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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 December 1986

John G. H.

**PRIME MINISTER'S MEETING WITH THE NETHERLANDS PRIME MINISTER:
EAST/WEST RELATIONS**

Much of the Prime Minister's meeting with Mr. Lubbers and Mr. Van den Broek this evening was taken up with discussion of East/West relations, although at the beginning the Prime Minister made a point of thanking Mr. Lubbers for the Dutch Government's assistance over the extradition of MacFarlane and Kelly.

Mr. Lubbers gave his impressions of Gorbachev during his recent visit to Moscow. There was a new dynamism in the Soviet Union. He believed that Gorbachev was serious in seeking a breakthrough in the management of the Soviet economy. Gorbachev had been surprisingly frank in speaking of the difficulties of bringing about change in the Soviet system. He was obviously very much in command. There was also evidence of a less defensive Soviet attitude on human rights. But he got the feeling that Soviet concessions on emigration were gestures to appease outside pressure and did not represent any conviction that such steps were justified in their own right. He had, however, been struck by Gorbachev's use of the word democratisation to explain the changes he wanted to see in Soviet society.

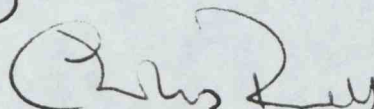
Mr. Lubbers said that in talking about relations with the West, Gorbachev had been anxious to know whether his visitors thought that agreements could be reached with President Reagan. He had then agreed with them that now was the time to try to achieve results. But he had become emotional at what he saw as United States and European backtracking on the progress made at Reykjavik. There had been no particular impression of trying to divide Europe from the United States. But there had been some interesting differences of nuance about SDI. Whereas Shevardnadze stressed the dangers of SDI as an offensive system, Gorbachev seemed most concerned with the economic costs of matching the United States.

The Prime Minister gave an account of her discussions at Camp David with President Reagan. Mr. Lubbers agreed that the priorities identified in the Camp David statement were

reasonable and attainable but wondered how we could get such a package accepted. The Prime Minister said that the first step was to get the statement fully reflected in the communiqué of the NATO Ministerial meetings.

I am copying this letter to John Howe (Ministry of Defence).

Yours sincerely,



(C.D. POWELL)

Colin Budd, Esq.,
Foreign and Commonwealth Office.

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 December 1986

Dear Tony,

The Foreign Secretary should know that Mr. Lubbers told the Prime Minister in strict confidence this evening that the former Netherlands Prime Minister, Mr. Van Agt had approached him with the strange proposition that he should be appointed as the Commission representative in Tokyo. The post was currently held by a Dutchman who was shortly returning to Brussels. He urged the Prime Minister to treat this information in strict confidence. He would himself be discussing it with M. Delors in the margins of the European Council. The Prime Minister said that she thought that Mr. Van Agt would make a marvellous Commission representative if he really wanted the post. She understood the need to preserve confidentiality until the matter had been taken further.

Yours sincerely,
Chris Powell

(C.D. POWELL)

A.C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

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10 DOWNING STREET
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From the Private Secretary

4 December 1986

Dear Col.

**PRIME MINISTER'S MEETING WITH THE NETHERLANDS PRIME MINISTER:
EUROPEAN COUNCIL**

The Prime Minister had some discussion this evening with Mr. Lubbers and Mr. Van den Broek about the European Council. This was after the Foreign Secretary had left the meeting.

The Prime Minister explained how she intended to handle the meeting. The first afternoon would focus on business and jobs, and on the internal market. The Prime Minister emphasised that it was no part of our proposals to reduce protection of those in employment. But equally we did not want small firms to be so enmeshed in regulations that they could not provide the jobs we needed. She also hoped to start discussion of terrorism and drugs during the first session, so that work could be done on the conclusions overnight. She would ask M. Delors to describe the Commission's work on future financing at the session shortly before dinner. That would also be an occasion to agree on encouragement to agriculture Ministers to complete work on reform of the milk and beef regimes next week. Political co-operation subjects would be taken at dinner. Few decisions were required from the European Council. The main aim was to give momentum to the specialist Councils in all the areas which Heads of Government discussed.

Mr. Lubbers and Mr. Van den Broek appeared content with the Prime Minister's proposals. Mr. Lubbers said that he would probably wish to mention South Africa at dinner. Mr. Van den Broek suggested that Heads of Government ought additionally to give agriculture Ministers strong "qualitative" guidance about the annual price fixing. The Prime Minister thought it might be difficult to secure agreement on a text. But she was willing to try.

I am copying this letter to Alex Allan (HM Treasury), Ivor Llewelyn (MAFF) and David Williamson (Cabinet Office).

Yours sincerely,
Charles Powell

(C.D. POWELL)

Colin Budd, Esq.,
Foreign and Commonwealth Office.

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From the Private Secretary

4 December 1986

See Alex.

MANAGING DIRECTOR OF THE IMF

When the Prime Minister saw the Netherlands Prime Minister this evening, Mr. Lubbers raised the question of the succession to de Larosière at the IMF. The Netherlands still firmly supported Mr. Ruding and would take the issue to a full IMF meeting if necessary. But it was a great pity that the Europeans were unable to agree on a single candidate. The Prime Minister said that we still supported Mr. Ruding. She asked whether it was possible to detach either Spain or Italy from their support for M. Camdessus. Mr. Lubbers thought there was some small chance of securing Italian support. It would be helpful if the Prime Minister could tackle Signor Craxi.

Mr. Lubbers continued that he understood there might be a third candidate in the person of Sir Jeremy Morse. If there was a consensus on a third candidate, the Netherlands would co-operate. The Prime Minister said that we would only put forward Sir Jeremy Morse's name if it remained impossible to reach agreement on another candidate. Our priority remained to secure the post for Mr. Ruding. Mr. Lubbers asked whether the Italians might propose a British candidate as a compromise. The Prime Minister said that they had made clear that they would not do so. Mr. Lubbers said that in that case the Netherlands would fight to the end for Mr. Ruding. Even if M. Camdessus had more support in the Third World, they believed that it was still possible to get Mr. Ruding elected if one or other of the non-European industrialised countries was to come out in support of him.

I am copying this to Colin Budd (Foreign and Commonwealth Office).

Yours sincerely
Chris Powell
(C.D. POWELL)

Alex Allan, Esq.,
HM Treasury.