief executive of one of the banks

say he was finally going to be subjected to a huge reduction in his salary. When pushed as to what this reduction would mean for him, he said it was being reduced from €2.9 million to €2 million this year.

I will not compare us with America because like apples and oranges, we cannot compare the issues here with what is happening in other countries. Many people have listened to the media pounding on about earnings of people in one country versus those in others. No matter what scale we use, it is hard for average citizens to comprehend the earnings of our bank executives. In the current economic climate, or any other, it is difficult for citizens who see the disaster that is our banking system currently and who are watching the attempts to move forward to understand the “me” culture of no rainy day and still plenty to spend. With regard to the words relating to salary reductions of “at least 33%” or “at least 25%”, I think there is scope to move beyond the words “at least” and push for more realistic salaries.

When we were trying to implement our cancer strategy, we went outside of Ireland to find an independent expert, Professor Keane, to come and spend two years here and make the difficult decisions that people within the area could not make, perhaps because of professional friendships. It is time to look beyond Ireland for someone who can evaluate what has been going on in our banking system and suggest what can be done. As we have seen from the issues that have arisen, Ireland is too small a place to be able to clean up the system properly.

My final point concerns mortgages, particularly loans or mortgages of farmers who borrowed to complete jobs in the waste management area. Some people have genuine issues, but will be able to pay back their loans when they receive their guaranteed grants. I would expect banks not to call in those loans or not to issue high-interest bridging loans to those borrowers. Instead, they should absorb the losses until such time as the Government presents the cheques due. We need a balance between calls for payment and the ability to pay. If people are avoiding paying because they think the banks can absorb their losses, that is unacceptable, but if they cannot afford to pay back their loan, there are legitimate reasons the issue should be addressed.

**Senator Eugene Regan:** We are learning more each day about the banks and their nefarious activities, such as directors’ loans and how transfers are classified in accounts. We are also learning more about how the financial system is regulated and the failures in the system. In particular, we are learning about the failures of Government and the Cabinet, of which the Minister here present, Deputy O’Dea, is a member.

We have a situation where the Minister for Finance has endeavoured to explain not having read a fundamental report on the banking system commissioned by him from Pricewaterhouse-Coopers. He said his officials did not bring it to his attention, dumping on them. On the radio this morning he said he did not believe his officials should be scapegoated on the matter, but that is what he did. I do not know whether the Minister needs to be spoon fed on financial matters, but he also made another extraordinary statement this morning. He said he was not convinced that if he had read the passage, its significance would have jumped out at him at that stage.

I do not know if we have a competent Minister for Finance, but that statement tells us a lot. His statement that if he read the report and the sections of the it relating to the transfer between Anglo Irish Bank and Irish Life & Permanent, he would not have recognised its significance says much for our Minister. This is worrying when we are taking decisions on the basis of his advice and recommendations.

With regard to the proposed recapitalisation of the banks, this is something the Minister rejected some months ago when the Opposition pointed out that the State guarantee introduced by the Government was insufficient. The Opposition argued the guarantee only helped to

[Senator Eugene Regan.]

resolve the liquidity problem, but the issue of recapitalisation should be addressed. The Minister and the Government went into denial on the issue, ultimately leading to the nationalisation of one bank.

In making his announcement on the recapitalisation of AIB and Bank of Ireland, the Minister stated the plan is based on the best information available. Apart from the fact that when information becomes available to the Minister he does not necessarily read it, there is a qualification in that remark. He is only acting on the information that is currently available and does not say the information is sufficient to know the true financial position of the banks in which he is investing so much money.

There is something contradictory in the Minister's statement. He says the Government examined the loan books of Bank of Ireland and AIB before deciding that each required €3.5 billion. He says it looked to where the exposures are and applied to those exposures the negative trends that apply to the economy and had come to a conclusion relating to how much capital was required. However, in the same breath he says that one of the conditions of the recapitalisation was that the Bank of Ireland and AIB should come clean about their future losses. Does the Minister know the true position or not?

The issue of recapitalisation has been a feature of international banking in the US and Europe for the past six months, but it was only towards the end of last year that the Minister indicated it might be required in the Irish banking system. We were assured by the regulator and the banks it was not required. All involved in the banking structure, particularly the Minister, denied recapitalisation was necessary. Now we have the proposal before us, but none of the legislation required is before the Houses. All we have in this proposal is an elaboration on the thinking the Minister outlined in December on what was required in terms of recapitalisation.

The position of Deputy Richard Bruton, the Fine Gael spokesperson on finance, is that the Minister has gone in the wrong direction. Let us hope the Minister succeeds with his recapitalisation project, but it is his scheme and he is putting the finances of the country at risk in terms of the manner in which he has gone about it.

There was an acknowledgment in the presentation made earlier by the Minister of State, Deputy Mansergh, with regard to the State guarantee system. He said this is being reviewed in terms of supporting longer-term bond issuance by the banks. This points to a defect in the scheme originally introduced because, clearly, a guarantee for only two years on borrowings and transfers to the Irish banks is inadequate.

