



Foreign and Commonwealth Office

London SW1A 2AH

29 February, 1984

Jon Teh...

Visit of the Dutch Prime Minister, Mr Lubbers, on 2 March

/ I enclose briefing for the Prime Minister's working breakfast with Mr Lubbers as follows:

Steering brief

European Community topics, with separate EC General Brief

Defence and Arms Control

East/West Relations

London Economic Summit (2-9 June)

Lebanon

Iran/Iraq

Falkland Islands/Argentina

IEA Executive Director (Defensive brief)

The Netherlands Internal Scene

Personality Notes on Mr Lubbers and Mr van den Broek

Mr Lubbers will be accompanied by the Netherlands Foreign Minister, Mr van den Broek; the Director-General for European Cooperation, Dr Posthumus Meyjes; and the Netherlands Ambassador in London, Mr Huydecoper. We have been told that Mr Lubbers will not be accompanied by a Private Secretary. As agreed, Sir Crispin Tickell will accompany the Foreign and Commonwealth Secretary. I understand that Mr Williamson is also attending.

The Foreign and Commonwealth Secretary's Special Representative will meet Mr Lubbers at Heathrow at 0700. The working breakfast is due to begin at 0815. When the talks end at 1000, Mr Lubbers plans to call at the Netherlands Embassy. He will fly home from Heathrow at about 1145. Mr van den Broek will have further talks with Sir Geoffrey Howe after breakfast on Community matters.

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We have been informed by our Ambassador in The Hague that in view of developments on INF deployment in the Netherlands Mr Lubbers has made clear that if the subject is raised he would prefer to discuss it tete-a-tete with the Prime Minister. It is important that the subject should be covered. You may therefore wish to consider whether the Prime Minister might take Mr Lubbers aside before (or after) the breakfast for a few minutes.

I suggest
after.

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VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS, ON 2 MARCH

LIST OF BRIEFS

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- B European Community topics
- C Defence and Arms Control
- D East/West Relations
- E London Economic Summit (7-9 June)
- F Lebanon
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- J The Netherlands Internal Scene
- K Biographical notes on Mr Lubbers and Mr van den Broek.



VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS: 2 MARCH

STEERING BRIEF

1. Apart from the European Council in Athens, the Prime Minister last saw Mr Lubbers for private talks in The Hague on 18 September. This time Mr Lubbers will be accompanied by the Dutch Foreign Minister, Mr van den Broek.

2. The Prime Minister will wish to focus on Community affairs in the run-up to the March European Council. A separate steering brief is provided for this. (A short brief will follow on the EMS which Mr Lubbers has said he will raise.) But the Prime Minister might like to begin the meeting by discussing one or two issues of mutual interest. It is important that the question of INF basing in the Netherlands is raised at some point. Our Ambassador at the Hague reports that Mr Lubbers would like to discuss this alone with the Prime Minister.

THE TALKS

3. When speaking alone with Mr Lubbers the Prime Minister could say that she was following the Dutch debate on Cruise missiles closely and could ask Mr Lubbers for his assessment of the likelihood of the required Dutch Parliamentary decision being taken in May on INF basing. The Prime Minister could say that the rest of NATO, and particularly the other INF basing countries, were looking to the Dutch for a positive decision. We understood Dutch domestic difficulties and were aware of the Dutch wish to relinquish some short-range nuclear systems. If the Dutch government could demonstrate firm determination over long-range deployment and a willingness to go ahead with the preparations required for it, we would be prepared to consider sympathetically Dutch concerns with nuclear defence as a whole, and encourage our allies to do likewise.



4. Mr Lubbers would be interested in hearing the Prime Minister's views on East West relations and particularly on her visit to Hungary.
5. On the Lebanon, the Prime Minister could say that we agree with the Dutch that a UN force, with agreement from all parties, would be useful. Would the Dutch contribute?
6. Mr Lubbers may be interested in plans for the London Economic Summit. The Prime Minister could assure him that, as hosts, we are fully aware of the need to keep non-participants informed of the proceedings. We have already begun to do so through the OECD.
7. If Mr Lubbers raises Falklands/Argentina the Prime Minister could say that the Argentines' reply to our proposals for bilateral talks was certainly positive in tone. But the Argentine Government still see the resumption of a dialogue as a means to negotiating sovereignty in the framework of UN resolutions which we do not accept. We will be replying privately. It would be helpful if our partners could encourage the Argentines to recognise the obvious constraints.
8. There has been considerable recent interest in the role of the WEU as a forum for discussing European security concerns; the French are actively promoting a 'revival' of WEU. If Mr Lubbers raises the issue the Prime Minister could say that we are willing to look at French ideas but nothing should be done which might undermine NATO or weaken transatlantic links.
9. If Mr Lubbers mentions the Dutch candidate (Mr de Brauw) for Executive Director of the IEA the Prime Minister could say that we think the US candidate (Bosworth) is the right man for the job, though we would not rule out de Brauw.

VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS: 2 MARCH
EUROPEAN COMMUNITY

(a) GENERAL BRIEF

Introduction

With the exception of budget imbalances, the Dutch have been a stalwart ally during the negotiations particularly on the issues of budget discipline, on control of CAP expenditure, on many aspects of CAP reform, on Transport liberalisation and insurance and on relations with the Community's external trading partners. On budget imbalances they have reluctantly accepted the need for a lasting solution to the problem but reject the idea of a system based on net contributions, partly because they genuinely see it as contrary to the spirit of the Community as they conceive it, partly because they wish to reduce the scale of the UK's relief which would mean that their own position as net recipients (to the tune of 304 mecus in 1982) would become less favourable. The Dutch made no secret last year of the fact that they supported the Danish proposal on budget imbalances which would have left the UK with an unacceptably high net contribution on 1982 figures of approximately 1200 mecus, because the results were less favourable to us than those given by our safety net scheme. There is no reason to suppose that the Dutch will quarrel with any particular system for budget imbalances other than one based on net contributions. They will ultimately judge it by the figures that it delivers, ie its cost to them. They are particularly resistent to giving any relief to the Germans.

Objectives

(i) To consolidate the many areas of agreement between ourselves and the Dutch in the Post-Stuttgart negotiations.

(ii) To establish as much common ground as possible on

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budget imbalances while making clear that we will have to judge any scheme by the size of the adjusted net contribution which we will be left with after reliefs and that this must be modest.

(iii) To leave Mr Lubbers in no doubt that we are committed to the development of Europe, and are working for decisive progress at the March European Council but that our essential requirements must be met if an overall settlement is to be reached.

(iv) To express concern at the position adopted by the Community (at French instigation) on the negotiations on Spanish agriculture (brief f), and to persuade Mr Lubbers that the northern states should stick together to make sure that any Franco-Spanish bilateral deal is not at the expense of their interests.

Points to Make

1. Progress has been made since Athens. It was reflected in President Mitterrand's speech in the Hague on 7 February. Endorse his view that Europe must respond to challenges of the 80's. Our commitment to Esprit and A320 Airbus both symbols of our determination to develop European collaboration in practical.

2. Growing recognition that reform essential prerequisite of renaissance. Much in President Mitterrand's speech, particularly on budget discipline, which we would not have heard a few months ago.

3. UK and Netherlands have much in common in the negotiations. Helpful to identify key areas.

Budget Discipline (Brief b)

4. As President Mitterrand said, finance must determine expenditure not expenditure finance. There must be same

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financial discipline within the Community that we all have to apply at national level.

5. Growing consensus within the Community that we must establish a framework for expenditure each year and live within it. Within this framework, there must be guideline for agricultural expenditure holding its growth markedly below rate of increase in the own resources base.

6. You and we have worked closely on this issue and share the view that essential ingredient for a new mechanism for budget discipline is that it should bind all three institutions (Council, Commission and Parliament), ie it must be incorporated as part of the Community budgetary procedures. UK is not saying that Treaty amendment is necessarily the only route. But European Council should commit itself to the essential principles of the system with detailed implementation to be worked out between March and June. We cannot have a system in which the Council sets a firm guideline only to have the Parliament disregard it. The Commission's recent paper on the subject was inadequate in this respect.

CAP (Brief c)

7. You and we have been at one on need to subject agricultural spending to overall budget discipline including the need for the Commission to bind itself to observe its own proposals throughout the price fixing. Considerable movement in our direction on the part of other partners, including the French.

8. Also see eye-to-eye on other CAP issues notably need for rigorous price policies and for guarantee thresholds for all sectors which are, or are likely to be in surplus; or where such measures prove necessary because of a significant increase in expenditure or where production is increasing more rapidly than consumption. Hope we can agree to work for
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precise commitment on guarantee thresholds in Presidency text in Brussels.

9. Key surplus sectors are clearly milk and cereals. On milk recognise that Commission annual production target of 97.2 million tonnes causes problems for you as it does for us particularly as we are not self sufficient. Believe, however, that it is essential to meet Commission target - and to do so in one step - if we are not to make budget discipline impossible from the outset. Commission have calculated that every 1 million tonnes of production above the target costs the Community 235 million ecus. Prefer operating through price but if super levy preferred by others, there must be no exemptions to it. Any exemptions would lay us open to demands, not only from Ireland, but others (Italy, Greece, Luxembourg) and would make the whole idea absolutely unacceptable. If something has to be done for Ireland, should be outside milk sector. Would be prepared to see some flexibility on establishment of base year for production levels. We would wish to take 1983 - but content for others to take 1981+, provided we all contribute to reaching the target figure.

