



Foreign and Commonwealth Office

London SW1A 2AH

17 July 1986

Dear Charles,

Letter from Dutch Prime Minister

Your letter of 27 June asked for comments on Dr Lubbers' letter to the Prime Minister of 26 June enclosing a report entitled "The Unfinished European Integration".

The Scientific Council for Government Policy is the Dutch Prime Minister's official think tank. I enclose a detailed summary of the report, which is a thoughtful analysis of the practical problems involved in completing the internal market and reforming the CAP. The report is oriented towards the requirements of national policy making. Its approach is practical and its recommendations generally realistic. On tax approximation, for example, it argues that the proposals in the Commission's White Paper go much further than member states will be ready to accept, and that the Community will be compelled to move slowly and selectively (pp 82-84).

On the internal market its basic message is that progress must be speeded up if the Community is to compete with the US and Japan (pp 21-22).

On the CAP it argues that excessive reliance on the price fixing mechanism to achieve market stability and an acceptable level of income for farmers is the root cause of the problem of production surpluses. It argues that quota arrangements are politically difficult to negotiate and will not in any case resolve the central problems of the CAP in the long-term. It recommends a progressive shift towards a more market-oriented policy with a general reduction of prices towards world levels, backed by new instruments to help poorer agricultural areas and an effort to set aside agricultural areas and an effort to set aside agricultural land for other uses such as nature reserves, recreation areas and forestry (pp 123-146).

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The report is mostly in line with our own policy in the Community and is an illustration of the extent to which ideas we have been pursuing in the Community for years have come to be more widely accepted.

/ I enclose a draft reply to Dr Lubbers.

Yours ever,

Colin Budd

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Private Secretary

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"The Unfinished European Integration"

REPORT BY NETHERLANDS SCIENTIFIC COUNCIL FOR GOVERNMENT POLICY

The Scientific Council for Government Policy is an independent statutory body which advises the Netherlands Government on long-term policy issues, reporting directly to the Prime Minister. The "Unfinished European Integration" was submitted to Mr Lubbers in March 1986.

The report is a thoughtful analysis of the practical problems of economic integration in Europe. Although sometimes laden with academic jargon, the report is oriented towards the requirements of national policy making. It is more pragmatic and realistic than, for example, the Commission's White Paper on the internal market. Although in some respects it goes further than we would wish, for the most part it represents a common-sense assessment of what it is politically realistic to hope for over the next few years. The report's conclusions and recommendations are summarised on pp.8-14.

The basic message in the report is that the pace of economic integration needs to be stepped up if the Community is to compete with the US and Japan, and that a careful balance needs to be struck between the elimination of barriers to trade ("negative" integration) and the implementation of common policies ("positive" integration). Where these two get out of step the functioning of the common market is disrupted and tensions arise between the national policies pursued by individual member states and the Community policies which they have accepted (pps 21-23).

Internal Market

The report welcomes the Commission's 1985 White Paper (pp80-82) but argues that it devotes too little attention to how completing the internal market is likely to affect the geographical distribution of economic activities within the Community and the impact this will have on national policies (pp121-2). In some

respects, such as fiscal approximation, second or third-best solutions will have to suffice: member states may have to move at different speeds, and the Community may have to recognise that while harmonisation of some excise duties is important, eg mineral oils where tax differences create real obstacles to a common transport market, in other areas such as alcohol and tobacco the potential economic benefits are simply not worth the enormous political effort involved. The report does however support the Commission's proposals for a "standstill" on VAT rates (pp82-84). The report argues helpfully that the internal market for industrial products will not function properly until freedom of establishment and free movement of services have been achieved, and that a liberalising common transport policy is an essential part of this (pp89-95). The paper concludes that faster progress on the internal market requires abandonment of the unanimity principle in decision-making by the Council of Ministers (the Single European Act does not go far enough in this respect for the report's authors) and a comprehensive delegation of executive powers to the Commission (pp149-151).

Supporting Community Policies

The report argues that completing the internal market will require more effective Community action in associated policy areas, plus more effective coordination of national policies. It singles out:

- the common commercial policy (respect for the liberalising commitments undertaken in the GATT; need for self-restraint in anti-dumping policy to avoid a morass of import restrictions) (pps 95-98);
- competition policy including state aids (stricter application of Community rules, striking a sensible balance between Community and national powers) (pps 98-111);
- industry and technology (Council to confine itself to determining general objectives and allocating resources; programmes to be managerially self-reliant; Government support for

R&D to be assessed as critically as other forms of state aid; private sector innovation to remain largely a matter for member states) (pps 112-119).

Common Agriculture Policy

The report looks at three problems: surpluses, marginal areas and the environment. It argues that the CAP relies excessively on the price-fixing mechanism to achieve market stability and an acceptable level of income for the agricultural community (pp123-125). Production surpluses have to be contained; but quota arrangements are politically difficult to negotiate and will not in any case resolve the central problems of agricultural policy in the long term. The report recommends a progressive shift towards a more market-oriented policy, a general reduction of prices towards world levels, the development and funding of new instruments to help poorer agricultural areas, and the setting-aside of agricultural land for other uses such as nature reserves, recreation areas, forestry, etc. The report points out that the budgetary cost of encouraging such structural adjustments is small in comparison with the cost of disposing of surpluses (pps 132-146).

Institutional Problems

The report argues that completing the internal market and reforming the CAP will require a substantial enhancement of the Community's decision taking capability. The unanimity requirement needs to be reviewed from area to area of policy and, where appropriate, relaxed. In addition, policy powers will need to be delegated to the Commission on a much larger scale the European Parliament's supervisory powers over the Commission will need to be strengthened (pp147-152). The Commission must pay more attention to the impact of infractions on the unity and functioning of the common market. The report suggests that the Commission may need additional resources to cope with this and that consideration should be given to an accelerated procedure enabling it to appeal directly to the European Court against serious infractions without the delays inherent in the present

Article 169 procedure (pp152-157).

Implications for national policy

Interestingly, the report points out that the Dutch Government's record of compliance with its Community obligations is far from perfect, particularly in the state aids field (p160). Completion of the internal market will mean incursions on Dutch policy on trading standards, environmental protection, industrial safety, financial institutions, insurance companies and the liberal professions; and although member states have created substantial barriers to rapid progress on tax approximation by insisting on unanimity under Article 99, the paper argues that in the long run the retention of internal fiscal borders will come under great pressure as the last remaining barrier to the free movement of goods (pp160-161). The report comments that while some Ministries such as the Dutch MAFF are tightly locked into Community business, other Ministries which are less frequently in contact with the Community give much less priority to the EC aspects of their policies: they put much more effort into inter-departmental discussion and consultation of domestic interest groups than into tackling any EC aspects. They often go their own way until they are pulled up short by an ECJ ruling. The report argues that the decision-taking machinery in The Hague tends to result in inflexible positions which make it harder to play the Dutch negotiating hand in Brussels (pps 162-163).