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Foreign &
Commonwealth
Office

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11 April 1991

London SW1A 2AH

Dear Stephen,

Visit by the Dutch Prime Minister, Foreign Minister
and Finance Minister: 14 April 1991

The working dinner at No 10 on 14 April will be the first substantive meeting between Mr Major and Lubbers, though they met at the Rome 2 European Council last December and were both at the Special European Council in Luxembourg on 8 April. It will also be the first bilateral meeting at this level since the 'mini-summit' at Chequers on 29 April 1989 attended on the Dutch side by Lubbers, Van den Broek and Ruding (then Finance Minister) and on the British side by Mrs Thatcher, Sir G Howe and Mr Lawson.

For this meeting the Prime Minister will be accompanied by the Secretary of State and HMA The Hague. Lubbers, Van den Broek and Kok will be joined by Lubbers' adviser, Mr Merckalbach, and the Dutch Ambassador, Mr Hoekmann. Kok's adviser, Maas, will also attend.

The meeting is taking place at Lubbers' initiative. He probably has three main motives in seeking a bilateral with the Prime Minister at this time. First, Lubbers may be concerned at Dutch isolation in the debate on Security Architecture (where he has so far left the running to Van den Broek). He may also now be wanting to work out for himself where a compromise solution could be found. Second, with the Dutch Presidency opening in July, Lubbers will want a clear view of our own position on the two IGC's in order to help him plan his priorities for the second half of the year. He will also have noticed the increase in pace and content of British ministerial contacts with the French and Germans (a point which should please the Dutch, since they have constantly urged us forward in this sense) and he will want to assess how far we really are now at the centre of the discussion of European issues. Third, the Dutch much admired our forward role in the Gulf conflict and will pay corresponding attention to our views on the post-conflict situation. Following the Special European Council on 8 April, Lubbers will want to share our thinking on the way forward. We wish to use the meeting to explain to Lubbers and persuade him of our views on NATO and European Security issues.

The Prime Minister should know that the Dutch Minister for EC Affairs, Mr Piet Dankert, will head a team of senior officials for talks with their British counterparts across

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the range of EC subjects on 18 April. Mr Garel-Jones and Mr Maud will lead our delegation.

Internal Politics

Within the Dutch Government, tensions between the CDA and its minority coalition partner the PVDA (Labour Party), have gradually built up since the change of Government in November 1989. Recent months have seen lengthy wrangling between them over the budget, and serious electoral setbacks for the PVDA in the local and provincial elections. These defeats are widely attributed to a public perception of PVDA Ministers' failure either to make party views prevail or even to operate effectively as Ministers. Kok, as Finance Minister and leader of the PVDA, is seen as doing full justice to neither role, despite receiving some credit for trying. At present both CDA and PVDA want to keep the coalition together, but a summer crisis cannot be ruled out and prospects for the Government running its full term (until Spring 1994) are not good.

In this situation Lubbers is playing a careful hand. He is adept at keeping his options open and staying out of serious controversy while pulling most of the strings. He lay low while Van den Broek gathered justified credit for Dutch performance in the Gulf War, and is leaving Van den Broek to fight for the NATO interest in the growing debate over security architecture. The Prime Minister should also be aware that Lubbers may now be seriously considering his chances of becoming the next President of the European Commission, in succession to Delors. — end of 1992.

The question of competence for foreign affairs still smoulders between Lubbers and Van den Broek and occasionally bursts into flame. Constitutionally Van den Broek is on firm traditional Dutch ground in arguing that the Prime Minister is merely primus inter pares and must leave his Ministers to do their own jobs. But there is an increasing realisation that the growing importance of EC business has enhanced the role of EC Heads of Government both inside the European Council and beyond, and even his own admirers feel that more flexibility and less indignation would become Van den Broek better. Personal relations between the two men appear good but it is always necessary to keep an eye on their sensitivities.

We have agreed with the Dutch that the talks should cover:

- NATO/European Security Issues;
- The Gulf Crisis: Next Steps; - Political Union IGC;
- EMU IGC;
- South Africa;
- European Energy Charter;
- Suriname

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/ I enclose a checklist of these points on a separate card.

NATO/European Security Issues

Dutch views on NATO and European Security issues are in most respects close to our own. Van den Broek in particular takes a robustly Atlanticist line: Lubbers seems to be more receptive to the European arguments. But so far in the IGC debate the Dutch contribution has been helpful to us. Although they foresee a larger role for the Community on security issues in the long term, their view of what is achievable at this stage and their attachment to NATO makes them our most valuable and consistent ally on these issues at the IGC. The Prime Minister might say:

- We stand together on the importance of preserving NATO and transatlantic links, while building up the European defence identity through the WEU.

- Glad that our experts are co-operating closely in work underway in the IGC and WEU. We need balanced progress in the European debate and the NATO Review to enable political decisions to be taken later in the year.

- We have been concerned that IGC debate was forging ahead at expense of NATO discussions. Now more awareness that progress cannot be made on one side in isolation. Useful that work in the WEU now focussing on the key issue of how a European defence capability can be built up in ways compatible with a reformed NATO. UK and Dutch thinking on the WEU's defence role very close.

- This helps to bring the discussion down to practical issues.

- Renovation of NATO an important part of achieving stable new security arrangements in Europe. Some partners underestimate the risk that long term objective of common European defence, involving separate military structures in Europe, could undermine Alliance and US presence. Particularly important not to create an inner European defence club based on the Twelve, leaving out Turkey and Norway.

