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NETHERLANDS: ANNUAL REVIEW FOR 1984

*Her Majesty's Ambassador at The Hague to the
Secretary of State for Foreign and Commonwealth Affairs*

SUMMARY

The Cruise missile debate dominated the first half of the year, with a moderately satisfactory outcome (paragraph 2).

2. The Government held firm to its austerity programme at the expense of its popularity. A rise in exports and productivity provided economic stimulus, but unemployment remains high. Farmers are adjusting to milk quotas (paragraphs 3 to 7).

3. The Dutch found membership of the Security Council frustrating. In both the UN and the EC they continued in general to be staunch collaborators. Relations with China restored. Concern over Central America and the Caribbean (paragraphs 8 to 12).

4. The defence budget faces serious problems. The balance in bilateral defence sales is set to improve (paragraphs 13 and 14).

5. Anglo-Dutch relations remain close (paragraphs 15 and 16).

6. The Coalition's aim is to secure a mandate at the 1986 General Election to continue its present partnership (paragraph 17).

*The Hague
11 January 1985*

Sir

I arrived at The Hague only a few weeks before the end of 1984. I have, therefore, leant heavily on the advice of my staff in writing this despatch.

Political

2. The first half of 1984 was dominated by the problem of the deployment of Cruise missiles. The Coalition parliamentary parties were divided on the issue; so were the Cabinet, where the pro-deployment faction was led by the Foreign Minister and the doubters by the Minister of Defence. The Prime Minister, Mr Lubbers, was determined that the Government should, without

calling into question its commitments to NATO, survive to bring its economic policies to fruition before the 1986 elections. After prolonged debate, the Cabinet agreed on 1 June, with subsequent parliamentary endorsement, that it would on 1 November 1985 decide to deploy Cruise missiles in the Netherlands in one of two circumstances. If by 1 November 1985 the US and Soviet Governments had reached agreement on limiting the number of intermediate nuclear weapons, the Netherlands would take its proportional share of Cruise missiles; or, if the Soviet Union had in the interim increased the number of SS20 missiles deployed, the Netherlands would deploy its full NATO quota. At the same time the Cabinet agreed to maintain until the end of 1985 the existing six Dutch nuclear tasks. This outcome, although only moderately satisfactory from our and NATO's point of view, owed much to the political skill and determination of the Prime Minister. But, of course, we have not seen the end of the matter. When 1 November is reached, much will depend on the state of US-Soviet talks in Geneva and on the intelligence available on Soviet SS20 deployment. For the moment the issue is dormant, but it remains of great importance to the future of Mr Lubbers and his Government.

3. The second major achievement of the Government was to hold firm to its economic strategy of bringing down the level of public expenditure, thereby releasing funds for private investment. The Government's consistent pursuit of austerity measures against a background of continuing high unemployment and declining real incomes inevitably led to a decline in public support. In the second half of the year the Government showed some signs of losing their deftness of touch. They got themselves into unnecessary difficulties by a bitter public wrangle between the two Coalition floor leaders in the Second Chamber. In December, a parliamentary enquiry into the collapse of the RSV shipyards castigated Mr van Aardenne, the Deputy Prime Minister and Minister for Economic Affairs, for agreeing to underwrite the firm's losses without Cabinet authority and for misleading parliament. This tarnished the Government's image. In the light of all this it is not surprising that public opinion polls suggested that, if a general election had taken place at the end of the year, the Christian Democrats (CDA) and the Liberals (VVD) would have lost their majority, while the number of Labour Party (PvdA) seats would have risen to a record level – albeit well short of an overall majority. Much of this can be attributed to normal mid-term unpopularity. In any case, I do not believe this is likely to shake the Government's determination to keep steady on course in pursuing its economic strategy.

Economic

4. The economy strengthened in 1984, continuing its slow recovery in the wake of the upturn elsewhere, particularly in the Federal Republic of Germany and the United States. Exports rose by 70 per cent to the USA and 20 per cent to Community countries, and productivity by some 7 per cent. This led to increased utilisation of industrial capacity and to better company profits, particularly of Dutch firms with international interests. By contrast, domestic demand remained stagnant and the unemployment rate, whilst levelling off, was still an appalling 15 per cent of the work force (OECD definition). The level is now twice the OECD average.

5. Unemployment remained the dominant internal issue in the Netherlands. The high number of school leavers account for half the increase since 1982, and proposals to combat youth unemployment will probably help less than a quarter of them. The Government has been continually attacked on this subject even by its own Coalition parties including the right wing Liberals (VVD). But it has not been subjected to the pressures of major industrial action; and it is remarkable that workers settled for no increase in pay in exchange for shorter working hours. The budget for 1985 envisaged further cuts in social security and the public services. At the same time, lower personal taxes and insurance premia are expected to increase the real income of the average

earner for the first time since 1981. Looking to 1985, it seems likely that the contrast between the stagnant domestic economy and the more buoyant external sector is likely to become more pronounced. Any substantial stimulation to the domestic economy is unlikely before the budget in September 1985, the last before the next general election.

6. For agriculture, 1984 was a year of restrictions and disappointments. By introducing milk quotas, Community Ministers confounded cynical producers and dented the confidence of Dutch farmers. The psychological effect was almost as great as in Britain, but the fuss was overdone. Dutch dairy farmers can and will adjust, as must their suppliers. The Minister of Agriculture, Mr Braks, is not likely to be turned by the short-term consequences of reform. He remains a believer in the feasibility of a Common Agriculture Policy in harmony with the demands of the European market and which permits the Dutch to use their well developed facilities for importing cheaper inputs from the international market.

7. Although the general mood is gloomy, Dutch exports of agricultural products surged ahead to about £12 billion in 1984. Existing markets were exploited more comprehensively, and new ones explored. China is a major target, with an Agricultural Attaché due to be installed in Peking in 1985.