10. We have common approach to cereals and cereal substitutes, ie, we must not encourage any formal talks under Article 28 of the GATT about stabilising impact of cereal substitutes before we can offer the US firm decisions on CAP reform including commitment to move Community cereals prices progressively closer to world prices.

11. You and we remain firm in our opposition to the Oils and Fats Tax. Clear from my talks with Kohl, that Germans remain firmly opposed also.

12. On MCAs, vital thing for UK is that whatever proposals may be agreed between France and Germany should not be inflationary and should be consistent with our objectives on /budget

budget discipline. Variable MCAs will need separate treatment.

Budget Imbalances (Brief, p)

13. This has been one area where you and we have disagreed though there are important elements in common which are now increasingly accepted throughout the Community. I would summarise these as follows:

(i) need for system that will last thus avoiding annual haggling within the Council and with the Parliament. Emerging consensus within the Community that system should last as long as any new own resources decision, of which it would form a part.

(ii) recognition of need for system based on objective measures of budget burden and of corrective mechanism linked to relative prosperity.

(iii) agreement on reliefs being made on the revenue side.

(iv) agreement to application of the new system in respect of 1984 and all subsequent years.

14. Recognise that you object to system based on net contributions. Fact remains that this has been measurement used by the Community, not just by Britain, since 1978. Anyone can devise a scheme which makes our burden appear less than it really is. Facts cannot be concealed from the House of Commons, who will judge acceptability of the outcome of the negotiations on one thing, namely the level of the UK's net contribution after reliefs. That issue cannot be dodged and explains the importance of both an equitable system and one that gives a sustainable result.

15. It was for this reason that I said at Athens that we should look to system which, in its first year of operation in an enlarged Community would leave the United Kingdom with a net contribution of 400 to 500 mecus.

16. I know some Member States are tempted to come up with schemes giving UK reliefs equivalent to our 1983 refund, ie some 750 mecus. This overlooks the fact that we agreed to a lower than justified refund for 1983 because of the accidental overpayment of reliefs for 1980/81. A system giving us relief of the same order as 1983, ie, leaving us with a net contribution of 1200 mecus on 1982 figures would be quite unacceptable.

17. Recognise too that there is much interest in German type scheme based on VAT/expenditure share gap. Such a scheme deliberately treats as if they were VAT the levies and duties element in the UK budget burden, and thus leaves out of consideration element in gap amounting to 350 mecus on average over the last four years. If we are to consider a scheme based on VAT/expenditure share gap, it would be essential that parameters should be very generously drawn, ie, absolutely no change in definitions of allocated expenditure, generous definitions of threshold and close to 100% compensation above the threshold limit.

Level of Own Resources

18. In accordance with Stuttgart declaration, on the basis of decisions taken on control of expenditure and on budget imbalances we would be ready to decide on future financial requirements of the Community. But large increase to 1.8% or 2% now being bandied about would be unjustified and unacceptable. Present mood of the House of Commons is to think that no increase at all is necessary. As part of an overall acceptable package and in order to make provision for enlargement Parliament would no doubt consider a revised own resources decision. But in no circumstances would the House of Commons be prepared to consider an increase taking the ceiling to beyond 1.4%.

/New Policies



New Policies (Briefs d and e)

19. Important to have a section on New Policies for European Council Declaration, so as to commit the Community to a programme of positive development of steps which, taken together, would be far-reaching in effect.

20. Pleased that Netherlands Government has called for an early meeting of the Transport Council following recent chaos in France. This has underlined the validity of case we have been making for a long time in favour of:

- (i) abolition of lorry quotas;
- (ii) single administrative document for customs clearance. Note that Benelux countries have already introduced their own scheme to this effect.

21. When we have mentioned these issues in the past, some partners have tended to shrug them off as not compatible with a grand design for Europe. But taken together they would have a significant impact. After appalling chaos of recent weeks, practical action by the Community to grapple with these issues would have a more favourable impact on public opinion as a symbol of our determination to take action as a Community in ways which help ordinary people, than any number of grandiose declarations.

Foreign and Commonwealth Office
28 February 1984

VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS: 2 MARCH
EUROPEAN COMMUNITY

(b) BUDGET IMBALANCES AND BUDGET DISCIPLINE

Points to make

BUDGET IMBALANCES

1. Now wide agreement on some of basic building blocks which will go to make the solution, ie need for lasting solution, threshold expressed in terms of GDP and relative prosperity and revenue side of reliefs. Gap between UK and other Member States is narrowing.

2. What we are looking for is lasting solution. No objection to idea of a review clause provided that system continues until there is unanimous agreement to change it. General consensus that system should last as long as any new own resources decision. This would be satisfactory. Also general agreement that system should:

- Be based on objective measurement of full budgetary burden borne by a Member State.
- Establish a limit on net amount which each Member State should transfer to Community budget, taking account of ability to pay.
- Be implemented on revenue side of the budget.
- Operate in respect of 1984 and subsequent years.

Quite prepared to consider proposals other than our own, provided that they satisfy these essential requirements.

3. German scheme meets some of our criteria, but by taking VAT/expenditure share gap, effectively treats the levies and duties element of our burden as if it were VAT, thus leaving on average 350 mecu per year uncovered over recent years. Only basis on which we could consider a scheme based on VAT/expenditure share gap, would be if parameters were very generously drawn. This would mean a very low financing

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limit, close to 100% compensation above our limit and no undermining of the allocated budget as currently defined.

4. Recognise that 'net contribution' is unpopular term for other Member States, but it is a political reality. Net contributions was not a UK invention but a Community one. Community has been talking about budget issue in terms of net contributions since 1978. Our Parliament will judge the outcome of any agreement on budget imbalances by reference to the size of our remaining net contribution. Have to say that scheme giving us reliefs in first year on 1982 figures of about 750 mecus would be totally unacceptable. This would leave us net contribution of nearly 1300 mecus. We accepted a 1983 refund as low as 750 mecus only because this took full account of the alleged 'over payments' in respect of 1980 and 1981. I made this explicitly clear at Stuttgart when I accepted the figure. At Athens, I suggested that any scheme should, in the first year of operation in an enlarged Community on basis of 1982 figures, leave UK with net contribution of 400-500 mecus ie we would be willing to remain modest net contributors. This would be fair level in terms of our relative prosperity.

5. [If Lubbers argues that this would amount to a 75% refund]: If UK Parliament is to be asked to agree to an increase in own resources it will expect the UK be making a relatively smaller net contribution than hitherto. We are willing that the UK, now 7th in the Community GDP league table, should remain a net contributor. Compare with Dutch position. You are 6th in GDP league table with a net receipt of 300 mecus in 1982, compared with our uncorrected net contribution of 2036 mecus.

/BUDGET DISCIPLINE



BUDGET DISCIPLINE

6. Grateful to Dutch for having shown us their draft paper on budget discipline. Largely see eye to eye on this issue. Both agree that control of agricultural spending is our major concern because it absorbs two thirds of the budget. Also agree that agreement on effective control of EC spending is precondition for increase in own resources.

7. Encouraged by progress made in last couple of months. Particularly encouraged by President Mitterrand's Hague speech and discussion at La Celle Saint Cloud. Now generally accepted that finance must determine expenditure; that Community budget must be subject to same strict discipline as public expenditure in Member States; that budgetary discipline should apply to all expenditure; and that there should be separate constraint on agricultural spending.

8. Not looking for confrontation with the European Parliament. But effectiveness of any mechanism for overall budget discipline will depend on successful clarification and improvement of relationship between Council and Parliament. The amendments that were agreed to the Treaty in 1975, designed to give the Parliament a role in budget making, have not worked well. Cannot be good for Community that Council is each year overridden by the Parliament over increase in maximum rate. It may be that some amendment to these provisions is needed. We have not taken a firm view on this. May be other ways of achieving the objective but the matter needs careful consideration.

9. Problem with Commission's latest proposals on overall budgetary control is that they are too lax on control of non-obligatory expenditure. Cannot see that it will improve discipline if European Council clearly envisages possibility of exceeding maximum rate. We should like to see text of conclusions for March European Council which would make clear that

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- (a) overall budgetary envelope should be established by Council at beginning of the year
- (b) budgetary envelope is binding on all three institutions throughout budgetary procedures
- (c) guideline for agriculture expenditure should be set within this overall envelope
- (d) these provisions should be embodied in the Community's budgetary procedures

Would be possible for Council to leave Parliament room for manoeuvre within overall ceiling. Provision could also be made for Council to consult Parliament before.

10. Glad that Commission's revised proposal for guideline for agricultural expenditure has taken account of most of Dutch amendments. Willing to consider guideline based on three-year moving average, provided guideline is worked on a consistent basis, but we still have a number of problems with Commission text: Commission seems to envisage a guideline estimated in a political agreement by European Council together with changes to the Council's procedural rule. Do not believe that these changes to internal rules of Council will be sufficient to achieve effective control, must have firm commitment that Commission itself will observe the guideline in its proposals and the Council will be bound by it throughout price fixing, there cannot be any bidding up of the Commission's proposals; formula for growth of agricultural expenditure must specify rate "markedly below" growth of Own Resources; must be stringent provisions for clawback; and cannot accept Commission's attempt to redefine agricultural expenditure.

