

PRIME MINISTER

MEETING WITH THE NETHERLANDS PRIME MINISTER

You are to see Lubbers, van den Broek and Ruding at Chequers on Saturday afternoon.

The subjects which need to be covered are SNF modernisation, EC monetary and tax issues, Southern Africa, the environment and debt questions. Separate briefing notes are enclosed on all these issues. I suggest that you do SNF and the environment in your meeting with Lubbers, leaving EC issues and debt questions for the wider meeting.

SNF

Dutch instincts on SNF are quite sound but they are trying too hard to look for compromises. They propose a commitment now to SNF negotiations at some future date provided there is progress on conventional force reductions.

You might speak as follows. You understand that Chancellor Kohl faces domestic difficulties. || You do not think he is right in the way he is tackling them: || it never pays to adopt the oppositions's policies. || But that is as maybe. What concerns us is the damage which the Germans are doing to NATO in its 40th anniversary year. At the very moment when NATO most needs to demonstrate continuing strength and unity, the Germans are creating division and weakness. Gorbachev can never have imagined that his diplomacy would be so successful.

We simply have to get across the facts. The Soviet Union has shown no scruple about modernising its own short range nuclear systems. We estimate that 95% of those in the forward areas have been modernised over the last five years. There is good evidence that new short range missiles are being developed. Against this background, it is absurd that there should be

misgivings about replacing a NATO missile which dates from 1972, particularly when the Soviets outnumber us in this area by at least 12 to 1. The other point we have to get over is that SNF remain essential to the strategy of flexible response. If we have no SNF, then flexible response will have to be revised, which might lead to very radical changes in NATO's strategy. There is scope for further reductions in NATO's warheads stockpile in Europe but only if we simultaneously modernise the remaining weapons.

The German position is full of flaws: the concept of early negotiations on SNF: the failure to exclude a third zero: the inclusion in reductions of nuclear artillery: the absence of any commitment to keep NATO's nuclear weapons up to date. It represents victory for Genscher over Kohl and would mean not only the erosion of a vital part of NATO's defence but could also be a fatal step towards the denuclearisation of Europe, for so long a Soviet aim.

But we have to deal with the situation as it is. Clearly we are not going to get the Germans to commit themselves to deployment of a successor to LANCE at this stage. What we must have is confirmation of the requirement for SNF through the 1990s together with a statement of support for the US development programme for a successor to LANCE. At the same time we must avoid a commitment to SNF negotiations. The United Kingdom and the United States are both absolutely firm on this, not least because we are unwilling to leave our forces in Germany without proper protection. The German argument that negotiations are the best way to remove the current imbalance in SNF in the Soviet Union's favour is a false one. The right way forward is to make substantial unilateral cuts in our warhead stockpile while retaining the SNF that we need, and then challenge the Russians to match us. That would be no less bold than Gorbachev's initiatives in making unilateral force reductions but would not jeopardise our defence. It is, of course, open to the Germans to continue to argue that they believe in early negotiations on SNF: but they must accept that there is no consensus in the

Alliance on this and that the position remains as it was at the last NATO Summit ("in conjunction with ..."). We have to persuade the Germans to accept this as soon as possible, before they do further damage to NATO's unity. This will be your main purpose when you see Chancellor Kohl on Sunday. You hope that meanwhile the Dutch will not table compromises which would weaken the stand which you and President Bush are taking.

Gorbachev's Visit

You may like to give Mr. Lubbers your impressions of Mr. Gorbachev's visit. Your message to President Bush is in the folder. The key conclusions you drew were:

- we should continue to declare our support for Gorbachev's internal policies. The more we encourage him forward, the more difficult it will be for him to turn back without losing ground with Western opinion, yet the more he will face agonising choices;
- but we must remain absolutely firm on defence and on maintaining NATO's strength and unity.

Environment

He may refer to the Hague meeting and urge you to send a representative to the follow-up meeting in Paris. You have already said that we will not do this, because we do not accept even the watered down commitments in the Hague Declaration. Moreover, the Russians, Americans and Chinese will not be attending either.

You may also like to give him an account of your recent seminar on global climate change.

Southern Africa

The main point here is to try to persuade Lubbers that there

is a real prospect of change for the better in Southern Africa, notably the Namibia Agreement and within South Africa itself. You might tell him of your meetings with Botha and du Plessis and argue the advantages of greater contact as the best means of encouraging reform and the release of Mandela. We want to ensure that the Netherlands does not start agitating for further sanctions.

EC matters

The main issue is how to handle the Delors Report, on which the Dutch are more open-minded than some other Community states. The Chancellor's note sets out suggestions for the line you should take. In essence, he recommends keeping off the principle of EMU and focusing on practical matters. You might say that there are many useful practical measures which the Community can and should take in this field, and the task of the Madrid European Council should be to concentrate attention on these and agree the procedure for pursuing them. The best forum would be ECOFIN and Central Bank Governors. Proposals for amending the Treaty should be set on one side as a distraction to practical work, as should the question of institutional change. You will want to make clear that we cannot accept Treaty amendment.

On other EC issues, we are at one with the Dutch in opposing a withholding tax, but the Dutch support the principle of indirect tax approximation on the basis of the Commission's proposals, although they do not rule out other approaches. They are also quite helpful on frontier controls. While committed to abolishing land frontier controls with their neighbours, they continue to insist that all ports and airports should be treated as part of the Community's external frontiers and controls at them should remain. This suits us very well.

Finally there is debt reduction. The Dutch approach to the Brady Plan is close to ours i.e. debt reduction is a matter for the commercial banks not for taxpayers. To use World Bank

money to give interest rate guarantees would simply transfer the risk from the commercial banks and would not be fair to those who have honoured their debts and not rescheduled.

(C.D. POWELL)

26 April 1989

DALACM