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AND TO PRIORITY EC POSTS, UKDEL NATO, WASHINGTON

ANGLO DUTCH SUMMIT AT CHEQUERS : 29 APRIL

SUMMARY

1. DUTCH MINISTERS CURRENTLY PREOCCUPIED BY INTERNAL PUBLIC EXPENDITURE PROBLEMS. SUMMARY OF THEIR ATTITUDE ON THE PRINCIPAL SUBJECTS FOR DISCUSSION AT CHEQUERS.

DETAIL

2. DUTCH MINISTERS WILL BE COMING TO CHEQUERS IN THE AFTERMATH OF A PROLONGED INTERNAL DISPUTE OVER PUBLIC EXPENDITURE AND A DIFFICULT CABINET MEETING ON THIS SUBJECT ON 28 APRIL. THE PRINCIPAL CAUSE HAS BEEN PRESSURE FROM MINISTERS TO INCREASE DEPARTMENTAL EXPENDITURE IN 1990 ABOVE THE EARLIER AGREED EXPENDITURE FORECAST, WHICH THEY JUSTIFY ON THE BASIS OF A THRIVING ECONOMY, AND THE NEED TO MAKE SPACE FOR A NEW NATIONAL ENVIRONMENT-PROGRAMME WHICH HAS OBVIOUS ATTRACTIONS IN A GENERAL ELECTION YEAR (ELECTIONS ARE DUE IN MAY 1990). A DANGEROUS SITUATION FOR THE CABINET DEVELOPED SOME DAYS AGO WHEN LUBBERS DESERTED RUDING FOR WHAT THE LATTER BELIEVES WERE SHORT-TERM ELECTORAL CONSIDERATIONS AND RUDING MADE KNOWN THAT HE WAS CONTEMPLATING RESIGNATION. WERE HE TO RESIGN, THIS WOULD PROBABLY BRING DOWN THE COALITION. SINCE THEN LUBBERS AND RUDING HAVE PUT TOGETHER A PACKAGE GIVING RUDING AN ACCEPTABLE LEVEL OF SAVINGS, AND WHICH MINISTERS ARE NOW CONSIDERING. IT INCLUDES REDUCTIONS IN THE EARLIER AGREED RATE OF GROWTH IN DEFENCE EXPENDITURE WHICH WILL GIVE BOLKESTEIN MUCH DIFFICULTY. WHETHER OR NOT THE CABINET CAN REACH A CONCLUSION ON 28 APRIL, ALL THIS WILL HAVE ABSORBED MUCH MINISTERIAL TIME AND ENERGY OVER THE PAST 3 WEEKS.

3. TOPICS FOR CHEQUERS : EMU

A FIRST DISCUSSION BY MINISTERS OF THE DELORS REPORT AND HOW TO HANDLE IT IS ALSO PLANNED FOR 28 APRIL. MEANWHILE THEIR REACTION HAS BEEN DELIBERATELY LOW-KEY, ALTHOUGH RUDING AND DUISENBERG HAVE WELCOMED THE REPORT AS A CONSTRUCTIVE CONTRIBUTION. MINISTERS ARE LIKELY TO SYMPATHISE WITH THE OVERALL OBJECTIVE OF EMU AS SET OUT BY

DELORS. THEY WILL HOWEVER HAVE STRONG RESERVATIONS OVER SOME ASPECTS OF THE REPORT INCLUDING REFERENCES TO FURTHER TRANSFERS OF RESOURCES WITHIN THE COMMUNITY AND TO A POSSIBLE EUROPEAN RESERVE FUND. MORE IMPORTANTLY, RUDING PRIVATELY REGARDS THE LANGUAGE IN PARAGRAPH 39, AND IN PARTICULAR THE PHRASE 'THE DECISION TO ENTER UPON THE FIRST STAGE SHOULD A DECISION TO EMBARK ON THE WHOLE PROCESS' AS PROVOCATIVE. HE WILL LISTEN CAREFULLY TO ANY IDEAS WHICH WE MAY HAVE FOR STRENGTHENING MONETARY COOPERATION WITHIN THE EC. THE MORE WE CAN BE SPECIFIC IN THIS AREA, THE MORE DUTCH MINISTERS MAY BE READY TO SUPPORT THE CONCEPT OF DECOUPLING WORK UNDER STAGE 1 FROM SUBSEQUENT STAGES.

4. SENIOR OFFICIALS IN THE MFA ALSO BELIEVE THAT IT WOULD BE PREFERABLE TO IMPLEMENT THE PROPOSALS IN STAGE 1 BEFORE DECIDING WHEN AND IF SO HOW TO EMBARK ON TREATY AMENDMENTS. THERE IS SUSPICION OF THE WAY DELORS AND THE FRENCH MAY TRY TO PLAY THE HAND AT THE MADRID EUROPEAN COUNCIL. EQUALLY, THE DUTCH WILL BE STRONGLY INFLUENCED BY GERMAN VIEWS.

5. TAXATION

MINISTERS REMAIN STRONGLY OPPOSED TO THE PROPOSED WITHHOLDING TAX. THE GERMAN DOMESTIC EXPERIENCE WITH AN ANALAGOUS TAX HAS FORTIFIED THEM IN THEIR CONVICTION THAT IT IS COUNTER - PRODUCTIVE AND THEY WAIT WITH INTEREST TO SEE WHAT THE NEW GERMAN GOVERNMENT PROGRAMME WILL HAVE TO SAY ON THE ISSUE. THEY CONTINUE TO HANKER AFTER A SYSTEM OF MUTUAL REPORTING REQUIREMENTS WITHIN THE EC, BUT WITH LESS EMPHASIS THAN SOME MONTHS AGO.