11. Our first priority at March European Council should be to take outline decisions on ends we are aiming to achieve and then to consider appropriate means to achieve them. Not possible for us at this stage to decide what precise procedures are needed and on what legal base. Best way forward is for March European Council to invite Council of

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Ministers to take necessary decisions for embodying whatever framework is agreed in the Community's budgetary procedures.

Increase in Own Resources

12. Trust you agree that Commission's idea of going for increase of VAT rate to 2% is quite unrealistic. No possible justification for figures this high. Commission's approach seems to take no account of increased budgetary discipline to which most Member States are now committed nor to buoyancy of own resources. If, as we hoped, Community is beginning to move back on to a course that would bring sustainable economic growth, then both existing 1% ceiling and, to an even greater extent the new ceiling, if one were agreed, would provide a source of revenue which would reflect that growth. If on the other hand, the Community fails to pull out of the recession then none of its Member States would be able to afford more than rather modest increase in own resources currently under discussion.

13. UK will only make a judgement about level of own resources in the light of the negotiations. At Athens a number of Member States seemed to favour an increase to somewhere in the region of 1.4%. What is Dutch position? Certainly, UK Parliament would not agree to anything larger than 1.4%.

VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS: 2 MARCH
EUROPEAN COMMUNITY

(b) BUDGET IMBALANCES AND BUDGET DISCIPLINE

Essential Facts

BUDGET IMBALANCES

1. The Dutch have been a lot less helpful on budget imbalances than on other issues in the post Stuttgart negotiation. They dislike our safety net proposal partly for theological reason (net balances, juste retour), partly because they think it would give us too much money, and partly because they simply think it unnegotiable. But they are prepared to agree either with the system floated by the Greek Presidency (based on the GDP/expenditure share gap) or with the German proposal for a VAT based scheme. However the Dutch seem to have got hold of the idea that we regard the figure for any budgetary settlement as more important than the mechanism used. They believe that the best approach is to agree a figure for compensation to the UK and then to tailor a system to the desired figures. We need to disabuse them of this idea. The system and the results it gives are equally important - not least because we need sustainable results.

2. The Dutch also appear to think that we could accept a rebate of about 750 mecu because we had accepted a rebate at this level at Stuttgart in 1983. At La Celle St Cloud the Dutch Foreign Minister said that he would not possibly be able to justify a 1500 mecu refund for the UK. We shall need to leave Mr Lubbers in no doubt that a rebate of 750 mecu is absurd and unacceptable.

BUDGET DISCIPLINE

3. The Dutch have made common cause with us on budget discipline, although they believe that a legally binding guideline is probably unattainable.

4. At the end of January the Dutch showed us their own draft text on control of Community expenditure but did not table it because they were unable to reach agreement with their Benelux partners. Now that the Commission have tabled their own revised proposal of 14 February incorporating many of the earlier Dutch amendments to their agricultural guideline, it may well be that the Dutch decide not to table their proposal at all. We offered the Dutch a number of comments on their draft. They agreed that the text should make it clear that the Commission must observe the agricultural guideline not only in its market management operations but also in its price fixing proposals. They also took our point that an instruction to the Council to adopt certain "internal rules" with regard to the control of expenditure was too weak a formulation, but considered that our suggestion of substituting the words "appropriate legal rules in the framework of the Community's budgetary procedures" would make others suspicious that Treaty change was envisaged.

5. The Dutch have been critical of the Commission's latest proposals on budget discipline. The Dutch representative said in Coreper on 23 February that although the Dutch amendments had been incorporated in the Commission's new proposal for an agricultural guideline they would like to see an even stronger text. The Commission's ideas on general budget discipline would not offer more effective budgetary control. Treaty amendment was not advisable but the budgetary relationship between the Council and the Parliament should be studied in detail.

6. The Dutch want to see a mechanism for budget discipline in place as soon as possible and believe that Treaty amendment would take too long to complete. They have therefore suggested that a two stage operation should be considered: the first to agree the most watertight system that could be devised without Treaty amendment which should

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be put it into operation from 1 April this year; the second to work towards something more ambitious which might involve Treaty amendment and a deal with the Parliament on its budgetary powers. We need to persuade Mr Lubbers that a two stage approach along these lines is not advisable. We do not need to stipulate that Treaty amendment is necessary. We do need to stipulate that whatever is agreed on budget discipline must be incorporated in the Community's budget procedures. The detail of how incorporation would be achieved could be worked out later. This is not far from the Dutch approach but it removes the danger, inherent in their idea, that we would end up with no more than ~~an~~ expression of political intent which would quickly come unscrambled.

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28 February 1984

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VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS: 2 MARCH
EUROPEAN COMMUNITY
c) COMMON AGRICULTURAL POLICY

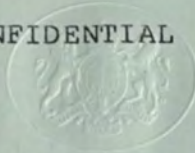
POINTS TO MAKE

1. A lot of common ground between UK and the Netherlands on CAP:

- Savings on CAP crucial to rest of Stuttgart package.
- Need for urgent decision in the Agriculture Council on a suitably stringent package to put to the European Council.
- An effective financial guideline for CAP expenditure.
- Price restraint/guarantee thresholds on all products in surplus or likely to be so: or where expenditure is rising fast. (We noted how forcibly Van Den Broek put this point at the recent informal meeting of Foreign Ministers.)
- On the basis of such a balanced package, tight control over milk, in particular, probably through a super-levy applied at farm level, with no significant exemptions and with parallel action on price.
- No oils and fats tax, which would destroy any chance of a deal with the US on cereals substitutes, where firm decisions on CAP reform are an essential precondition for formal talks with the US.

2. Worth going over a couple of crucial points:

- (a) The latest texts on budgetary discipline are a great advance (and we thank the Dutch for their efforts to
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tighten up the CAP guideline). But we continue to believe a financial guideline will only be effective if it can be formally embodied in the Community's budgetary procedures. How does Mr Lubbers see this?

(b) We were concerned to hear Van Den Broek say that the Netherlands were thinking in terms of a 99 million tonne threshold for milk, instead of 97.2). Every additional one million tonnes costs some 235 mecus a year. There is no money for 99 million tonnes. UK will vigorously oppose an increase in the milk co-responsibility levy to pay for a high threshold.

VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS: 2 MARCH
EUROPEAN COMMUNITY
COMMON AGRICULTURAL POLICY

ESSENTIAL FACTS

1. The Netherlands generates about 8% of EC agricultural production (UK 13%). Its largest sectors are milk (27%), pigmeat (18%), beef and veal (12%). 17% of its production is in products outside the CAP (such as flowers).
2. The Dutch have been our closest allies over the need for CAP savings. In particular, they have been helpful in firming up the Commission's proposals for a financial guideline. Nevertheless, they have weakened a long way since summer 1983, when they tabled a paper which referred to the need for a "strict legally-binding framework". They have now abandoned the demand for a "markedly lower" formula for the rate of increase in agricultural expenditure, and the Agriculture Minister (Braks) has been paying more attention recently to the need to safeguard farm incomes.

Financial Guideline

3. See Brief (a) on Budget Discipline.

Milk

4. The Dutch had been close to us on the need for very tight controls in the milk sector. They agree, for example, on the need for farm level application of the super-levy, with no exemptions. Like us, they vigorously oppose the proposed intensive levy. And they are firm on the need for a strict price policy in parallel. Nevertheless, we have points of disagreement.

- (a) They now speak of a threshold of 99 million tonnes (2 million too high).
- (b) they have no objection to having this financed through an increased co-responsibility levy) which we vigorously oppose as discriminatory, ineffective in

/limiting

limiting production, and a back-door increase in own resources).

(c) They support the elimination of the UK butter subsidy: our position is that it would make no sense to raise the consumer price of this surplus product (which leaves open the possibility of eliminating the subsidy in some circumstances).

MCAs

5. The Dutch have a positive MCA of about +6% (ie close to ours). Like the Germans they are under pressure to revalue, but they are letting the Germans make the running on how this is to be achieved. Speaking in a Parliamentary CAP debate about a month ago, Braks said the Commission proposals were too drastic. Nor did he go along with the German proposal. In particular he argued against solutions which would involve national compensation.

"Other Products"

6. The Dutch have been particularly firm on the need for a balanced package of CAP reform, not concentrating exclusively on milk and cereals. This is helpful to us insofar as it represents a hard line on the need to control Mediterranean products. But the Dutch oppose UK positions on the variable premium on sheepmeat, the beef variable premium, and the butter subsidy.

Oils and Fats/Cereals Substitutes

7. At an earlier stage the Dutch looked wobbly but they are now firm on the agreed line on cereals substitutes (present informal talks must be without commitment; no Article 28 talks with the US except on the basis of firm decisions on CAP reform). And Dutch opposition to the oils and fats tax should hold now that we understand that Kohl has persuaded Mitterrand not to push this proposal.



CAP Finances in 1984

8. CAP spending increased some 30% last year. 16.5 billion ecu is budgetted for EAGGF in this year's budget. Latest estimates are for claims of some 18 billion ecu. Using the Commission's (3-year rolling average) method of calculation there can be no hope of achieving the guideline this year.

Conclusions:

- (a) Even with urgent and courageous decisions on CAP savings there will be a financial squeeze on CAP this year. Danger that Commission will merely defer expenditure (eg allow stocks to accumulate).
- (b) Inevitable breach of the CAP guideline this year shows that the Commission's methodology in calculating the guideline is shaky.