The speech of the Minister of State, Deputy Mansergh, also contains the suggestion that greater certainty and transparency needs to be brought to the operations of systemically important financial institutions. With regard to regulation, we have had a sequence of events and disclosures over recent months. It is only today that the Minister is suggesting that badly needed reform of the regulation of the financial system is required. The Government is in power. The Minister is in a position to introduce legislation on regulation. Now, he is stating, as if he has no responsibility for the matter, that reform of the regulatory system is required. He should just get on and do it.

**Senator Frances Fitzgerald:** I welcome the Minister of Defence, Deputy Willie O'Dea. I am glad to have an opportunity to make a short statement on this matter because it is an historic day for the economy of the country when we underpin the banks from the pension fund to the degree that we are doing. It certainly is an historic day for this country's banking.

Potentially, it should also be an historic day in terms of the culture of banking in this country. However, the question that arises is whether it will be an historic day for the good of the country. Will it be historic economically? While Fine Gael does not agree with the approach taken by Government, and I want to read into the record of the House what we believe should be done, we hope the economy of the country will be stabilised and that our international reputation will be enhanced.

It is critical for the future of every citizen and every worker in the country that this works. It is critical for the 1,000 men and women who lost their jobs in north Dublin this morning. It is critical for our young people who are hoping there will be a future in this country for them and that they will not have to emigrate like the generation of the 1980s had to do. It is critical for everyone who hopes to create a job in the country and who hopes to seek employment. Let us hope that it is historic in the sense of bringing stability to the economy even though we believe a different approach should be taken.

Will there be a change in the culture of banking? This is critical question which I would like the Minister to address. Having read the detail of the agreement, which was printed in *The Irish Times* today, I have questions about this. Does it guarantee a change in the culture because it is very clear that a cultural change is needed? Senator Boyle spoke about this, as did a number of other Senators. I am concerned to hear Senator Ross, who did so much in this area over many years prior to it being as clear as it is today that there are serious problems in the culture of banks, state that his view of the agreement is that it is a sell-out to the banks and a complete surrender. I hope this is not true but I have concerns about the detail of the agreement that has been reached.

I hope that when the legislation comes to the House some of the concerns expressed on all sides today will be addressed and we will be able to build into it corrections and more detail so we can ensure a cultural shift. It is very clear that the predominant culture has been an insider culture. It has not been accountable or transparent enough. With the bird's eye view we have now of Celtic tiger Ireland we can see how much insider trading was done and it is very shocking. It raises questions about some of the wealth creation we have seen over recent years. Who got loans from whom? What sort of insider information and knowledge was passed between the key players? What chance did the citizen have?

It also brings into relief our failure in many front-line services in terms of health and education. Why was more money not available for these? At the end of this extraordinary period of growth we have come out with a complete failure in terms of front-line services. This is of great concern to everyone in this House and to the people trying to access these front-line services. Very serious questions still arise after this Government agreement.

Fine Gael is concerned that the recapitalisation proposal of the Government will be insufficient to restore a strong banking system able to maintain the flow of credit to the economy. We are concerned that even though this is what is written in the agreement, it will not happen. We call on the Government to consider other options which would put taxpayers' money for recapitalisation into new banks with clean balance sheets. This is a recommendation about which Deputy Richard Bruton has been speaking out strongly. It is being considered in other countries. Will the Minister respond to this suggestion? Why has this not been considered?

We called on the Government to defer the decision on recapitalisation until a full set of proposals that addresses the management of impaired loans has been developed. We also called on the Government to introduce a flat cap on remuneration of senior executives at no more than €250,000 until the Government's capital is repaid. Let us consider the salary scales which have been current in banking, and I know they are in line with international banking. I read recently about the situation in the United States. We consider the bonuses here excessive. They

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are excessive worldwide and there is no doubt about that. There was a culture that rewarded risk taking and the more risk taking there was, the higher the bonuses were. We can see that led to poor decision making, risk taking to an extraordinary degree and the sort of banking culture we saw in the lending between Anglo Irish Bank and Irish Life & Permanent.

It is extraordinary that the Minister did not read this in the report. I find it more extraordinary that the Taoiseach did not know about it or read the report. We were all waiting with bated breath to see what PricewaterhouseCoopers would state. We were told that for reasons of stabilising the banks, avoiding uncertainty and not damaging the international reputation, this could not be put on the public record. I am beginning to wonder about the protection of vested interests in the withholding of some of the information as opposed to being concerned about the stability of the banks. Was what happened really about protecting vested interests rather than maintaining the stability of the banks?

Last week, National Irish Bank gave a different re-evaluation of its loans and assets and this changed the situation somewhat. This morning, we heard Bank of Ireland has bad debts of up to €6 billion. It is extraordinary that the Government agreed the recapitalisation last night and Bank of Ireland came out with this information today. This drip feed of information is a real problem. It raises the very legitimate question which every citizen has, which is whether we know the full extent of the bad debts and what more information still has to emerge. I would like to state much more but I will conclude on these points.

