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PRIME MINISTER'S MEETING WITH MR. LUBBERS,  
CHEQUERS, 29 APRIL 1989

Prime Minister

Mr. Lubbers

Mr. Charles Powell

Mr. Merkelbach

SNF

The Prime Minister set out our views on SNF in familiar terms. The position adopted by the German government was very worrying and involved serious risks for NATO. She could not believe that Chancellor Kohl's heart was in it. When she visited Germany, she would stress the importance of making President Bush's first NATO summit a success. She would explain our basic minimum requirements on modernisation: confirmation of the continuing need for SNF: support for the American development programme for FOTL: and renewal of the pledge to keep NATO's weapons up to date where necessary. She would also explain why we could not accept SNF negotiations: they would lead inevitably to a third zero and undermine the whole strategy of flexible response. Rather NATO should challenge the Soviet Union to make unilateral reductions in its SNF, to bring them down to NATO levels.

Mr. Lubbers said that he shared the Prime Minister's concern. The German position, as it had now emerged, was much worse than he had expected. He was horrified by how far the Germans had gone. He had expected that they would at least confirm existing NATO positions. It would be important to avoid a conflict at the summit and the Netherlands was working on a possible compromise text. He would be seeing Chancellor Kohl the following week. We had to find a way of giving him back his confidence. Personally he had no difficulty with the sort of communiqué for the summit which the Prime Minister had outlined.

Delors Report

Mr. Lubbers said that there was some difference of perception between the Netherlands and Britain on the Delors Report. The Netherlands was certainly not happy with all parts of it. But they saw the goal of monetary union as desirable. Their experience of membership of the EMS had been generally good.

The Prime Minister said that our own experience of trying to stabilise exchange rates against the DM had not been a happy one and had contributed to inflation in this country. Mr. Lubbers said that most member states had found participation in the ERM to be stabilising. It tended to discourage speculation. He recognised that much depended on the volume of business in a particular currency and that similar considerations might not apply to sterling as to the guilder. The Prime Minister said that one could not look at participation in the ERM in isolation. We had also to consider other factors affecting competition in Europe, such as the level of subsidies paid out by some governments. There was a long way still to go before there would be fair competition in the European Community. It was more important to concentrate on practical tasks like this than to indulge in institutional fantasies like the Delors Report.

Mr. Lubbers said that the Netherlands' approach to the Delors Report would be cautious. They found it too ambitious and could not accept the proposition in paragraph 39 that entering on the first stage involved a commitment to the process as a whole. The next step should be for the Madrid European Council to ask ECOFIN and the Monetary Committee to work out what could usefully be done in a first stage. Heads of Government should also ask the advice of experts before deciding whether Treaty amendment was necessary. The Netherlands was not against Treaty amendment in principle but preferred to proceed step by step and judge at each stage what was needed. In his view, there was a long way to go before

Treaty amendment was necessary.

#### Withholding Tax

The Prime Minister expressed satisfaction that the Germans had abolished their withholding tax. Mr. Lubbers agreed. But he thought that the system of taxing capital ought to be fair right across Europe. At the moment, Luxembourg derived far too much benefit because of its banking secrecy laws.

#### Frontiers

The Prime Minister emphasised the need to preserve frontier controls at the water's edge even after 1992, to deal with terrorism, drugs and animal and plant health. Mr. Lubbers said that the Netherlands took a very similar view so far as ports and airports were concerned, although it was a different matter with land frontiers.

#### Commission Competence

The Prime Minister said that she was concerned by the way in which the European Court of Justice continued to enlarge the competence of the Commission in its judgments. The Commission itself was constantly trying to extend its powers into new areas. She had recently come across a proposal for a framework regulation for child care to be provided throughout the Community up to the age of 10 at taxpayer's expense. Mr. Lubbers said that he shared the Prime Minister's worries about the Socialist orientation of the present Commission.

#### Environment

Mr. Lubbers said that he understood that Mr. Mulroney had given the Prime Minister an account of The Hague conference. (He did not however mention the follow-up meeting.) The Prime Minister told Mr. Lubbers about the seminar we had recently

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held on global climate change. There was also a brief exchange on tropical forests.

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10 DOWNING STREET  
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From the Private Secretary

29 April 1989

Dear Stephen,

ANGLO/DUTCH CONSULTATIONS

Anglo/Dutch consultations were held at Chequers this afternoon. They started with separate meetings between the Prime Minister and Mr. Lubbers and between Foreign and Finance Ministers. HM Ambassador at The Hague will be recording the latter. There was then a plenary and a working supper.

Virtually the whole discussion was devoted to two main issues: SNF and European economic and monetary union. British and Dutch views on the first were encouragingly close. I enclose a copy of the statement given to the press by No.10 after the meetings.

I also enclose separate notes of the Prime Minister's bilateral with Mr. Lubbers, and of the plenary session.

I am copying this letter and enclosures to Brian Hawtin (Ministry of Defence), Alex Allan (HM Treasury), Neil Thornton (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Yours sincerely,

(C. D. POWELL)

Stephen Wall, Esq.,  
Foreign and Commonwealth Office.

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**AGREED LINE FOLLOWING MEETING WITH MR LUBBERS**

The Anglo-Dutch consultations were held at Chequers this afternoon starting at four and ending about a quarter past eight. There were separate talks between the two Prime Ministers and between Foreign Ministers and Finance Ministers followed by a plenary session and a dinner.

The talks were held in an extremely good atmosphere. The main subject discussed was the prospects for the forthcoming NATO Summit. The two Governments found many points in common and will keep in close touch between now and the Summit. They also discussed the prospects for the Madrid European Council and other Community matters as well as environmental questions.