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28 FEBRUARY 1984



VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS: 2 MARCH

EUROPEAN COMMUNITY

d) NEW POLICIES (INCLUDING THE INTERNAL MARKET)

POINTS TO MAKE

1. A key section of post-Stuttgart negotiations where concerted UK/Netherlands action can make a real impact. We both see the need to stimulate free competition in trade for goods and services. Important that New Policies figure on the agenda for the Brussels European Council - particularly in a European election year: Community has to demonstrate that it can look forward with positive and cost-effective ideas. Should encourage Presidency to make its mark in this sector.

2. Despite present financial constraints, Community can make progress in areas which affect people's livelihoods and the economic growth of the 10:

. by adopting long-standing proposals for liberalisation which involve little or no expenditure, such as removal of barriers to trade in services - eg insurance - as well as goods; introduction of Community standards in place of restrictive national laws which fragment the market; and reducing frontier delays now facing goods traffic - Community should simplify customs formalities by early agreement on the Single Administrative Document for goods crossing frontiers. Netherlands has shown the way with adoption of Single Document for intra-Benelux trade.

. by concentrating on more economic use of existing resources (eg, by rigorous application of agreed criteria for cost-effectiveness of Community action which should



supplement, not just duplicate, action at national level).

Services - Insurance

3. Grateful for consistent Dutch support in long campaign to bring in a genuinely liberal regime for non-life insurance services. After 8 years' desultory discussion, this proposal is as far as ever from adoption. European Council can endorse a framework for speedy Council discussion leading to agreement: political will is what is lacking. Same true for liberalisation of Transport services (see separate brief).

Research and Development - ESPRIT (if raised)

4. UK industry and we attach importance to ESPRIT and want it to succeed. A soundly based programme; proof that the Community can act positively when it has a mind to, and of our commitment to using Europe as a vehicle for development in the new technologies.

Airbus (if raised)

5. Mr Tebbit announced our positive decision yesterday. Further evidence of our commitment to industrial collaboration in the Community.

ESSENTIAL FACTS

6. Our New Policy priorities:-

. Internal Market: removal of barriers to intra-Community trade in goods and services (eg insurance); Community standards initiative; reduced frontier formalities for goods traffic (eg adoption of a Single Administrative Document for customs clearance).



- . Transport: liberalisation of lorry movement (by abolition of all road haulage quotas) and air transport services.
- . Environment: introduction of unleaded petrol no later than 1990.
- . Energy: solid fuels policy to promote economic production and use of coal.

7. The Dutch are our closest allies in the campaign to complete the Internal Market in goods and in services, such as non-life insurance. Two priorities in the Internal Market Work Programme established by the Copenhagen European Council (December 1982) - on EC standards and reduced frontier formalities - are still not agreed. The Presidency have now arranged an Internal Market Council for 8 March. On the agenda is the Third Country Problem - how to unblock the EC Article 100 standards harmonising programme. The French have blocked 21 draft standards directives for up to 5 years because they fear that exports from non-EC countries could gain an automatic right of access to the French market if some other Member State certifies that the exports conform to an EC harmonised standard. At the last Internal Market Council (in November) agreement was reached on technical aspects of the 15 least controversial directives; but the French again prevented their adoption by linking this package to adoption of the draft Common Commercial Policy Regulation (CCPR), designed to speed up the Community's reaction time to unfair trading practices of Third Countries. We and the Dutch object to the proposed decision-making procedure for the CCPR, which the French support, and which would leave the last word with the Commission.

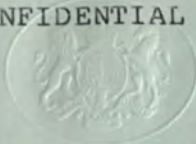


ESPRIT

8. The Dutch have been waiting impatiently for the adoption of ESPRIT.

FOREIGN AND COMMONWEALTH OFFICE

28 February 1984



VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS: 2 MARCH
EUROPEAN COMMUNITY

(e) EUROPEAN TRANSPORT POLICY

Points to Make

1. Transport liberalisation should figure prominently in the new policies chapter on the agenda for the Brussels European Council. European Council should be presented with a short, realistic list of priority measures which it can endorse for rapid adoption by the specialist Councils. Fully support priority Netherlands attaches to free lorry movement by total abolition of all road haulage quotas over a fixed period (eg 5 years). Obstacles to road haulage liberalisation among underlying causes of recent strikes in France and Italy.
2. UK has backed Netherlands' request for a special Transport Council before the European Council to discuss problems of road haulage; and for discussion of frontier facilitation measures at the March Internal Market Council.
3. Abolition of road haulage quotas is the subject ripe for decision in the field of transport liberalisation: but we also share a second priority: rapid, negotiated liberalisation of Community air transport policy resulting in greater scope for airlines to exercise their own commercial judgment in fare setting, route capacity etc. The liberalisation of air transport should be on the priority list.
4. We also attach importance to maintaining the existing competitive regime for international shipping, to withstand growing protectionist pressures. The Community has a key co-ordinating role to play here.



VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS: 2 MARCH
EUROPEAN COMMUNITY

(e) EUROPEAN TRANSPORT POLICY

Essential Facts

1. The Dutch have indicated that Mr Lubbers will wish to raise liberalisation of EC road haulage. We entirely agree with them that all road haulage quotas are an unnecessary restriction on the free movement of goods in the Community. Under the present patchwork quota system, UK companies have only a limited number of permitted trips each year, eg to Germany. Once the quota is exhausted, hauliers have to circumnavigate States for which they do not have a valid permit. Several Member States (Germany, France and Italy) wish to preserve this practice to protect the carriage of freight by rail at the expense of road haulage. We maintain that the market should be free to decide the transport mode used.
2. Mr Lubbers may well raise the question of abolishing road haulage quotas at the European Council on 19/20 March. We fully support his efforts, and should encourage him to do so. Free lorry movement is one of the key UK priorities in our New Policies paper tabled in the Community last September. If the opportunity arises, the Prime Minister will wish to press for transport liberalisation at the European Council; it would be helpful if Mr Lubbers would undertake to set the ball rolling.
3. The Dutch have made a formal request to the Presidency for an urgent Transport Council to discuss the recent lorry blockages in the Community, and their underlying causes. We have confirmed our support for this request, and pressed for the Council to be held before the European Council. We would like to see this special Council discuss the road haulage quota; frontier facilitation; and relaxation of the EC

/regulations

regulations governing drivers' hours. Such a Council would be useful preparation for New Policies discussion of transport liberalisation on 19/20 March; oddly, the Dutch prefer to reserve discussion of the road haulage quota issue for the European Council alone. We believe that the subject should be aired in both fora.

4. The Dutch are our only allies in the Council in our campaign to liberalise Community air transport services. The Commission have now agreed a policy review on air transport, which contains several new proposals designed to achieve the partial deregulation of the European air industry. These are now under study by the Department of Transport. The Presidency have scheduled an informal meeting of Transport Ministers for 2 April, and a Transport Council on 10 May. We shall wish to press for progress on road haulage and aviation on both occasions, and also to remind our partners of our concern that the Community should concert action to preserve free competition in international shipping, where our non-conference lines and cross-traders face growing protectionist pressures from third countries' nationalised shipping lines.

Foreign and Commonwealth Office
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VISIT OF THE DUTCH PRIME MINISTER: MR LUBBERS:

2 MARCH

EUROPEAN COMMUNITY ISSUES:

(f) ENLARGEMENT

POINTS TO MAKE

1. UK and Dutch views on this very close. Welcome impetus that French Presidency has now decided to give to accession negotiations. Will give Presidency full support in any effort to complete substantive part of accession negotiations by 30 September 1984.
2. Glad negotiations have now begun on Spanish agriculture. But we believe Community's opening position was unjustifiably unbalanced and harsh. Community - ie France - will have to move a long way before outlines of a deal can emerge. What we need to end up with is an enlarged Community in which interests of all 12 members are properly and fairly reflected. Otherwise Community will simply store up trouble for itself.
3. Spaniards tell us that they have reached a general understanding in bilateral contacts with France on transitional arrangements in agriculture, which Spaniards believe France will reflect within EC as basis for Community position. Understanding appears to

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be based on mutual continued protection. If so, the sooner the Community knows details of what it involves the better. UK and Dutch interests very similar; we and other Northern member states must stick together.

ESSENTIAL FACTS

4. After long dragging their feet on Spanish accession, the French Presidency are now trying to accelerate the negotiations and for the first time appear prepared to accept a timetable for their completion. They pushed through a Community opening position on Spanish agriculture (put to the Spaniards on 21 February) which was protectionist and largely designed to suit French interests; we tried to add balance and element of reciprocity but received no support even from northern member states. The Dutch were unhappy with the approach but accepted French arguments that a bad declaration was better than no declaration.

5. Behind the new French approach appears to be a private understanding reached between France and Spain in Ministerial level talks at Rambouillet on 11/12 February on the way forward on Spanish agriculture, although the French claim to their EC partners that they met the Spaniards only as France and not as Presidency - a distinction evidently not properly



appreciated at the time by the Spaniards, whose account of the deal struck on agriculture has yet to be reflected in any change in the French position in Brussels. The likelihood is, however, that a deal on the lines of the putative Franco-Spanish understanding, which are favourable to France, will be struck, though probably not for some months yet. If so, terms would include immediate but very limited access for Spanish fruit and vegetable exports to the Community, balanced by similar access for EC exports to Spain of dairy, beef and cereals; with exports in both directions rising only very slowly for the first few years. The northern member states failed to co-ordinate a sufficiently solid position to stand up to the weight of the French Presidency. It is important that they should do so in further detailed discussions of Spanish agriculture, otherwise the northern member states will be asked to pay the price - notably in the industrial chapter - for Franco-Spanish understanding.