**Acting Chairman (Senator Paul Coghlan):** Senator John Paul Phelan has one minute.

**Senator John Paul Phelan:** The Acting Chairman might allow me 30 seconds more.

**Acting Chairman:** I do not want to eat into the Minister's time either.

**Deputy Willie O'Dea:** That is all right.

**Senator John Paul Phelan:** I thank the Minister. I wish to make a couple of points and perhaps in his comments the Minister will outline to the House some of the pledges or items contained within the recapitalisation programme. I am in favour of bank recapitalisation. The lessons of history show that it must happen in this situation in an Irish context. However, there are serious shortcomings in what the Government proposes with the current scheme.

Will the Minister outline the moratorium on repossession of houses? How will it operate in practice in terms of people having difficulties meeting their mortgages? Once the 12-month period is up, will they be back to square one? Banks are to increase lending capacity for first-time buyers by 30%, yet the lending capacity for small and medium businesses is to be increased by only 10%. Most of those who have spoken about the need for recapitalisation have focused on the difficulties small and medium enterprises are experiencing obtaining cash to pay bills and keep staff employed. The balance seems to be a bit skewed.

There is to be a fig leaf for the Green Party in the order of €100 million for a green energy and innovation fund. There is also to be a €15 million seed capital fund, to be controlled by Enterprise Ireland. Perhaps the Minister will outline how this will work.

We are living in unprecedented times and there is a great sense of anger and outrage among the general public. We are near social unrest in Ireland - I never believed I would say that in the Chamber. If circumstances become much worse and we have many more days like the Government, especially the Minister for Finance, experienced yesterday, we will end up with social unrest.

There has been a betrayal of trust by the banks and the Government. There seems to be a golden circle at the top level of the management structure of the banking system. The recent revelation about the €7 billion floated in and out of Anglo Irish Bank really beggars belief. This Minister, although he represents Limerick city, is familiar with rural Ireland and will know that a farmer could not move two cows in County Limerick without the Department of Agriculture, Fisheries and Food knowing what is going on, yet these boys can move €7 billion around as if it were confetti. Nobody knows about it and the Minister for Finance did not even read the bloody report. If it were not so serious, it would be comical. Will the Minister for Defence respond to this? I thank him and the Acting Chairman for their indulgence.

**Minister for Defence (Deputy Willie O’Dea):** As the Acting Chairman will know, it is sometimes easier to move billions of euro than to move cows.

I thank Senators for their comments on the Government’s recapitalisation plans for Allied Irish Banks and Bank of Ireland. I reiterate the comments of my colleagues when I say the measures announced today are intended to reinforce the stability of our financial system, increase confidence in the banking system and facilitate the banks involved in lending to the economy.

There has been some comment regarding the sufficiency of the Government’s investment. The investment will significantly strengthen the core tier 1 capital of these banks, well in excess of regulatory limits. It is estimated that it brings the core capital to €12 billion for AIB and to almost €11 billion for Bank of Ireland. These figures are very high by international standards. The structured process undertaken to arrive at the current proposals gives the Government confidence that the investment will succeed in building market confidence and kick-starting lending to the economy.

As mentioned, the amount to be invested was determined following consideration of likely trends in property values and various stress scenarios for the economy. Assurance can now be offered to markets on the levels of capital in the two largest banks, and the fundamental strength of their position in the coming years.

I want to reiterate that this is not simply money being given to banks but rather an investment by the State generating a strong return in the current environment with various other conditions attached, including warrants that provide the State with access to the upside when bank shares recover. The recapitalisation also provides a tool for the Government to address many of the credit-supply issues in the economy. The measures announced by Government include a review of credit supply, a clearing group to review credit supply issues and specific credit initiatives, such as the environmental and clean energy innovation fund.

Statutory codes for mortgage holders and business lending have been finalised. The codes will ensure all banks operating here deal in an even-handed way with customers. In particular, the codes will ensure consumers are treated in a reputable and respectable fashion, for example, when facing mortgage arrears. Taken together, these initiatives will serve to stimulate credit supply and, consequently, economic recovery.

The recapitalisation proposals also include restrictions on remuneration in the banks. The reduction of at least one third of overall remuneration for senior executives is a strong signal in this regard. Moreover, the reduction indicates the commitment of the banks and Government to wage restraint in the economy. The Government will not stop here, however. The Minister for Finance has indicated he will write to the covered institutions remuneration oversight committee to suggest an overall cap on remuneration for executives.

In discussions with AIB and Bank of Ireland, the question of the management of the banks was discussed. As the Minister for Finance has mentioned, the proper forum and method for



[Deputy Willie O'Dea.]

effecting any management changes deemed necessary in the banks is through the annual general meetings of the banks, with the State exercising the voting rights it holds. If the State intervened arbitrarily in the management structures of the banks, it would send a very unhelpful signal internationally on the State's approach to our financial institutions. It is important to note that the terms of the recapitalisation provide that the Minister for Finance can appoint 25% of the directors, in total, in both banks. This representation at board level will ensure an appropriate State role in the oversight of the running of the banks.

