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RECORD OF DISCUSSION BETWEEN THE PRIME MINISTER AND THE PRIME
MINISTER OF THE NETHERLANDS AT 1150 HOURS ON WEDNESDAY,
2 MARCH, 1983 AT NO. 10 DOWNING STREET

Present:

Prime Minister
Mr. Hurd
Mr. Mansfield
Mr. Goodison
Mr. Coles

Mr. Lubbers
Mr. van den Broek
Mr. Huydecoper
Mr. Holtslag
Mr. de Hoop Scheffer
Mr. van de Voet

The Prime Minister said that she would be interested to hear of the economic problems of the Netherlands. For our part we found that redundancies flowing from some of our older industries were still adding to the total of unemployed. On the other hand, a number of small businesses, using new technology, were doing well. But so far the new jobs were insufficient to compensate for the redundancies. We were watching the United States' economy carefully. There had been a number of encouraging reports but we hoped that the American recovery was genuine. Unemployment was always the last problem to be solved when an economy came out of recession; until that point was reached, we had to live with the problem.

Mr. Lubbers said that unemployment in the Netherlands was higher than in the United Kingdom and was still rising rapidly. He faced a similar problem with the older industries. There was no growth at present in the services sector. More young people were seeking jobs than in the 1970s both because of demographic factors and because, as real income went down, more members of a family tried to find work.

He was attempting to cut public expenditure and control the budget deficit, though the latter was still relatively high. Inflation had been brought down to 2½ per cent. The Central Bank was now following more relaxed policies and was making an aggressive attempt to lower interest rates. For the moment, the

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Dutch approach was based on a combination of flexible monetary policy and strict budgetary policies. New technology was increasing productivity by 2-3 per cent a year but, in a situation of stagnation, that lead to further unemployment.

A new factor was the drop in energy prices. This posed a special problem for the budget deficit because income from industrial gas amounted to 6 per cent of national income.

The Prime Minister asked whether the bulk of Dutch gas sales was not based on long term contracts. Mr. Lubbers replied that existing export contracts extended, on average, for about seven years. But there were indications that European countries were willing to go on buying gas from the Netherlands after that period. The Dutch Government was considering the possibility of selling not gas itself but gas security - i.e. an option on Dutch gas reserves if other supplies failed. For the present, he was not too worried about the fall in the price of energy. The Netherlands imported as much oil as it exported gas. Consumption was likely to fall, on present estimates, by about 2 per cent. That was acceptable. But he could foresee problems if the price of energy fell much further.

The Prime Minister said that it was the speed of the fall in prices that mattered. A price fall of the size now under discussion would tend to prevent further exploration. Mr. Lubbers asked whether we were giving any thought to the possibility of setting a minimum price. The European Community had an interest in avoiding over dependence on Arab oil and Soviet gas. The Community possessed substantial internal supplies, especially in the North Sea. The question arose of whether Europe should try to set a minimum price. Mr. Hurd pointed out that unless the United States and Japan were included in such an arrangement, our industrial costs could rise disproportionately. The Prime Minister observed that international agreements of this kind never endured - one participant or another was always attempting to break ranks.

/Mr. van den Broek

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Mr. van den Broek said that we could expect the current difficulties over energy prices to be repeated in three or four years time. There was now an opportunity to consider future policy. All the Gulf States had said to him during a recent visit that they were looking for ways of making contacts with Western consumers, by which they meant the oil companies, about long term agreements. The West was not interested at present because energy supplies were abundant. But in the longer term this could be attractive.

The Prime Minister commented that she did not believe that the oil price would continue to go down. The extravagant use of oil in the past would not be repeated. But if there was a world economic recovery, demand for oil would rise quite sharply. We should remember that some multi-nationals had had agreements in the past with producing countries but those agreements had not endured. Mr. Hurd pointed out that the 1973 and 1979 price rises were largely due to political factors. Commercial agreements could not hold in those circumstances.