6. The French are unlikely to want to press on the Spaniards immediate and sharp dismantlement of their highest industrial tariffs during the transitional period; although the French have industrial exports to Spain, they are more concerned about agriculture and they also have substantial industrial investment in



Spain. The Dutch should be as reluctant as we are to see maintenance at high levels during the transitional period of protectionist barriers either for EC agriculture or Spanish industry.

7. There are increasing signs that the French may not be ready to make many more concessions in the enlargement negotiations this side of the European elections, - and that they hope to shift responsibility for any delays in the negotiations on to the UK, whether by spotlighting any points of difficulty for the UK in the accession negotiations; or - more generally and against the possibility of failure at the March/June European Councils - by exploiting our rejection of the immediate increase in own resources required by enlargement in the absence of agreement post-Stuttgart.

Foreign and Commonwealth Office

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VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS 2 MARCH
EUROPEAN COMMUNITY ISSUES:

(g) INTERNATIONAL TRADE ISSUES

POINTS TO MAKE

1. Must do what we can to keep EC/US relations on the rails, by giving minimum of ammunition to protectionist lobby in Washington;

a) must not be railroaded down track towards unilateral action on cereal substitutes; limits can only form part of a CAP reform package - a real effort must be made to strike a deal US can live with:

b) must make sure proposal for oils and fats tax stays dead;

c) constructive approach to further work on liberalisation of international trade, including some encouragement for idea of new GATT round from London Summit (but carefully - decisions must be for later).

ESSENTIAL FACTS

2. The February Foreign Affairs Council emphasised EC disquiet at rising, election-year, US protectionism. We (and others, including the Dutch) believe the EC cannot combine this stance with precipitate protectionist action of its own on cereal substitutes or (less probably) an oils and fats tax. Threats of US



retaliation for such action target in particular wine, but US will want to keep up pressure on rest of Community by threatening other exports (eg whisky).

3. On cereal substitutes the Dutch (who are the principal EC consumers), like us, can only agree to restrictions in the context of a wider package of CAP reforms. The February Foreign Affairs Council agreed that the Commission should talk informally to the US, without any mandate at this stage: meanwhile detailed work on their proposals continues in Brussels. Meanwhile French ardour seems to be cooling: the Germans say Kohl and Mitterand agreed on 21 February that no action on cereal substitutes should be taken at present. On oils and fats the Dutch position is more ambiguous; although the Foreign Minister firmly rejected the Commission's proposed tax at La Celle St Cloud, some officials seem not to have abandoned the idea of using it as a last-resort bargaining counter to clinch a deal on CAP reforms.

4. There has been only preliminary EC discussion of the Japanese proposal for a new GATT round. The Dutch are conscious of the arguments for caution (difficult agenda, LDC sensitivities), but also of the risks of too negative an approach.

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VISIT OF THE DUTCH PRIME MINISTER TO LONDON, 2 MARCH 1984

BRIEF ON DEFENCE AND ARMS CONTROL ISSUES

POINTS TO MAKE

INF

1. Following with interest Dutch debate about cruise missiles Concerned that Netherlands should avoid a negative decision, or further delay.
2. Longer range INF performs special role in political and military terms for European Allies. Without US nuclear weapons capable of reaching Soviet territory from bases on European soil, we would have to rely on US strategic weapons to convince Russians that their territory could never be a sanctuary from which to exert nuclear pressure on Europe. Therefore important to stick to joint Alliance decision to spread Pershing II and cruise missiles amongst Western European countries, to demonstrate collective will of Allies.
3. If Allied solidarity and resolve fails over deployment of cruise missiles in Europe:
 - (a) Soviet Union will have achieved its aim of driving wedges between Europeans and United States;
 - (b) will be much harder to get Russians to negotiate again about INF; they would be encouraged to believe that cruise missile programmes in other countries might also falter; and that whole question could be re-opened in Germany too;
 - (c) apparent repudiation of key Alliance decision by an Ally directly involved could have very serious effect on US Congressional and public

/opinion

Parliament since they do not want a strong Netherlands in a strong NATO anyway. But it is difficult to identify a suitable "carrot". It would have to be something for the Dutch Government to use in its domestic debate.

3. The most promising carrot is probably the offer of some reduction in existing Dutch nuclear roles within NATO. Currently the Dutch have six tasks:

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The elimination of the first two tasks will follow from NATO's study of nuclear systems in Europe completed in October 1983. In addition, amongst the 1400 warheads which that study decided should be withdrawn from Europe are some of the warheads for the Lance missiles, aircraft and artillery. But the study did not decide to reduce the numbers of the delivery systems. There are military arguments against any such reductions. But the overall damage to the Alliance would be far greater if the Dutch were to abandon their responsibility for deploying their share of the NATO cruise missiles programme. There is an obvious danger, in any hinting to the Dutch of a willingness to reconsider some of their existing nuclear tasks, that they will take it as a cue to shed tasks and not come good on cruise

/missiles

opinion, as regards future of US commitment to Europe.

4. Understand Dutch domestic difficulties. Aware of Dutch wish to relinquish some short range nuclear systems for political reasons. If Dutch Government can demonstrate firmness of purpose over LRINF deployment and allow necessary preparations to proceed UK would be prepared to consider sympathetically Dutch Government's difficulties with nuclear defence as a whole; and to encourage other Allies to do the same.

ESSENTIAL FACTS

INF

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OF THE PUBLIC RECORDS ACT

1. 48 cruise missiles are due to be deployed in the Netherlands subject to approval by the Dutch Government. To meet the timetable, (first missiles operational by the end of 1986), construction work needs to begin in mid 1984. The Dutch Government have identified the putative site, (Woensdrecht), and need a positive Parliamentary decision on basing in May/June. There are number of rebels within the Government party and the prospects for a Government majority are uncertain.

2. Like us, the Americans are concerned that the Dutch Government may be moving away from recommending a positive decision to Parliament.

We and the Americans agree that chastising the Dutch, and threatening dire consequences for them following a negative decision, may not be enough to influence Dutch Ministers, particularly the Defence Minister de Ruyter. Moreover the "dire consequences" in Alliance terms may only encourage some of the potential defectors in the Dutch



missiles. Any hint of a British willingness to reconsider existing tasks (which need only be cast in very general terms at this stage) should therefore be made wholly conditional upon Dutch acceptance of cruise missiles. It is indeed in the logic of the long-standing Dutch preoccupation with "shifting" the key emphasis from short to longer range INF. NATO-wide that they themselves cannot have the one without the other.

4. Officials were able to discuss this problem again briefly in Bonn on 27 February with key American and German colleagues. There is general agreement among the three of us that the prospects in the Dutch Parliament are not rosy; that a negative decision is to be avoided at all costs; that it would be better than nothing if the key decision point in Parliamentary terms were simply postponed, if possible allowing early work on the site to proceed (as the Belgians do) by administrative action to keep options open; and that some bargain involving other Dutch nuclear roles may well prove inevitable at the end of the day if the Netherlands are to be kept on board.

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VISIT OF DUTCH PRIME MINISTER, MR LUBBERS, 2 MARCH

EAST/WEST RELATIONS

POINTS TO MAKE

Chernenko Succession

1. Chernenko looks like another interim leader. Stress so far has been on continuity of policy.
2. Not yet clear what effect his election will have. Collective decision making in Politburo will continue. Gromyko (Foreign Affairs) and Ustinov (Defence) will have considerable influence.

East West Policy

3. Important for West to maintain consistent approach over long term. Avoid overstimulating public expectations.
4. No compromise on principles. Make clear our concerns about Soviet behaviour. But at same time will seek broader dialogue with Soviet Union and its Allies.
5. Important to avoid misunderstanding between East and West and to achieve better mutual understanding without which arms control negotiations unlikely to succeed. Recognise progress will be gradual. Not clear when Soviet Union will be in position to resume nuclear arms talks without too much loss of face. Unity and determination on Western side particularly important at this time.
6. Soviet policy of wedge-driving between Europeans and US will continue. Some reduction in stridency of tone of Soviet criticism of US and Reagan personally.

Visit to Hungary

7. Sound political reasons for responding constructively to Hungarians' professed wish to conclude agreement with the EC.

Poland

8. Time to re-engage Western influence, building on Ten's agreement to gradual resumption of official and technical contact. But Americans seem likely to continue with a hard line policy in their election year. Western unity still important.

ESSENTIAL FACTS

Succession of Chernenko

9. Chernenko's claim to post of General Secretary based on seniority in Party Secretariat. Not best qualified candidate; lack of experience in international field. But has already been publicly referred to as Chairman of Defence Council. Next generation (Gorbachev and Romanov) presumably decided not to risk political futures by mounting serious challenge. Gromyko's position improved; spoke with authority at Andropov's funeral.