Various options for addressing the pressures on the asset side of our banks' balance sheets, including the idea of a bad bank, a good bank, and the option of a form of insurance of bank assets, were raised and debated by Senators today. For its part, the Government has made clear that it is conscious that, in current market circumstances, there is a need to bring greater certainty and transparency to the operations of systemically important financial institutions, in particular in regard to specific asset classes currently perceived as carrying a higher than average risk. For Irish banks, in current economic circumstances, these higher risk classes relate to lending for land and development.

The Government will examine proposals for the management and reduction of risks within banks with respect to these particular exposures, having regard to international developments and work at ECB and EU level. I reiterate to Senators that the Minister for Finance will be carrying forward this work to produce proposals as a matter of priority.

There has been comment here today and in the media regarding our regulatory system and I agree the nature and thrust of Ireland's regulatory system needs to adjust to the new realities. Lessons must be learned from mistakes made and from the international experience of the recent period of worldwide financial disruption. We need a regulatory regime that fosters probity. I welcome the review now being undertaken by the regulatory authority to that end. We are not alone, however, in this process. Work has begun on forging a new model to govern the conduct and behaviour of the financial sector both here and internationally. I assure the House that Ireland will play its part internationally, particularly at EU level, in seeking to ensure the re-design of the financial system and in particular of financial regulation is consistent with the objectives that underlie a strong, stable and functioning national banking system.

Senators will agree it is disappointing that questions over corporate governance practices at Anglo Irish Bank and Irish Life & Permanent are overshadowing what is a crucial step in ensuring the financial stability and future success of the Irish banking system. The transaction in question is the subject of a number of investigations, including by the Financial Regulator and the Office of the Director of Corporate Enforcement.

The matter is, in the first instance, a prudential matter and was brought to the attention of the Financial Regulator by the Department of Finance. It was also one of the corporate governance concerns that resulted in the Government's decision to nationalise Anglo Irish Bank. At this stage, it would not have been appropriate for the Minister for Finance to disclose publicly confidential information which was and remains the subject of an investigation by the responsible statutory authority, the Financial Regulator, and also by the Office of the Director of Corporate Enforcement. The new board is also reviewing all the corporate governance practices of the bank and will put arrangements in place to guide the bank in future. The bank's annual accounts, to be published in the coming weeks, will provide appropriate details on this transaction.

All parties agree that underpinning the stability of the financial system of the State, given its importance to the economy, is vital. The Government is committed to protecting depositors, creditors and taxpayers in its interventions in the banking system. We are committed to ensur-

ing our two main banks, in addition to the other covered institutions, can discharge effectively their essential role in the economy.

**Acting Chairman:** When is it proposed to sit again?

**Senator Martin Brady:** Next Tuesday at 2.30 p.m.

### **Adjournment Matters.**

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#### **Telecommunications Services.**

**Senator Cecilia Keaveney:** I thank the Cathaoirleach for allowing me to bring this matter to the attention of the Minister.

In July 2008 I welcomed the fact that a €43 million telecoms boost would be made to the north west. I assume the Minister's response will be that there is still a €43 million telecoms boost for the north west. However, I could not resist putting down this marker to say we know what happened. I refer to the fact that a survey was done, a consultant's report was made and a decision was taken to try to advance a cross-Border telecoms project in the north west and Derry was chosen on the basis of disadvantage and as part of the gateway initiative linking with Letterkenny. To quote Mr. Mark Durkan, MLA:

It is now plain that the clear public policy reasons for this transatlantic connection being terminated at a Derry Telehouse were set out as far back as the independent PA Consulting feasibility report in April 2007... That report made clear arguments for Derry - in terms of cable technology, the advantages of Derry city's existing telecoms as a junction, and for the economic success of the whole link.

As he pointed out, the Department of Enterprise, Trade and Investment has failed to counter those arguments with real reasons or tenable points. Despite the fact the Minister for Communications, Energy and Natural Resources, many other Ministers and I welcomed the tender for a telehouse in Derry city, we now find that a middle-ranking official seems to have been able to give clarity to the winning operator to say it was not Derry city but Derry county and therefore it could build its facility in Coleraine not in Derry as planned.

I am not knocking the project. It is excellent and will give great opportunities to business. It will be as important to Donegal as anywhere else but the reason for raising the issue is a point of principle. Derry and the west of the North is as badly off as the north west in the geographical pull for resources, infrastructure, economic investment and employment opportunities. Gateway and disadvantaged status and the EU support body were put together specifically to raise difficult areas out of their disadvantage. This project was specifically intended to support the status of Derry city and the surrounding areas. When it came to the final hurdle we found the traditional east-west divide exists in Ulster, namely, from Coleraine across to Belfast. We are back to where nothing seems to be allowed to go west of the Bann.

That is not something I feel happy to talk about so many years after a peace process but I would be politically negligent if I did not support my colleagues in Derry in asking the Government to ask the relevant officials and Ministers in the department in the North to revisit the decision and to go back to the original tender for Derry city. I want to know when the Department, the gateway initiative and the special EU support bodies organisation were told there would be a change in location. Were concerns raised by us or by them? When was the decision

[Senator Cecilia Keaveney.]

to move taken? Will the Government support the request by Mr. Mark Durkan, MLA, and others for the Department of Enterprise, Trade and Investment to restore the original plan?