The Prime Minister said that our aim should be to arrive at a stable price and to maintain it for a considerable period. To the extent that we depended on export markets in oil producing countries, we should suffer twice over because they would no longer have the same freedom to buy our goods. Mr. Lubbers agreed but pointed out that other countries, which had endured the burden of high cost energy, might now be able to expand.

Reverting to the Dutch economy, Mr. Lubbers said that the general situation was very difficult. He expected a gradual improvement but it would be a long time before there was any improvement in the employment situation. Mr. van den Broek said that things were much the same as in the UK. The older industries were still shedding jobs but new businesses were not expanding fast enough to absorb them. The Prime Minister commented that she was not entirely pessimistic. History had seen a number of technological revolutions. Each had initially reduced jobs but had later produced new job opportunities.

/Mr. Lubbers

Mr. Lubbers said that he agreed, though with one qualification. The market system had to survive. As soon as protectionist measures commenced, the process of building up new markets was impeded.

The Prime Minister agreed with Mr. Hurd that an agricultural war between the Community and the United States would be dangerous. If the Community started a subsidy war, it would lose. Mr. Lubbers asked whether this meant that there should be a new agricultural pricing policy for the CAP. The Prime Minister said that such a change was necessary. The trouble was that the Community was subsidising agricultural exports. Mr. Lubbers said that he entirely agreed. The fault lay not so much in the basic system as in the policy for subsidising the sale of surpluses to markets in third countries. Brussels always argued that this element was essential to the whole system. He doubted it. The Prime Minister said that she had always thought it best that there should be a system of guaranteed prices but that farmers then sold at prices which the market would take. It was not the inherent system of the CAP that was wrong but the pricing policies that were followed. It was essential to change these, since the Mediterranean countries would argue that Mediterranean products should be managed in the same way as Northern products.

Mr. van den Broek commented that the basic question was whether we had a common agricultural policy or not. He thought there was a tendency to "renationalise" European agriculture. It looked as though prices at this year's round of price fixing would be too high. Mr. Lubbers said that the Dutch view was the lower the better. The Commission had to be asked to recalculate their price proposals because these had been put forward before the recent fall in energy prices. The Prime Minister agreed that the energy component of prices was important and observed that the income of British farmers had risen by 40 per cent last year.

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The Prime Minister said that it was the funding of the Common Agricultural Policy which was the main cause of the United Kingdom budget problem. For the first time since her Government had taken office, we had gone into a year with no cover for our budget refunds. If an election was fought before a solution was found, the consequences for the European cause in this country would be extremely damaging. It was clear that the Greek Presidency could not produce a solution. It followed that there must be a solution by the end of June. It was unlikely that there could be a fundamental restructuring of the budget in that time, but there must be an acceptable interim solution linked to a longer-term budget structure. This year our contribution would be 2 billion ecus. If there was no arrangement by the middle of this year, she could not exclude some drastic action. She did not know when the election would be, but it would be very dangerous to give the Labour Party another weapon with which to beat the European idea. If we could sort out the budget issue, it would be possible to adopt a really progressive attitude towards the European Community. She therefore wished to warn Mr. Lubbers that she might have to become very difficult at the March and June European Councils.

Mr. van den Broek said that we were running out of time. The Greeks would not help. Mr. Lubbers observed that Dutch popular opinion found it hard to understand that the United Kingdom was in great difficulty. If we could find ways to reduce the costs of the Community, in particular the costs of its agricultural policy, then there would be a more favourable Dutch attitude. But the Netherlands found it hard to envisage a deal designed simply for the United Kingdom.

The Prime Minister said that no-one was paying anything to the United Kingdom. Even after we received our refunds, our contribution was the second highest. But she had to stress that if there was no arrangement by the time we entered into an election, she would have to decline to pay the United Kingdom contribution. Mere reform of the CAP would probably not be enough. But if that policy were reformed, we should not need to increase the own resources of the Community, even on enlargement.