US/Soviet Relations

10. Some signs of movement in US/Soviet relations. Reagan's 16 January speech made clear that US ready to improve East/West relations. Russians have taken constructive approach to discussions over a number of technical questions: hot line, demarcation of boundary in Bering Straits. Americans encouraged by positive signals in Bush/Chernenko meeting. Since then harder Soviet line on US re-emerging in public statements. Ustinov's Pravda article



of 23 February (Soviet Armed Forces Day) describes US as "chief organiser of imperialist policy of oppression" and accuses them of seeking military superiority. But such public statements do not rule out possibility of adding some substance to superpower dialogue in private. Russians still avoiding direct criticism of Reagan.

Netherlands/Soviet Union

11. Dutch approach similar to that of UK. Take firm position on questions of principle (particularly concerned about human rights), but recognise importance of maintaining contacts. Play steady if low-key role in NATO. Foreign Minister Van den Broek saw Gromyko at opening session of CDE, and attended Andropov's funeral.

Visit to Hungary

12. Hungarians have seemed keen to conclude agreement with EC. UK has actively pressed partners to recognise political advantages of forthcoming response. But most recent report is that previously flexible Hungarians have switched course and given a negative reply to the Commission's ideas. Reasons for this unclear; perhaps playing safe until Chernenko's attitude clearer.

Poland

13. Situation in Poland generally stable. Internal situation still difficult but not as repressive as eg Romania or Czechoslovakia.

14. US policy towards Poland remains hard line and out of step with Ten who agreed (September 1983) on desirability of re-engaging Western influence and gradual resumption of official and technical contact. Americans see Polish problem as essentially political; prefer step-by-step

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relaxation conditional on prior Polish improvements in human rights/economic reform. Such policy involves Polish loss of face, unlikely to be effective.

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VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS, 2 MARCH

London Economic Summit, 7-9 JunePoints to Make

1. Looking forward to relaxed, workmanlike Summit building on progress at Williamsburg. Economic recovery now firmly established in US but less strong elsewhere. Focus of discussion will be how to consolidate the recovery and to strengthen the international trade and financial systems. Important to register realistic progress on rollback. Will also be discussion of international debt problem and the difficulties faced by developing countries.
2. As hosts, will meet need to keep non-participants informed of proceedings. Have already begun to do this through OECD forum. Commission also playing its part.

Essential Facts

1. Personal Representatives met in London for the second time on 17-19 February to discuss possible themes for the Summit. Talks focussed on a UK-prepared discussion paper circulated beforehand. This will now form the basis for a thematic paper to be presented to participants shortly before the Summit. Further Personal Representatives' meetings are scheduled for April and May.
2. Personal Representatives were rather more optimistic about the strength and durability of recovery than the end-1983 forecasts had been. OECD sees growth in 1984 picking up to 3.75%. Growth of 4-5% expected in US and Japan but only 1.5% in Europe. Consumer price inflation in major countries has fallen from over 12% in 1980 to 4.5% in year to December 1983. The Summit will probably want to pay attention to impediments to growth caused by structural rigidities.



3. US likely to be criticised for size of budget deficit (1985 forecast \$184bn, with projected level of about \$180 bn over next 3 years). US three-month interbank rate of 9.5% and longer term rates of about 12% still source of concern. Dollar has depreciated slightly from record levels at beginning of year. But it is still unclear how far it will fall.

4. Case-by-case approach to international debt problem has coped well so far. Lasting solution requires continuing adjustment by debtor nations and more stable medium-term pattern of financial flows. World economic recovery beginning to benefit debtor nations in terms of commodity prices and increased trade. Forecast resurgence of world trade should generate rapid increase in LDC exports.

5. OECD Ministerial and Williamsburg Economic Summit in May 1983 made commitments to halt and reverse protectionism. Will be important to register progress in London. Subject of particular interest following Japanese proposal for new GATT round. Likely to be considerable divergence of view, with French wanting to minimise any commitment and FRG and Japan prepared to go much further.

6. Dutch have some voice in Summit through EC delegation. But like some others they are concerned that the Summit will take decisions on matters affecting their own interests. They will expect to be kept informed of how preparations progress. UK has good record on this count. At OECD Executive Committee in Special Session in January, UK representative gave account of UK approach to Summit to a dinner at which Dutch were present. This was greatly appreciated. OECD Ministerial on 17/18 May will set the scene for the Summit three weeks later. The European Commission also briefs the whole Community on the outcome of Personal Representatives' meetings.



VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS, 2 MARCH

LEBANON

POINTS TO MAKE

1. Comment on outcome of UN Security Council debate (28 February) on replacement of MNF by UN force. Agree with Dutch that UN force can only play useful role by agreement with all the parties on the ground. Firm ceasefire essential. Will Dutch contribute?
2. Danger of permanent partition if present stalemate continues. But some grounds for hope in latest Saudi peace efforts. Crown Prince Abdullah optimistic during recent visit to London (22-24 February).

ESSENTIAL FACTS

3. The Dutch have played a constructive role in the Security Council, despite their doubts about French haste in pushing ahead with a mandate for a new UN force in Beirut. The Dutch have stressed that an effective ceasefire is needed, and that a new UN force can only operate effectively if all parties on the ground agree. Foreign Minister van den Broek repeated those points at the meeting of Ten Foreign Ministers in Paris on 27 February.
4. The Dutch originally contributed 850 men to UNIFIL, in Southern Lebanon. They reduced their contingent to 150 men in October 1983, ostensibly on the grounds that UNIFIL was hampered by an inadequate mandate and no longer served

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a useful purpose, but in fact because of strong pressures from the Dutch Ministry of Defence for complete withdrawal on financial and manpower grounds. The Dutch had previously lobbied in New York for an amended mandate, with the implication that, in that case, their full contribution to UNIFIL would continue. Agreement on a new UN force for Beirut would therefore put them in a dilemma. Subject to the exact mandate, the Ministry of Foreign Affairs would probably urge a positive response to a request for Dutch participation. But the majority feeling in the Dutch Parliament is that, while the Netherlands should play an active part in UN peacekeeping operations, these should be limited to frontier areas and avoid any risk of involvement in internal political affairs of the country concerned. This plus financial difficulties will make the Dutch cautious about taking on new commitments.

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VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS, 2 MARCH

IRAN/IRAQ

POINTS TO MAKE

The War

1. The UK neutral and shares Dutch concern to see early end to the conflict. Recent Iranian offensives seem to have been contained by Iraq. Concerned at Iraqi claims to have attacked Kharg Island. A difficult period ahead.

Escalation

2. Immediate aim must be to prevent escalation of war, especially actions which endanger shipping in the Gulf area. UK urging restraint on both sides.

Contingency Planning (if raised)

3. If the conflict spreads to the Gulf first recourse must be diplomatic action. We are in close touch with our allies and friends in the Gulf.

Mediation

4. UK will give full support to any diplomatic efforts which may help to end the war. In particular are encouraging UN Secretary-General to maintain his mediation efforts. Disappointing that Iran has now rejected two-pronged mission after Iraq persuaded to accept it.

Arms Sales (Defensive)

5. Recent UK press reports do not give an accurate picture. We remain strictly neutral and have not supplied lethal items to either side. (If raised) We have not supplied chemical weapons to Iraq.

/Iraqi Use of CW



Iraqi Use of CW (If Raised)

6. Concerned at reports of Iraqi use of CW. Need to maintain respect for 1925 Geneva Protocol. Careful consideration needed, however, before Ten seek to take direct action. Welcome the idea of discussion by Disarmament Working Group.

ESSENTIAL FACTS

The War and Mediation

7. On 16, 21 and 22 February the Iranians launched offensives in the central and southern sectors of the front. Their claims of success are exaggerated though they have occupied some territory. Iraq claims to have attacked Kharg Island on 27 February. Iran denies this. First indications suggest that no attack has taken place. If these prove incorrect and Iraq carries out further attacks on Kharg Island this would mark a serious escalation in the conflict. Iran could be tempted to close the Straits of Hormuz, as she has declared she might, if her oil exports are threatened (90% of Iran's oil is exported from Kharg Island). It is unfortunate that the UN Secretary-General's plan for a two-pronged mediation mission to investigate civilian casualties and hold political discussions has been rejected by Iran, after efforts had been made to persuade Iraq to accept.

Contingency Planning (not for use)

8. Consultations with the Americans on contingency planning, covering the threat of an interruption of oil supplies through the Gulf have been close, though the French remain reluctant to engage in contingency planning. We have also been in close contact with the Gulf States and



Ministerial agreement has been reached on certain measures should the crisis escalate. There have been recent UK press reports that we are building up our naval presence in the Gulf, along with the Americans, in the expectation of an escalation in the war. These are not true. We do maintain a patrol of two warships available, if needed, to come to the assistance of British shipping in the Gulf and the Americans have a sizable naval presence in the North Arabian Sea. But, the situation in the Straits of Hormuz is at present normal and there are no Royal Navy ships in the Gulf.

UN Mediation

9. The UN dual mission to Iran and Iraq to examine civilian damage and hold political discussions has been postponed, following Iranian rejection of the proposal. We are urging the Secretary-General to do all he can to resume his mediation efforts and trying to persuade the Iranians to be more positive. [Not for use] UKMIS New York have approached the Iranian Permanent Representative in concert with the Pakistanis. However, Rafsanjani, the influential speaker of the Iranian parliament, has said he sees no hope of successful mediation at the moment.