The type of answer I am bound to get is that the change will allow for more people in more areas to be supported such as Portadown and Newry. It was always intended to support Monaghan. I wish to be parochial. I could be parochial in supporting Coleraine because the car ferry that goes across the Foyle allows me to get there in 15 minutes. I come back to my original point, namely, the status and the confidence that says it is as easy for businesses to operate in Derry city as anywhere else. The point is not the jobs involved in the telehouse. The report originally pinpointed Derry because it had the critical presence in terms of BT, Eircom and Virgin. This was to be an economic multiplier on Kilroot and Maydown for power outages. The maximum latency was in Derry and if the project were based there it would have provided the maximum impact to encourage new industries into the area.

I refuse to pretend this did not happen. People can say we should not rock that boat, that it is great the Executive is making decisions up there. I do not accept that. There was an east-west divide for the past 40 years and that must stop. I pointed out the areas of disadvantage to Mr. Peter Robinson at a meeting in Enniskillen where he presented the facts when he was Minister for Regional Development. It is a fact that the west is not thriving like the east. That must stop and the cross-Border groups and the Minister, who has the potential to attend cross-Border ministerial meetings, must say we will not pander to any decisions that undermine due process, namely, that the project was to be facilitated in Derry.

**Minister of State at the Department of Communications, Energy and Natural Resources (Deputy Seán Power):** I thank Senator Keaveney for raising this matter. I am happy to reply and to provide as much information as possible.

Project Kelvin will provide direct international telecoms connectivity between the north west of Ireland and North America and Europe by bringing a transatlantic submarine telecoms cable ashore in County Derry. This is a joint EU funded cross-Border co-operation project between the Department of Communications, Energy and Natural Resources and the Department of Enterprise, Trade and Investment in Belfast. The Kelvin project will bring high speed international broadband connectivity at a very competitive cost to the north west of Ireland, including Derry and Letterkenny. It will greatly enhance the region's attractiveness for business and foreign direct investment. As Senator Keaveney outlined, as well as Derry and Letterkenny, the benefits of the Kelvin project will extend to Monaghan, Castleblayney and Drogheda, and a number of towns in Northern Ireland.

Total investment in the project will amount to approximately €70 million. The Department of Communications, Energy and Natural Resources and the Department of Enterprise, Trade and Investment will contribute €30 million, which is 75% co-funded by the EU. Following an open tendering process, the contract to implement the Kelvin project has been awarded to Hibernia Atlantic, an international telecoms company which has two transatlantic submarine telecoms cables connected to Ireland. The contract was awarded following a full open procurement process involving both departments.

The Kelvin project involves building a spur from the transatlantic submarine cable, which runs off the north coast of Ireland, and bringing it ashore in Portrush, County Derry. The tender documentation for the project specified that the submarine cable could land along the coast of either County Antrim or County Derry. Hibernia Atlantic has chosen Portrush, County Derry as the most suitable location for the landing of the submarine cable for geographical and environmental factors. For technical and engineering reasons, Hibernia Atlantic has chosen Coleraine, County Derry, as the location for the telehouse for the Kelvin project, as that is

the nearest point to Portrush where the Kelvin cable can be connected to the land-based telecommunications infrastructure. The proposed telehouse will be a small highly secure building containing some telecoms equipment which will be operated by Hibernia Atlantic on a remote unmanned basis.

The proposal to locate the telehouse in Coleraine was submitted as part of Hibernia Atlantic's response to the tender for the Kelvin project. The legal tender documents for the Kelvin project specified the provision of a telehouse facility in Derry. At a meeting which was held for prospective bidders for the Kelvin project at the Everglades Hotel, Derry on 21 July 2008, at which the Department of Communications, Energy and Natural Resources was represented, it was specifically clarified that the Kelvin telehouse could be located at any location in County Derry. The successful tender specified Coleraine, County Derry, and the contract for the Kelvin project has been awarded on that basis. The location of the telehouse in Coleraine does not in any way put Derry at a disadvantage as regards the main benefits of the Kelvin project - the provision of high speed international connectivity to Derry at a competitive cost.

The breakout points that Hibernia Atlantic is providing in the towns along the Kelvin route, including Derry and Letterkenny, all have identical transmission, service offerings and benchmarked pricing. Each town, including Derry and Letterkenny, where these services will be offered has the same opportunity to compete for any ancillary business connected to the Kelvin international connectivity, as all the services delivered by this project will be available at these breakout points.

The Kelvin project is a flagship cross-Border project with €30 million of EU and Exchequer funds in public investment on both sides of the Border in addition to substantial investment by Hibernia Atlantic. The funds made available for this project reflect its strategic benefits for the north west and for international connectivity for Ireland as a whole. The project is about providing the infrastructure businesses need to compete internationally and the project will, therefore, benefit Derry city and Letterkenny in a significant way.