6. ON INDIRECT TAXATION, MINISTERS ARE WEDDED TO HARMONISATION ON THE BASIS OF EC FLOOR RATES. THEY ARE LIKELY TO ADVOCATE, HOWEVER, A MINIMUM RATE FOR THE HIGHER BAND ABOVE THE CURRENT GERMAN RATE OF 14%. THEY WERE NEVER PARTICULAR SUPPORTERS OF THE COMMISSION'S CLEARING HOUSE SYSTEM AND ARE GLAD THAT IT NOW SEEMS TO HAVE BEEN DROPPED. SENIOR OFFICIALS APPEAR TO HAVE ACCEPTED THAT OUR ZERO RATES WILL HAVE TO BE ACCOMODATED WITHIN A COMMUNITY PROCEDURE, PREFERABLY ON THE BASIS OF A DEROGATION. THE DUTCH CONTINUE TO PRESS FOR A COMMON EXCISE RATE FOR HYDROCARBONS BUT HAVE NOW REALISED THAT THERE ARE SERIOUS DIFFICULTIES OVER ATTEMPTS TO HARMONISE EXCISE IN RESPECT OF TOBACCO AND ALCOHOL.

7. DEBT REDUCTION

RUDING'S VIEWS ON THE BRADY PLAN ARE VERY CLOSE THE THOSE OF THE CHANCELLOR. MOREOVER HE IS WORRIED THAT MITTERAND MAY BE TEMPTED TO MAKE SOME EYE-CATCHING MOVE AT THE NEXT ECONOMIC SUMMIT, POSSIBLY IN

THE SHAPE OF SOME NEW DEBT 'FACILITY' WHICH COULD LAND NON-PARTICIPANTS AT THE SUMMIT WITH NEW OBLIGATIONS. HE MUCH HOPES THAT WE AND THE GERMANS WILL RESIST ANY SUCH THINKING BOTH AT THE SUMMIT ITSELF AND IN ANY PREPARATORY MEETINGS.

8. ENVIRONMENT

THE DUTCH NOW SEE THE HAGUE CONFERENCE GROUP ESSENTIALLY AS A GINGER GROUP WHOSE MAIN ROLE SHOULD BE TO STIMULATE WORK WITHIN UNEP AND THE IPCC TOWARDS A CONVENTION ON CLIMATIC CHANGE, AND SEPARATE WORK ELSEWHERE ON THE OZONE PROBLEM AND CHEMICAL SUBSTANCES. LUBBERS IS LIKELY TO SAY THAT HE STILL HOPES WE CAN BE PRESENT AT THE 9/10 MAY PARIS MEETING, ALONG WITH REPRESENTATIVES OF OTHER EC MEMBER STATES. THE US, RUSSIANS AND CHINESE ARE STILL NOT BEING BROUGHT IN, BUT LUBBERS WILL ARGUE THAT THE LESS AMBITIOUS ROLE OF THE GROUP MAKES THEIR PARTICIPATION AT THIS STAGE LESS NECESSARY. AT THE SAME TIME THE DUTCH GIVE THE IMPRESSION OF HAVING LARGELY SURRENDERED THE INITIATIVE OVER FOLLOW-UP TO THE FRENCH.

9. SNF

THE DUTCH HAVE BEEN ROBUST OVER THE NEED FOR MODERNISATION, AND A CLEAR NATO COMMITMENT TO IT, EVEN IF THEY HAVE CONSISTENTLY SOUGHT A TRADE OFF IN RESPECT OF THE REDUCTION OF BATTLEFIELD NUCLEAR ARTILLERY. THEY HAVE ALSO OPPOSED NEGOTIATIONS WITH THE EAST OVER SNF, ALTHOUGH VAN DEN BROEK HAS BEEN TRYING OUT A COMPROMISE FORMULA IN AN ATTEMPT TO WIN OVER THE GERMANS, WHICH WOULD REFER TO THE POSSIBILITY OF NEGOTIATIONS AFTER A CONVENTIONAL BALANCE HAS BEEN SUCCESSFULLY ACHIEVED. THUS AT THE NPG MEETING IN BRUSSELS ON 19/20 APRIL, BOLKESTEIN ADVOCATED CHALLENGING THE SOVIET UNION UNILATERALLY TO REDUCE ITS SNF TO ALLIANCE LEVELS WHILE ADDING THAT HE DID NOT EXCLUDE THE DUTCH AGREEING, IN CONJUNCTION WITH THE ESTABLISHMENT OF CONVENTIONAL STABILITY, TO A NEGOTIATION OF SNF REDUCTIONS TO COMMON CEILING ABOVE ZERO.

10. ALL THIS HAS BEEN OVERTAKEN BY THE DEVELOPMENT OF THE GERMAN POSITION. DUTCH ATTEMPTS TO GO SOME WAY TO MEET THE GERMANS HAVE ALL ALONG BEEN MOTIVATED BY THEIR BELIEF IN THE NEED TO HELP KOHL OVER HIS DOMESTIC DIFFICULTIES. FOLLOWING THE VISIT OF GENSCHER AND STOLTENBERG TO WASHINGTON, LUBBERS AND VAN DEN BROEK WILL WANT TO COMPARE NOTES CLOSELY WITH US ABOUT THE BEST WAY OF HANDLING THE PREPARATION OF THE NATO SUMMIT.

11. LUBBERS AND VAN DEN BROEK WILL THEMSELVES BE SEEING PRESIDENT BUSH IN WASHINGTON DURING A SHORT VISIT ON 9 MAY.