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FM OSLO

TO DESKBY 091400Z FCO

TELNO 226

OF 090944Z SEPTEMBER 86

AND TO SAVING COPENHAGEN, STOCKHOLM, HELSINKI

**PRIME MINISTER'S VISIT : THE NORWEGIAN SCENE**

## SUMMARY

1. LABOUR GOVERNMENT ENTERING CRITICAL PHASE AS AUSTERITY BUDGET DEBATE APPROACHES. ITS PROPOSALS, WHICH SO FAR MAKE FEW CONCESSIONS TO THE BOURGEOIS OPPOSITION, MAY NOT SECURE A MAJORITY AND SO THE GOVERNMENT MAY FALL. IT IS TOO EARLY TO SAY WHETHER COMPROMISES MAY PROVE POSSIBLE.

2. ON DEFENCE AND FOREIGN POLICY, NORWAY'S COMMITMENT TO WESTERN POSITIONS IS BASICALLY SOUND ALTHOUGH THERE HAVE BEEN IRRITATING EXCEPTIONS. NORWAY WILL INTRODUCE UNILATERAL SANCTIONS AGAINST SOUTH AFRICA.

3. POLITICAL PROSPECTS FOR THE GOVERNMENT ARE THUS HIGHLY UNCERTAIN, BUT WHATEVER THE OUTCOME THE NORWEGIANS WILL BE HIT IN THE POCKET.

## THE DOMESTIC SCENE

4. THE GOVERNMENT ARE ENTERING A CRITICAL PERIOD IN WHICH, IF THEY ARE TO SURVIVE, THEY WILL NEED TO MAKE PROPOSALS FOR THE 1987 BUDGET WHICH WILL SECURE A MAJORITY IN THE STORTING AND COUNTER-BALANCE THE COLLAPSE IN OIL REVENUE.

5. IT IS A DAUNTING TASK AND THE OMENS ARE NOT GOOD. AFTER MORE THAN TWO YEARS OF CONFIDENT GROWTH THE NORWEGIAN ECONOMY HAS ENTERED DIFFICULT TIMES. THE COLLAPSE IN THE OIL PRICE COINCIDED WITH AN EXPENSIVE ANNUAL WAGE SETTLEMENT IN APRIL, WHICH FURTHER ERODED NORWAY'S WEAK INTERNATIONAL COMPETITIVENESS. THE CURRENT ACCOUNT HAS PLUNGED INTO DEFICIT AND THERE WILL BE EVEN MORE SERIOUS BUDGETARY AND BALANCE OF PAYMENTS DIFFICULTIES IN 1987. INFLATION IS AGAIN INCREASING. GROWTH HAS REMAINED STRONG BUT AN EARLY DOWN-TURN IS PREDICTED AND SOME OF NORWAY'S TRADITIONAL INDUSTRIES ARE ALREADY MEETING CYCLICAL PROBLEMS. MEANWHILE NORWEGIAN COMPANIES AND INDIVIDUALS CONTINUE TO BORROW AND SPEND WITH NO THOUGHT FOR TOMORROW.

6. FACED WITH THE NEED FOR TOUGH MEASURES IN THE 1987 BUDGET, THE GOVERNMENT HAVE ADVOCATED INCREASED AND MORE PROGRESSIVE TAXATION AND REDUCED PRIVATE CONSUMPTION, WHILE THE OPPOSITION PARTIES ARGUE FOR REDUCED PUBLIC EXPENDITURE. THE BUDGET PROPOSALS SO FAR PUT FORWARD BY THE GOVERNMENT ARE NOT CONCILIATORY, INVOLVING A FUNDAMENTAL ALTERATION OF THE TAX SYSTEM TO ALLOW

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FOR PROGRESSIVE TAXATION ON GROSS INCOME. THE FORMER BOURGEOIS COALITION PARTIES MET ON 6 AND 7 SEPTEMBER AND ANNOUNCED THEIR REJECTION OF THESE PROPOSALS.

7. UNLESS, THEREFORE, THE GOVERNMENT CHANGE THEIR PROPOSALS SUFFICIENTLY TO SPLIT THE OPPOSITION, THEY MAY FALL DURING THE BUDGET DEBATE THIS AUTUMN. THE COALITION HAS SHOWN NO SIGNS OF DISINTEGRATING SINCE ITS FALL FROM POWER IN APRIL, DESPITE THE CONSERVATIVE CHANGE OF LEADERSHIP. MOREOVER, A POLL PUBLISHED ON 6 SEPTEMBER SHOWS THAT SUPPORT FOR LABOUR HAS DROPPED TO 35 PER CENT WHILE SUPPORT FOR THE CONSERVATIVES HAS RISEN TO THE SAME LEVEL, ITS HIGHEST POINT EVER. THIS EROSION OF THE GOVERNMENT'S POSITION APPEARS TO REFLECT DISAPPOINTMENT THAT THE ADVENT OF A LABOUR GOVERNMENT HAS NOT BROUGHT MATERIAL BENEFITS: FAR FROM IT. MRS BRUNDTLAND HAS SO FAR EXPRESSED HER DETERMINATION TO AVOID COMPROMISING HER SOCIALIST PRINCIPLES AND WERE SHE TO DO SO SHE WOULD BE IN IMMEDIATE TROUBLE WITH THE LEFT WING OF HER OWN LABOUR PARTY AS WELL AS THE SOCIALIST LEFT PARTY, ON WHOSE VOTES SHE RELIES IN THE STORTING. NONETHELESS SHE ANNOUNCED ON 8 SEPTEMBER HER READINESS TO ENTER INTO CONSTRUCTIVE DISCUSSIONS WITH THE COALITION PARTNERS ABOUT TAXATION CHANGES.