Foreign Affairs

8. Their two years (1983 and 1984) on the Security Council proved frustrating for the Dutch. In the prevailing bad international atmosphere, little could be achieved. The Foreign Minister reflected this in his speech to the General Assembly in which he criticised the United Nations for its lack of purpose and effectiveness. In general, the Dutch, as one would expect, proved stalwart collaborators in the Council. But in the closing weeks of their membership, and in response to domestic political pressure, they launched an ill-conceived initiative to extend the South African arms embargo. The Government were committed under the coalition agreement to seek means of increasing pressure on South Africa and wanted to achieve something before they vacated their seat. In the event the Council adopted by consensus a non-mandatory resolution after we and the USA had persuaded the Dutch to water down very significantly their original text.

9. Within the Community, the Dutch greeted with relief the apparent resolution of the argument over budgetary discipline and the British budget contribution. They share the general view that the opportunity must now be taken to move forward into a more constructive phase, and generally agree with the British approach of building European unity brick by brick in a practical and pragmatic way. But they remain concerned at the Council's apparent lack of will to resolve major issues, and they are more than ever convinced that only a return to, and perhaps an extension of, the majority voting principle can break the log-jam. In most areas of Community business which affect our own vital interests, and particularly in the field of budget discipline, the Netherlands proved once again to be a staunch ally. They fully share our desire to eliminate the remaining internal barriers to the free circulation of goods, services and people. The bilateral agreement on reduced air fares, which Mr Ridley signed in The Hague in June, launched the campaign to shame our partners into following our example, although the Dutch characteristically extracted from us a commercial price for their signature.

10. The 40th anniversary of the Benelux Union in 1984 prompted the Dutch Foreign Minister to call for its admission to the Economic Summit as the 8th member. Mr van den Broek is also exploring ideas for a stronger Benelux voice within the Community, both as a spur to decisive action and to reduce the dominant role of the larger member states as experienced at Fontainebleau. We may hear more of these ideas.

11. Apart from a continuing steady effort to improve relations with the Arab states, the main achievement of Dutch diplomacy was the resumption in February of full diplomatic relations with the People's Republic of China. This followed a Government decision to withhold export licences for additional submarine orders, which the Taiwan authorities wished to place with Dutch yards. In the ensuing honeymoon, junior ministerial visits and trade missions were exchanged, and the Chinese look set to place initial orders with Dutch firms worth nearly £400 million.

12. Central America and the Caribbean continue to loom large in Dutch thinking. Public sympathy for the Nicaraguan revolution and antipathy to right wing governments in Latin America remains strong. But the Government, although privately critical of US policy towards the area, preserved a balanced and moderate approach to Central American problems. Dutch aid funds to Suriname remain frozen and are likely to continue so until the Bouterse régime shows a more serious intention to return to democracy. Dutch efforts to guide Aruba towards a special status (leading to independence in 1996) were bedevilled by internal wrangling between the islands of the Netherlands Antilles, demands for greater financial support from The Hague and the worsening economic plight of Aruba and Curacao.

Defence

13. Like other NATO countries, the Netherlands is experiencing major problems over defence funding. Despite a commitment to a 2 per cent real growth in the defence budget until 1986, and a 3 per cent growth thereafter, 1984 saw serious arguments over cash shortages and alleged misuse of defence funds. The collapse of the major shipyard company (RSV) involved a serious loss of money paid in advance by the Navy and their desire to incorporate the latest developments in the Walrus submarines under construction caused costs to double. This led to official enquiries, exaggerated press statements about the removal of the Chief of the Naval Staff and other members of the Admiralty Board and to significant tightening of political control. The recent NATO decision to increase ammunition stocks and to raise infrastructure contributions can only be achieved at the expense of equipment projects which will have to be delayed or cancelled, or by further curtailment of military activity including training programmes. The financial problems have also contributed to serious shortages of stores and ammunition stocks, particularly in the Navy and the Army, and to a lesser extent in the Air Force.

14. Strenuous efforts have been made in 1984 to reverse a trend away from Dutch purchase of British defence equipment. The flow of defence equipment has become much more a two-way affair. British support for the aims of the Dutch chairmanship of the Independent European Programme Group (IEPG) has encouraged this process.

Anglo-Dutch Relations

15. Anglo-Dutch relations remained as close as ever in 1984. The normal process of consultation and collaboration continued undisturbed, assisted by many Ministerial visits in both directions including a visit by Mr Lubbers to London. The strong feelings of Anglo-Dutch friendship based on the experience of the Second World War were given moving and impressive expression at the commemoration of the 40th anniversary of the Battle of Arnhem. This was attended by the Prince of Wales and Queen Beatrix. There will be many more commemorations in similar vein in 1985.

16. The Netherlands remains our fourth largest trading partner in the world. Total bilateral trade probably exceeded £12 billion in 1984.

The Future

17. The Government enter 1985 with their eyes fixed firmly on the 1986 general election. Their hope is that continued world economic recovery, together with their efforts to shift resources from the public to the private sector, will make some impact on the level of unemployment. To realise these hopes and pave the way for a renewal of their right of centre coalition after the election, the present coalition partners will work hard to preserve their somewhat fragile unity. The major test will be over the deployment of Cruise missiles, but present indications are that this is likely to be approved, albeit in the face of strong opposition from the Labour Party and the anti-nuclear movement, and at the expense of a majority of the Dutch short-range nuclear tasks.

18. I am copying this despatch to Her Majesty's Representatives in the European Community Member States and at Washington, and to the UK Permanent Representatives on the North Atlantic Council and the European Community.

I am, Sir,
Yours faithfully

J W D MARGETSON