**Senator Cecilia Keaveney:** I am not a legal person. However, the Minister of State said, "The legal tender documents for the Kelvin project specified 'the provision of a Telehouse Facility in Londonderry'." When is a legal tender document subject to an interpretation that changes the fundamentals of what is being offered? Where the documentation stated "Londonderry" or "Derry", it was taken to be the city. What is the implication for the county? Will the Minister of State convey to me in writing as soon as possible who represented the Department at last July's meeting? How do they stand over the changing of the location in the legal tender document? Who made the decision? Was this a joint decision because the project is jointly funded?

**Deputy Seán Power:** The meeting took place on 21 July last year. The Department was represented but I do not have the names of the individual or individuals who attended but I would be more than happy to make further inquiries within the Department before coming back to the Senator. Each town, including Derry and Letterkenny, where these services will be offered has the same opportunity to compete for any ancillary business connected to the project and all the services delivered by this project will be available at these breakout points. I accept the issue raised by the Senator and I am happy to come back to her and provide further clarification.

### **Schools Building Projects.**

**Senator Eugene Regan:** I tabled this matter because of the health and safety risk posed by the poor state of the existing building at Newpark comprehensive school and the fact that the Department of Education and Science confirmed as long ago as 2000 that the most economi-

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cally efficient way to improve the dilapidated condition of the school was to reconstruct the main building. The school has 800 pupils and its intake is broadly based, which contrasts with other schools. It is vital to the area that the conditions in which pupils are educated be improved. The school also has a major adult education centre and it is, therefore, a vital resource for the entire community.

The current building has deteriorated and this is acknowledged by the Department. It was constructed in the 1970s with an expected lifespan of 20 years. There has been engagement with the Department on the design of a new building. The proposed design was presented to the Department in 2007. Amendments were made and these were resolved by the middle of 2008. The school needs the Minister's authorisation to proceed to planning, given the design has been finalised by the Department. The original assessment of its building unit was that the building needed to be replaced and there is no dispute about this. The Department has accepted for some time that the ball is in its court on this matter. The school, teachers and parents' association are anxious to secure clearance from the Department to apply for planning permission. I tabled this matter some time ago but approval for it to be taken was only granted today. I look forward to the Minister of State's reply.

**Deputy Seán Power:** I thank the Senator for raising this matter. I am happy to reply on behalf of my colleague, the Minister for Education and Science, who, unfortunately, cannot be present. Timing is important in any business but particularly in politics and I compliment the Senator on his timely intervention on this matter. As he may be aware, the Minister announced details of 43 major school building projects that are to go to tender and construction this year earlier. I am pleased to inform him that the proposed building project for Newpark comprehensive is included in this announcement. The project for the school involves the provision of a new, state-of-the-art building to cater for 800 pupils on the existing school site. This development will ensure an appropriate learning environment for the pupils of the area for many years to come.

Overall, the 43 projects that will proceed to site this year will create more than 19,600 places by way of new schools, extensions to existing schools and refurbished schools. The building projects will provide permanent primary school places for over 9,800 pupils in 21 new schools and seven extended and refurbished schools. At post-primary level, 5,600 students will have permanent school accommodation in eight new schools. A further 4,275 students in seven post-primary schools will benefit from major extension and refurbishment projects. Five of the school building projects are being re-tendered under the new form of contracts for public capital projects to achieve the best value for money in the construction sector. The remaining 38 projects will go to tender and construction as soon as possible and it is expected that building work will begin on the majority of these projects this year.

Officials will shortly contact each school, including Newpark comprehensive, about the next steps they should take. This year, a record €656 million will be invested in the school building programme. The 43 major projects announced earlier to proceed to tender and construction, along with a further 35 projects announced over the past four months, represent significant new business for the construction industry at a time of severe contraction in that sector. The more competitive environment in the sector will allow the Department to maximise the return it gets for the capital resources invested in the school building programme. The increased spend this year demonstrates the Government's desire to continue investing in the productive capacity of the economy, to create construction jobs and to provide school children and teachers with the best educational environment in which to learn and work.

Earlier, details of 25 high priority major school building projects that are to start architectural planning were announced. The majority of these projects were previously approved in principle to enter architectural planning. These projects have been selected to start architectural planning now because they will provide a significant number of additional school places in areas where demographic demand is great. Later in the year, the Minister intends to announce further projects to begin architectural planning and he will shortly reveal full details of this year's summer works scheme and a new plan to improve energy efficiency in schools.

I thank the Senator for raising the issue of the school building project for Newpark comprehensive and I am pleased both to give him good news about this project and to outline the enormous extent of the work which will be carried out under the school building programme this year.

**Senator Eugene Regan:** I welcome the news that the building work at Newpark has been approved to proceed to the planning stage I know it will be welcomed by all those involved in the school, which is exceptional in terms of its policy on intake, its adult education centre and its general role in the community. I thank the Minister of State for the welcome news. I am pleased that my representations might have assisted in that decision.