Arms Sales to Iran

10. There have been a number of stories that the UK is supplying arms to Iran. This is untrue, though we are discussing the release of some blocked tank spares and two unarmed naval support ships. No ammunition or gun-related items are included. A third support ship, the Kharg, completed in 1980, but detained here because of the US hostage crisis is now being taken over by the Iranians. It is unlikely to leave for several months.



Dutch View of War

11. Netherlands has been careful to maintain a neutral position and was helpful in our attempt to achieve a balanced UNSCR 540. Dutch have periodically expressed the hope that the conflict can be settled peacefully by negotiation on a basis acceptable to both sides.

Foreign and Commonwealth Office

28 February 1984



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VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS, 2 MARCH

FALKLAND ISLANDS/ARGENTINA

Points to Make

1. Have now received, through Protecting Powers, reply from Argentine Foreign Minister to our proposals for bilateral talks on normalisation of relations.
2. Argentines describe our proposals as a "positive step" towards the normalisation of relations, which they agree is desirable.
3. They propose a two-stage approach, comprising a "first exchange of ideas leading to substantive negotiations at the appropriate time". The "substantive negotiations" could not "overlook the vital subject of sovereignty". They would be "within the framework" of the UN General Assembly Resolutions of 1982 and 1983, with UN Secretary-General taking part.
4. The relatively friendly tone of the reply and the recognition of the importance of the normalisation of bilateral relations are welcome. But it is all too clear that the Argentines see the resumption of a dialogue as designed to lead inevitably to negotiations on sovereignty under UN auspices and in the framework of UN Resolutions which we do not accept.
5. The reply therefore presents some significant difficulties. We are considering it very carefully and will respond in due course. Will keep our Partners informed. We do not intend to make our exchanges with the Argentines public. Best to proceed by discreet diplomacy, rather than public point-scoring.

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6. Very helpful if our Partners could encourage Argentines to recognise the obvious constraints, and to be realistic about scope of initial exchanges. Priority now must be to build confidence by a step-by-step approach to the re-establishment of normal bilateral relations.

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Essential Facts

1. Our proposed terms of reference for official talks on the normalisation of bilateral relations were conveyed to the Argentine authorities by the Swiss Protecting Power on 26 January. Our EC partners and Allies were informed in detail of our approach.

2. We received the Argentine reply on 17 February. It calls for a two-stage approach, comprising a "first exchange of ideas leading to substantive negotiations at the appropriate time". The agenda for the preliminary exchange of ideas would include our six points, to which the Argentines would insist on adding these further items:-

- (a) Lifting the Falkland Islands Protection Zone (FIPZ).
- (b) Halting the "fortification" of the Islands, construction of the airfield, and the "war-like concentration" in the area.
- (c) Guarantees of withdrawal of nuclear weapons from the area.

3. We did not propose to take the initiative to reveal the contents of the Argentine reply but it became apparent that the Argentines themselves were giving the text in confidence to our Partners and Allies. We have therefore given EC and certain other posts discretion to make the text available, in strict confidence, or to confirm its content.

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TO FLASH BERNE

TELEGRAM NUMBER 22 OF 26 JANUARY

MIPT: RELATIONS WITH ARGENTINA

1. FOLLOWING IS TEXT OF SPEAKING NOTE.

BEGINS: THE BRITISH GOVERNMENT HAVE ASKED THE SWISS PROTECTING POWER TO APPROACH THE GOVERNMENT OF ARGENTINA, TO CONSIDER MEANS OF FOLLOWING UP THE EXCHANGE OF MESSAGES ON 10 DECEMBER BETWEEN MRS THATCHER AND PRESIDENT ALFONSIN. THE BRITISH GOVERNMENT REPEAT THEIR WELCOME FOR THE RETURN OF DEMOCRACY TO ARGENTINA. THEY BELIEVE THAT THE POSSIBILITY OF TALKS BETWEEN BRITAIN AND ARGENTINA AT OFFICIAL LEVEL ABOUT THE PROGRESSIVE NORMALISATION OF RELATIONS BETWEEN THE TWO COUNTRIES SHOULD NOW BE CONSIDERED. IT WILL BE NECESSARY HOWEVER FOR BOTH SIDES TO RECOGNISE THE REALITIES OF THE SITUATION AND THE CONSTRAINTS UNDER WHICH THE OTHER IS OPERATING.

2. WITH THIS IN MIND, THE BRITISH GOVERNMENT PROPOSE THAT ANY DISCUSSIONS SHOULD BE WITHOUT PREJUDICE TO THE POSITIONS OF THE UNITED KINGDOM AND ARGENTINA RESPECTIVELY ON THE QUESTION OF SOVEREIGNTY OVER THE FALKLAND ISLANDS, AND INDEED, THAT SOVEREIGNTY WOULD NOT BE DISCUSSED.

3. IT IS PROPOSED THAT THE AGENDA FOR DISCUSSION COULD INCLUDE:

- A. THE RECIPROCAL LIFTING OF RESTRICTIONS ON TRADE BETWEEN THE UNITED KINGDOM AND ARGENTINA.
- B. THE LIFTING OF ALL OUTSTANDING FINANCIAL RESTRICTIONS.
- C. ARRANGEMENTS FOR THE RETURN OF THE ARGENTINE DEAD FROM THE FALKLAND ISLANDS OR, FAILING THAT, FOR A NEXT-OF-KIN VISIT.

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- D. THE RESTORATION OF THE AIR SERVICES AGREEMENT BETWEEN THE TWO COUNTRIES.
- E. THE RESUMPTION OF CULTURAL, SCIENTIFIC AND FULL SPORTING CONTACTS.
- F. THE UP-GRADING OF OFFICIAL RELATIONS.
4. THERE HAVE BEEN SUGGESTIONS FOR SECRET TALKS. THE BRITISH GOVERNMENT WOULD NOT WELCOME SUCH A PROCEDURE, SEEING NO NEED TO CLOAK IN SECRECY MEETINGS ABOUT THE NORMALISATION OF BILATERAL RELATIONS. MOREOVER, THERE WOULD BE SERIOUS DANGERS OF MISUNDERSTANDING IF THERE WERE TO BE CLANDESTINE DISCUSSIONS, AND WORD OF THESE WERE TO LEAK.
5. REGARDING PRESENTATION, SIR GEOFFREY HOWE HAS SAID PUBLICLY THAT BOTH SIDES ARE DEVELOPING A WILL TO BEGIN TAKING STEPS TOWARDS RESTORING A NORMAL RELATIONSHIP. IF BRITISH SPOKESMEN ARE ASKED ABOUT THE PRESENT SWISS APPROACH TO THE GOVERNMENT OF ARGENTINA, THEY PROPOSE TO CONFIRM IN GENERAL TERMS THAT MEANS OF CARRYING THIS PROCESS FORWARD ARE BEING EXPLORED. BUT THE SWISS AND BRITISH GOVERNMENTS HAVE NO INTENTION OF STIMULATING PUBLICITY AT THIS EARLY STAGE. THE PUBLIC PRESENTATION OF TALKS BETWEEN BRITISH AND ARGENTINE OFFICIALS CAN BE DISCUSSED ONCE TERMS OF REFERENCE HAVE BEEN AGREED.
6. THE BRITISH GOVERNMENT LOOK FORWARD TO KNOWING THE VIEWS OF THE GOVERNMENT OF ARGENTINA ON THESE SUGGESTIONS. THEY CONSIDER IT MOST IMPORTANT TO FOLLOW UP THE EXCHANGE OF MESSAGES THROUGH EXCHANGES IN AREAS ON WHICH IT IS REALISTIC TO EXPECT EARLY PROGRESS. THE BRITISH GOVERNMENT HOPE THAT THIS CAN LEAD TO THE ESTABLISHMENT OF A RENEWED CLIMATE OF MUTUAL CONFIDENCE IN WHICH OUR RELATIONS CAN BE MANAGED IN A PRACTICAL AND PRODUCTIVE WAY. ENDS.

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UNOFFICIAL TRANSLATION OF ARGENTINE NOTE HANDED TO THE SWISS
AMBASSADOR IN BUENOS AIRES ON 17 FEBRUARY 1984

Mr Ambassador,

I have the honour to ask Your Excellency to bring the following reply to the attention of the British Government:

'The Argentine Government, inspired by its dedication to peace, favours contacts which might mean a first exchange of ideas leading to the opening of substantive negotiations at the appropriate time. It follows from a realistic appraisal of the totality of relations between Argentina and the United Kingdom that those substantive negotiations cannot overlook the vital subject of sovereignty if a complete solution to the dispute is to be achieved. Such negotiations about sovereignty over the Falkland Islands [Malvinas], South Georgia and South Sandwich Islands must be held within the framework of the relevant United Nations resolutions, with ^{the} participation ['intervencion'] of the Secretary General as envisaged in those resolutions. A global negotiation such as that proposed by the Argentine Government would also give due consideration to the interests of the inhabitants of the Islands and likewise to the subject of economic and scientific-technological co-operation in the area. It must be made clear that the Argentine Government wishes to remove the obstacles which impede the normalisation of relations between the two countries, and understands that the aim of that normalisation is a return to the pre-conflict situation in all its dimensions. In this connexion the proposed plan does not add anything substantially new to those issues which were expressly endorsed in the joint Argentine-British communiqué of 26 April 1977.

'As will be known, that communiqué was brought to the attention of the international community through parallel notes presented by the Permanent Representatives of the Argentine Republic and the United Kingdom at the United Nations in June 1977.