#### FOREIGN AND DEFENCE

8. NORWAY'S COMMITMENT TO NATO UNDER THE LABOUR GOVERNMENT REMAINS BASICALLY SOUND. MRS BRUNDTLAND TOLD THE NATO MILITARY COMMITTEE LAST WEEK THAT NATO WAS THE CORNERSTONE OF NORWEGIAN DEFENCE, AND FOREIGN POLICY IS SAFE IN THE HANDS OF THE FOREIGN MINISTER, KNUT FRYDENLUND. THE ACTIONS OF THE DEFENCE MINISTER, HOLST, HAVE GIVEN MORE CAUSE FOR CONCERN AND IRRITATION, EG OVER NORWAY'S FIRST NATO FOOTNOTE (IN MAY) AND AN UNSUCCESSFUL ATTEMPT TO UNDERMINE UK/US POLICY ON SHIPS' VISITS AND NUCLEAR WEAPONS (IN AUGUST). BUT HOLST IS UNLIKELY TO BE ALLOWED TO DO SERIOUS DAMAGE AND THE GOVERNMENT WILL MAINTAIN ITS BROAD SUPPORT OF NATO POLICIES DESPITE PRESSURE FROM THE LEFT. THE MAJOR NATO EXERCISE, NORTHERN WEDDING, IS PROCEEDING SMOOTHLY OFF THE NORWEGIAN COAST AND IN THE MAINLAND (THOUGH MARRED BY A HELICOPTER ACCIDENT IN WHICH 14 US SERVICEMEN WERE KILLED). IT WILL, HOWEVER, BE DIFFICULT FOR THE GOVERNMENT TO MAINTAIN IN 1987 THE 3.5 PER CENT INCREASE IN DEFENCE SPENDING WHICH HAS BEEN ACHIEVED IN RECENT YEARS: THE SEVERE ECONOMIC DIFFICULTIES DESCRIBED ABOVE SEEM LIKELY TO REDUCE THAT FIGURE.

9. CURRENTLY THE MAIN FOREIGN POLICY PRE-OCCUPATION IS SOUTH AFRICA. THE GOVERNMENT (SUPPORTED BY THE OPPOSITION) ARE COMMITTED TO A UNILATERAL TRADE BOYCOTT AND WILL INTRODUCE A MEASURE TO THIS EFFECT WHEN THE STORTING REASSEMBLES. THERE IS CONFUSION, FOLLOWING THE NORDIC PRIME MINISTERS' MEETING IN COPENHAGEN IN AUGUST, AS TO WHETHER THE NORDIC STATES WILL CO-OPERATE ON SOUTH AFRICA VIA DENMARK IN THE UN SECURITY COUNCIL.

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10. THE OFFSHORE INDUSTRY IS THE IMMEDIATE VICTIM OF THE LOW OIL PRICE (ALTHOUGH IRONICALLY PRODUCTION IS BURGEONING AND EXPECTED TO REACH A RECORD 68 MILLION T.O.E. IN 1986) WITH WORSE TO COME IN 1987 AND BEYOND. THE GOVERNMENT HAVE TINKERED WITH THE OFFSHORE TAX REGIME TO TRY TO ENCOURAGE FUTURE ACTIVITY. THEIR IMMEDIATE CONCERN IS THE GIANT TROLL GAS FIELD, DEVELOPMENT OF WHICH WILL PROVIDE THE BULK OF THE WORK FOR THE NORWEGIAN FABRICATION INDUSTRY AT THE END OF THE DECADE. MEANWHILE THE NORWEGIANS CONTINUE TO FLIRT WITH COLLABORATION WITH OPEC TO BOOST THE OIL PRICE BUT ARE FINDING THE PRACTICALITIES MORE DIFFICULT THAN THE RHETORIC.

CONCLUSION

11. IN SUM, THE GOVERNMENT NEED TO PERFORM AN EXCEPTIONALLY DIFFICULT BALANCING ACT. FOR THEIR PART, THE OPPOSITION ARE WELL PLACED TO MAKE A FRONTAL ATTACK ON THE GOVERNMENT DURING THE BUDGET DEBATE, BUT HAVE NOT YET DECIDED WHETHER TO DO SO: SOME, THOUGH THEY WILL NOT ADMIT IT PUBLICLY, ARE TEMPTED BY THE PROSPECT OF LEAVING THE LABOUR GOVERNMENT TO FACE THE APPROBRIUM OF IMPOSING THE UNPOPULAR MEASURES WHICH CANNOT NOW BE AVOIDED. TIME WILL TELL WHETHER MRS BRUNDTLAND CAN PERSUADE THE STARTING TO ACCEPT BUDGETARY PROPOSALS WHICH ARE BOTH SUFFICIENTLY SEVERE TO BALANCE THE BOOKS AND SUFFICIENTLY "PROGRESSIVE" TO MEET HER OWN POLITICAL REQUIREMENT. BUT NO-ONE SHOULD DOUBT HER DETERMINATION TO SUCCEED IN THIS IF AT ALL POSSIBLE. EITHER WAY, THE FISCAL OUTCOME FOR THE NORWEGIAN VOTER IS LIKELY TO BE FAR FROM PALATABLE.

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BENTLEY

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PLANNING STAFF  
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MR THOMAS  
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