**Deputy Seán Power:** I thank the Senator for his comments. He is not obliged to keep the good news to himself.

**Acting Chairman:** He hardly needed that reminder.

#### **Milk Prices.**

**Senator Paul Bradford:** I am glad to have the opportunity to speak on the matter of the crisis faced by dairy farmers as a result of the continuing fall in milk prices. With the Chair's permission, I wish to share time with Senator John Paul Phelan.

**Acting Chairman:** Is that agreed? Agreed.

**Senator Paul Bradford:** I appreciate that the Minister of State understands the gravity of the situation and I thank him for his interest in the subject matter. I know he would concur with my view that down through the generations in rural areas, milk was the liquid gold which kept economic activity flowing. Unfortunately recently and in the past six months in particular that liquid gold has very much lost its lustre. The milk price being paid to dairy farmers has fallen to an unprecedented level. Sadly the statistics speak for themselves. A few short years ago milk was making 34 cent to 36 cent per litre. It is now down to 21 cent or 22 cent. Given that the Minister of State has responsibility for food, he will be aware of the rate being paid for the same product in supermarkets by consumers and the gulf between the producer price and what the consumer eventually pays. The gap in those figures needs investigation.

Based on the statistics it is clear that it is not viable for the vast majority of dairy farmers to produce milk at anything like 20 cent or 21 cent per litre. There was a time when almost every farmer in Ireland was a dairy farmer. Then there was consolidation. When the milk quotas were introduced we moved on to a numbers system whereby one or two farmers per townland were involved in the dairy industry. If the current trend continues there will probably be no more than one farmer per parish involved in milk production because the economies of scale will be such that anything smaller would not be viable, which would be tragic. We need to do everything possible domestically and internationally through the EU to protect family farmers and the smaller dairy units and to ensure that a significant number of farming personnel can

[Senator Paul Bradford.]

remain in the dairy industry. We need to recognise that they cannot do so with milk prices of 20 cent or 21 cent per litre.

From the perspective of policy changes, the milk quota era is coming to an end. That is a problem which could become a solution or *vice versa*. There are problems on the international milk market by way of milk coming in from third countries. There may be difficulties with demand and excessive supply in parts of the equation. However, we need a political and marketing response as well as a strongly planned response at EU level to ensure the long-term viability of dairy farmers and family farms in particular. We must agree that it is not financially possible for farmers to produce milk at 20 cent or 21 cent per litre. Changes are urgently needed to improve matters.

**Senator John Paul Phelan:** I thank Senator Bradford for sharing his time. I welcome the Minister of State, Deputy Sargent, on this important issue. I come from south Kilkenny which has traditionally been a strong dairy farming area. I was reared on a dairy farm. I compliment Senator Bradford on tabling this timely motion. I grew up in a household where there were nine of us at one time between my siblings, parents and other extended family members. There were 40 cows and 60 acres and we all lived on it. My brother now has a farm of twice that size. He has two infant children and a wife who works full time. Were it not for her work they could not live off the farm, and he milks approximately 60 cows. That is a sign of the way things have gone.

Only a few years ago, the former European Commissioner for Agriculture and Rural Development, Franz Fischler, who was a controversial man in his own right, had a particular view of the European model of farming based on the farm family. That used to be the model that existed in South America and other parts of the world. However, it disappeared following the arrival of the ranchers, which meant that smaller producers could not continue.

Sadly, if the milk price goes down to 19 cent per litre, which is the lowest end of the range being projected, we will see a complete decimation of dairy farms and rural communities. Towards the end of 2007 the price was 36 cent per litre. We are now being told that by the middle of this year it will reach approximately 19 cent or 20 cent per litre. Even Teagasc's figures show that the most streamlined and cost effective dairy farm operation can produce milk at 16 cent per litre. For those people, that price would leave a margin of 3 cent. The majority of small producers do not have the scale to produce at 16 cent per litre. This is likely to lead to the devastation of what has been a way of life for many people, particularly in the southern half of the country and in the hinterland of County Dublin.

I call on the Government to try to do something to ensure that that way of life is not completely washed away and that people who are producing a top quality product can get a price that reflects the effort they put in. Sadly at present the multiples, which are importing milk from across the Border and selling it below the price of milk produced in the Twenty-six Counties, are making huge profit. It is arguable that the processors are also making considerable profits, even though Glanbia announced some redundancies during the week. It seems that the producer is the one to take the hit. They cannot continue to do that for very much longer. There is still time for something to be done. In other European countries export refunds are being examined as potential solutions. I do not necessarily believe that is the solution. However, we need to do something to ensure the long-term survival of the family farm unit. I believe this is an issue that is close to the heart of the Minister of State and that he would like to see it protected into the future.

**Minister of State at the Department of Agriculture, Fisheries and Food (Deputy Trevor Sargent):** Ar dtús báire, ba mhaith liom buíochas a ghabháil leis na Seanadóirí Bradford agus John Paul Phelan as ucht seans a thabhairt dom freagra a thabhairt ar an cheist thábhachtach seo. While I did not grow up on a dairy farm like Senator Phelan, I spent much of my summer holidays with my dairy farming relations near Navan in County Meath and I have that level of experience. In this case, rather than looking back, we need to look forward because the situation is changing so quickly.