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Behind all this lay the EC/US difficulties on agriculture. We must bear in mind the broad point that it was essential to keep the United States locked into Europe, above all for reasons of defence.

Mr. van den Broek said that the United States Congress failed to take into account the fact that Europe was a major importer of American agricultural products. The existing arrangements were of long standing and had been hallowed by successive trade negotiations. Thus the new problem with the United States had less to do with increasing exports from Europe than with the state of the American economy. The Prime Minister said that she did not wholly agree. The Community's export policies had certainly disturbed the New Zealand and Australian markets.

The Prime Minister then recalled the background to the NATO decision on the stationing of INF. This stemmed from the European wish that the United States should base these missiles in Europe. The reactions in some parts of Europe had re-awakened the danger of the United States Congress deciding on a measure of military withdrawal from Europe. She knew that the Netherlands faced special difficulties. It was essential that there should not be a negative vote in the Dutch Parliament on stationing - that would bring comfort only to the Soviet Union. She therefore hoped that all possible means would be found of delaying such a vote.

Mr. Lubbers asked whether missiles would be deployed in the United Kingdom at the end of this year. The Prime Minister said that this was the case; the missiles would also be deployed in Germany and Italy at around the same time. If they were not deployed, the Soviet Union would have won a great battle.

Mr. Lubbers said that his Government was preparing a White Paper on defence and that had to deal with the question of INF. He had considerable flexibility on timing and did not want to take a decision too early. But he could not wait forever - the Opposition would press for a vote in due course and a certain time was needed for technical preparation. For the moment the

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only preparations for INF stationing were administrative, not physical. Deployment in the Netherlands was not due until 1986. In reply to a question from Mr. Hurd, Mr. van den Broek said that physical preparations would have to begin at about the end of this year. Mr. Lubbers commented that if the Netherlands delayed beyond that point, the impression would be given that deployment itself was being delayed. His objective was to avoid taking a decision on stationing while there were risks of that decision being adverse. The psychological position would change when missiles had been deployed in Germany and the United Kingdom. What were our expectations of progress in Geneva before the end of the year?

The Prime Minister said that she had urged the United States to consider putting forward a new proposal after the German elections and she believed that they would do so. The Russians would then doubtless table a bogus alternative. Mr. Lubbers asked whether we were thinking in terms of simply reducing the numbers of missiles on either side. It was much more difficult to devise a useful proposal based on reduced numbers than it had been to propose the zero option.

The Prime Minister said that the Soviet claim that French and British strategic deterrents should be included in the negotiations was unacceptable. These were strategic submarine based missiles and were weapons of last resort and minimum size. There could be no question of including them. We should need to improve the presentation of NATO's policy. It was curious that we had got ourselves into a position where the Russians criticised us for advocating the zero option. But she believed that the visit of Vice-President Bush to Europe had had a favourable impact on public opinion. Mr. Lubbers agreed. A few weeks before the visit there had been disarray in Europe. Now there was an atmosphere of agreement. President Reagan's statement had been quite helpful. The Prime Minister said that the essential point was that missile deployment would have to go ahead in the United Kingdom, Germany and Italy before the end of the year in the absence of agreement on the zero option.

The conversation ended at 1300 hours.

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10 DOWNING STREET

From the Private Secretary

2 March, 1983

Dear Roger,

Visit of the Netherlands Prime Minister

The Prime Minister began her talks with Mr. Lubbers with a brief tete-a-tete discussion at which no one else was present. I enclose a record of the talks which followed the tete-a-tete discussion.

I am copying this letter and enclosure to John Kerr (Treasury), Richard Mottram (Ministry of Defence), Julian West (Department of Energy), Robert Lawson (Ministry of Agriculture) and Richard Hatfield (Cabinet Office).

Yours ever

John Lawson.

R. B. Bone, Esq.,
Foreign and Commonwealth Office

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