/ 'The

'The Argentine Government has analysed with great interest the British Government's proposal of 26 January 1984 in which they suggest an agenda to include the following points:

- (A) The reciprocal lifting of restrictions on trade between the United Kingdom and Argentina.
- (B) The lifting of existing financial restrictions.
- (C) Arrangements for the transfer of the Argentine dead from the Islands, or, in the absence of this, for a visit by next-of-kin.
- (D) The reactivation of the air services agreement between the two countries.
- (E) The resumption of cultural, scientific and sporting contacts.
- (F) The raising of the level of official relations.

'The Argentine Government considers that this British initiative constitutes a positive step insofar as it suggests the possibility of an exchange of ideas at official level which could lead towards the progressive normalisation of relations between the two countries.

'Recognising the desirability of examining these questions in depth, the Argentine Government is persuaded that other unavoidably important questions which exist between the two countries, and which require immediate attention, must also be included.

'It therefore believes that it is essential to add the following subjects:

- (A) The lifting of the Protection Zone [sic] which the United Kingdom purports to have established in the South Atlantic.
- (B) A halt to the fortification of the Islands, to the construction of the strategic airfield and to the warlike concentration in the area.
- (C) Guarantees that nuclear weapons or artifacts will be withdrawn from the region.

'An agenda comprising the subjects proposed by Argentina and the United Kingdom could then permit contacts to begin.

/'Similarly,

"Similarly, the Argentine Government wishes to convey to the United Kingdom the spirit in which it is approaching the problem of bilateral relations. In this connection, the Argentine Government:

(1) Attaches very great importance to the definitive normalisation of relations between the Argentine Republic and the United Kingdom.

(2) Considers that to achieve this, it is essential - and this is its wish - to put an end, through peaceful means, to the dispute over the Falkland Islands [Malvinas], South Georgia and South Sandwich Islands.

(3) Also agrees about the undesirability of secret meetings, negotiations or talks, it being a fundamental point of its foreign policy to keep public opinion informed in accordance with the democratic style which has been restored in the Argentine Republic.

(4) Considers that at the present time it would be highly desirable to explore the matter sincerely and in good faith, taking into account all the elements involved and thus enabling each side to assess the future prospects for a formal negotiation.

(5) Considers, as has been previously indicated, that the presence of United Nations peace-keeping forces in the Islands, in place of other military forces, would serve to re-establish a better atmosphere in the area and safeguard the security of the inhabitants.

(6) Considers that in order to fulfil a determined wish to put a final end to the division existing between the two countries the most advisable course would be to hold a preliminary and open exchange of ideas, at an appropriate time informing the Secretary General of the United Nations of the content thereof. These informal exchanges would pave the way towards subsequent negotiations which would be held in the presence of the Secretary General of the United Nations by virtue of the mandate of good offices received from the General Assembly."

With my warm respects to Your Excellency,

(signed Caputo).



VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS, 2 MARCH
IEA EXECUTIVE DIRECTOR

Points to Make (if raised)

1. Important to get the right man for the job; and that the successful candidate should command the widest support in the IEA.

2. Officials have met Mr de Brauw and have had a chance to assess his qualities.

3. (If pressed). We certainly would not rule out Mr de Brauw; but (as we have made clear in discussions among the Ten), we favour the US candidate for his personal qualities.

*Not
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Kohl*

Essential Facts

1. The present Executive Director of the IEA, Dr Lantzke, is leaving at the end of March. There are four candidates: Jens Christensen (Denmark), Walter Kittel (FRG), Stephen Bosworth (US) and Maurits de Brauw (Netherlands). HMG believe Bosworth to be the best candidate. The Australian Chairman of the IEA Governing Board is consulting IEA member countries.



2. There is EC pressure for one European candidate, but no agreement has been reached; nor are there signs that candidates will be withdrawn. At the Political Co-operation Ministerial meeting in Paris on 27 February a vote was held: the Dutch candidate attracted Benelux support, the Dane got Irish and Greek support, and the German was supported by the FRG and France (which is not an IEA member). Italy (without instructions) and the UK (because we favour the American) abstained. Mr Rifkind expressed support for the US candidate for his personal qualities.

3. Outside Europe, the American candidate enjoys support from New Zealand, Norway, Canada, Japan and almost certainly Australia, as well as the US.

4. The Dutch have lobbied strongly for Mr de Brauw, who has had a varied career - in business, management consultancy and politics. He recently produced a report dealing with energy policy in the Netherlands. While de Brauw might be a capable candidate in untroubled times, we have doubts about his resolution and effectiveness in a crisis.

Foreign and Commonwealth Office
28 February 1984

VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS: 2 MARCH

NETHERLANDS INTERNAL POLITICAL AND ECONOMIC SCENE

1. The Dutch Government was formed on 4 November 1982: a coalition of the Christian Democrats (CDA) (a confessional party covering the whole political spectrum, the right marginally predominating) and the Liberals (VVD) (Conservatives in British political terms) under the premiership of the CDA's leader, Mr Ruud Lubbers.

2. The Government is faced with severe economic problems. At the beginning of April 1983 the Cabinet put forward 2 billion guilders (£550m) of economic cuts. A number of CDA members in the Second Chamber who wanted cuts of only Fl 1.5bn said that they could not accept the 2% reduction in social welfare benefits contained in the scheme unless public sector employees accepted a similar cut in wages. VVD members said that the two issues could not be linked. These Fl 2bn cuts are on top of the Fl 13bn savings already contained in the Government's 1983 policy document and are in response to the worsening economic position; the balance of payments surplus, originally forecast to reach Fl 14bn in 1983, was finally no more than Fl 10bn. A proposed cut of 3.5% (later 3%) in public service salaries from 1 January 1984 led to a wave of strikes in the public sector from late October, which only finally collapsed in early December.

3. On INF, the two parties have agreed to prepare for stationing with the final decision to depend on the outcome of the Geneva talks. At the time of the 1979 NATO double decision the Dutch postponed their final decision on stationing for two years pending the outcome of INF negotiations. The Dutch will not now take their final decision until 7 May 1984. The Dutch Government stated that they would do nothing that would endanger a positive outcome of the Geneva talks. They feel they need to proceed with preparations so as not to weaken the Alliance's position. Where preparations are material, Parliament will be informed, 'for information'. On

/nuclear

28 June 1983, the Government announced that Woensdrecht air base would be the site for missiles, should the Government decide to go ahead with deployment. At the same time the Government were considering dropping up to four of the six Dutch nuclear tasks. In a Second Chamber debate on 17 November, Opposition motions criticising moves towards INF deployment within the Alliance were defeated, in some cases narrowly. The Government are particularly vulnerable to the defection of the 'loyalist' faction of the CDA which opposes INF stationing. Parliamentary pressure on the Government to change its stance is likely to continue. It is not clear that the Government will be able to resist it indefinitely unless there is some progress in the disarmament negotiations.

4. In the Community British and Dutch thinking is very similar, notably about future financing. Mr Lubbers supported the British refund at the Stuttgart European Council. On 2 March 1983 he visited London, accompanied by the Foreign Minister, Mr van den Broek, for talks with the Prime Minister. Mrs Thatcher made a successful return visit to The Netherlands on 19-20 September for talks with Mr Lubbers, which concentrated on Community matters. Mr Lubbers and Mr van den Broek are to come to London again on 2 March.

Foreign and Commonwealth Office
28 February 1984



VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS: 2 MARCH

Biographical notes

LUBBERS, DR RUUD F M (CDA)

Netherlands Prime Minister since November 1982.

Born 1939. Studied economics at Rotterdam University, and became managing director, jointly with his brothers, of the family engineering firm in 1965.

Was Chairman of the Catholic organisation of employers in the engineering industry and member of the Rijnmond Regional Council 1970-3 for the Catholic Party (KVP). Appointed Minister of Economic Affairs in the den Uyl Government 1973 but declined a ministry in the van Agt Government in 1977. He served as Deputy floor leader of the CDA until the resignation of Aantjes in November 1978. CDA floorleader, Second Chamber 1978-82.

Belongs to the radical wing of the KVP and is regarded as progressive in Labour Party circles. One of the youngest members of the den Uyl Cabinet and widely regarded as one of the most successful Ministers of that government. Decided not to join van Agt government, possibly because he disagreed with the decision to form a coalition with the Liberals (VVD). Charges that he continued to benefit financially from the family engineering firm during his time as Minister did not prevent his election as floor leader.

A man of ability and charm, though his quickfire style of talking makes him hard to follow in either Dutch or English (which he nevertheless speaks well). His public speeches, delivered in the same style, tend to be long, diffuse and somewhat Delphic.

Married with two sons and a daughter.



BROEK, HANS VAN DEN, GCMG

Netherlands Minister of Foreign Affairs since November 1982.

Born 1936.

Studied law, Utrecht, 1965-68 solicitor in Rotterdam; 1969-76 company secretary and accountants manager with ENKA in Arnham; 1970-74 Rheden town councillor; 1976 elected to Second Chamber where he was a member of the Foreign Affairs Committee and reserve member of the Defence Committee. Played an active role in the debate within the CDA on nuclear weapons (he then supported INF stationing). State Secretary for Foreign Affairs 1981-1982.

Pleasant and friendly. On the right wing of his party. Known to be on good terms with Lubbers.

Married. Two children. Speaks excellent English and is generally anglophile: he spent some time at school in the UK.