The international dairy industry is currently facing significant challenges. Markets for dairy products are extremely weak across the globe as a result of a variety of causes, not least the current economic downturn. While dairy product prices hit an all-time historic high in 2007 and into the early part of last year, prices have now returned to far lower levels and we are seeing the effect of these international low level prices finding their way back through the milk chain to primary producers.

In the past year or so, we have witnessed extremes of volatility in dairy product prices on an unprecedented scale. At their peak, prices almost doubled in value and as a consequence of this and the ensuing supply response, prices have now returned to a level below their peak before the boom began. It is important to stress that the slump in demand for dairy products has many causes. The historically high prices achieved in international markets in 2007 and early last year caused a supply response. The subsequent turmoil in the international financial and banking sector has had the opposite effect and caused a reduction in demand, effectively leading to a very substantial price drop, which, from peak to trough, has resulted in a significant reduction in producer prices.

For these reasons we have consistently pressed the EU Commissioner for agriculture and rural development, Mariann Fischer Boel, whom I expect to meet next week, to bring forward market management supports for the sector in this time of difficulty. The House will recall that the health check negotiations concluded in November dealt specifically with supply control and market support in the dairy sector as one of the key areas of reform. In these negotiations we were particularly concerned to secure an expansion in dairy farm output and to release the constraints that exist on Irish dairy farmers in meeting the demands of global dairy markets. This was a particularly crucial issue for Ireland in terms of providing a framework within which dairy farmers could achieve a greater level of commercial scale ahead of the eventual abolition of milk quotas in 2015. In this regard we were particularly pleased with the outcome which will secure growth of some 9% in additional milk output for Ireland before quota abolition in 2015, after which further growth will be possible as supply controls are finally lifted. Allied with the liberalisation of quotas, we also insisted in these negotiations that critical market supports for the type of dairy products manufactured here in Ireland would continue to function in support of the market to soothe volatility and assist the industry in meeting its competitive challenges. In the event, we managed to maintain the butter and skimmed milk powder intervention schemes intact despite the powerful forces opposing the retention of these schemes.

A determined effort was made to introduce tendering for every tonne of butter and skimmed milk powder intervened. This would have been particularly difficult for Ireland. The importance of these measures cannot be overstated as they play a crucial role in levelling out the market supply-demand dynamics and play a vital role in Ireland given our seasonal pattern of production. This is true also for private storage aid for butter where existing arrangements were maintained though once again a powerful opposition was intent on introducing tendering arrangements. The success we achieved in maintaining these measures fully intact is now much in evidence.



[Deputy Trevor Sargent.]

In November, following pressure from Ireland and some other member states, the Commissioner announced her intention to bring forward the opening of the private storage aid scheme for butter in January, two months ahead of the normal date of 1 March, in recognition of the difficult trading situation. However, it had become clear that the early introduction of APS for butter would not in itself be sufficient to stabilise the market, which has continued to deteriorate in the meantime. Following further pressure from my colleague, the Minister, Deputy Brendan Smith, a further package of measures was announced in January. This included the reinstatement of export refunds for butter, skimmed milk powder, whole milk powder and cheese.

The introduction of these measures in recent weeks has not to date provided the level of stimulus required in the market. However given time and further adjustments in the level of support which my officials will be seeking in Brussels next week, the scope of these market measures provide part of the remedy the sector needs at this critical juncture. We can also expect to see some supply-side adjustments as producers respond to market signals.

As we come to the point of low production in Oceania, Australia and primarily in New Zealand, together with lower levels of output in the EU and elsewhere, a realignment in consumption and production across international markets will help restore equilibrium to the markets once more. Side by side with these international factors we must do all in our power to make our production and processing costs even more competitive. For our part we have revitalised aspects of dairy policy in Ireland to meet these competitive pressures. In particular, the Government has allocated a sum of €114 million in support of capital investment in 19 new projects across the dairy processing sector. These will generate an estimated capital spend of some €286 million when fully completed. The purpose of the fund is to increase the efficiency of the main dairy outputs by supporting the upgrading of plant and equipment. This will assist operators in capturing new business in global markets by developing new value added products. On the quota side we have transformed the allocation process through the introduction of the milk quota trading scheme and through legislative measures to secure more flexible approaches to quota transfers and to the establishment of milk production partnerships.

Although markets are currently extremely depressed and we will do everything possible at EU level to provide the type and level of supports necessary to support the market, it is important none the less to emphasise that the medium-term prospects for global dairy markets are extremely good. Growth in wealth and population is forecast to stimulate strong levels of demand for dairy products and returns will improve commensurately. The Government is committed to ensuring the Irish dairy sector reaches its full potential and we will maintain close contact with the EU Commission to ensure support measures are activated at levels that will make a real impact in the market so the good prospects forecast for dairy markets will be fully realised.

**Acting Chairman:** I thank the Minister of State. Has the Senator a question?

**Senator Paul Bradford:** We will return some other day.

The Seanad adjourned at 3.05 p.m. until 2.30 p.m. on Tuesday, 17 February 2009.