- NATO Review an opportunity to adapt NATO force structures to accommodate a stronger European role. Ideas for a NATO Rapid Reaction Force fit well with concept of a European Reaction Force under WEU auspices. And we need to develop NATO's political role, particularly in finding ways of reassuring the Central and East Europeans about their security, short of formal guarantees.

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Gulf Crisis: next steps

Now that the liberation of Kuwait has been achieved, our aim is to work towards a just peace in the region. UNSCR 687 sets out tough but not punitive conditions for a ceasefire, and can be modified in the light of the developments inside Iraq. Regional issues are being dealt with by the countries involved. The GCC, Egypt and Syria have made an important first step towards a regional security arrangement with the Damascus declaration, which we welcome. There is a role for countries from outside the region to underpin this arrangement, if asked, but the UK will not leave ground forces stationed in the region permanently. The plight of Iraqi refugees, and especially the Kurds continues to worsen. It is important that the international community moves quickly to help. We have announced a contribution of £20m, and RAF planes are helping to deliver emergency supplies along the Turkish border. UNSCR 688, in which the UK played a leading role, underlines the depth of international concern. We are pursuing the establishment of safe havens in Iraq, to give the Kurds confidence to return to their homes.

Political Union IGC (Non-CFSP)

On other aspects of the Political Union IGC, the Netherlands are willing to go further than us on many aspects of the IGC (increasing the powers of the European Parliament, extending competence and QMV) and are determined to avoid steps that might strengthen the inter-governmental character of the EC, as with French proposals to reinforce European Council. But they accept the need for reform to be practical and incremental. They support subsidiarity and greater efficiency through improved financial accountability, implementation and compliance, though their wish to reform the budget procedure could be counter-productive, giving the EP and Southerners an opportunity to bid for more money.

The Prime Minister may wish to draw on the following:

- IGC entering new phase. Important to focus on areas where agreement likely to be possible.
- Community should act only where necessary. A clear and enforceable definition of subsidiarity is needed in the Treaty. We must avoid over-centralisation and risk of creeping protectionism. We remain unconvinced of the need to extend competence or qualified majority voting;
- We are willing to recognise and strengthen inter-governmental cooperation within Union as the only practical way forward for the foreseeable future in a number of sensitive areas;

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- Where it acts, the Community should be efficient. We attach importance to UK proposals on implementation and compliance.

- There is scope for greater European Parliament role in monitoring Commission and budget. But it is politically difficult in UK to accept a significant increase in its legislative powers. We should, however, recognise the role of national parliaments;

- We should avoid opening up budgetary issues. They would complicate the negotiations and make it difficult to conclude the IGC under the Dutch Presidency. There is a potentially heavy cost to all northern member states.

EMU IGC

EMU X
The IGC is now focussing on the content of Stage 2. Despite the joint Dumas-Genscher statement of 22 March, the Germans still want a relatively empty Stage 2, with the Bundesbank retaining its responsibilities; while the French want the Central Bank to begin with Stage 2 and have real tasks to perform. Knowing that the EMU endgame will probably be played out during their Presidency, the Dutch will attempt to play honest brokers. But in practice their position is much closer to the Germans: on 2 April they tabled a proposal that an institution be set up as Stage 2 starts, which towards the end of Stage 2 would become a Central Bank provided economies were convergent. While the Dutch have criticised our proposal for a European Monetary Fund, we can agree that the ecu should be strengthened in Stage 2, and that an institution (not yet a Central Bank) should start work in Stage 2. We also agree on the importance of economic convergence for the move into and out of Stage 2.

The Prime Minister may wish to:

- Welcome the fact that discussion is now focussing on Stage 2: important that next steps are right if EMU is to be durable.

- Agree that substantial Stage 2, with evolutionary capacity, is crucial. But important also that new monetary institution should have a clearly defined job to do.

- Agree too that economic convergence a sine qua non for moves between stages of EMU.

- Sure eventual agreement can be found to reconcile our unwillingness to commit ourselves now to a single currency regime with others' desire to do so.

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South Africa

Our EC partners agree with us that the conditions for lifting its remaining 1986 sanctions (iron/steel, and gold coins) have been met. The Commission has prepared draft legislation, but has recommended that the Foreign Affairs Council (15 April) consult the European Parliament. We have lobbied partners, including the Dutch, against this: there are no legal or procedural reasons to consult the Parliament. Dutch officials agree (so do the French and Portuguese, and possibly others).

We have told EC partners at official level that the 1985 ban on the export of crude oil should go when the South African Government completes repeal of the Group Areas and Land Acts (expected by end June).

On sport, we have told EC partners that the EC ban on official sporting contacts should go at the June European Council. Heads of Government should also declare that contacts should resume with integrated sports in South Africa. This would have a beneficial impact on the Commonwealth. The French and Germans have already indicated support for the idea of a statement. The Dutch have previously shown interest in lifting the EC sporting sanction. The Prime Minister may wish to say:

- Hope next European Council can state that contacts with South African sports should be resumed where they have fully integrated governing bodies. The EC ban on official sporting contacts/agreements should go at the same time.

European Energy Charter

The European Commission's proposals for a "European Energy Charter" (being considered by two Council working groups and which we strongly support) derive directly from a paper presented by Mr Lubbers to the European Council in Dublin last June. We understand that the idea of a "European Energy Community" proposed in the paper was very much Mr Lubbers' own. The plan is for an open energy market embracing all European countries and the USSR. The Energy Charter proposals are due to be discussed at the Foreign Affairs Council on 15-16 April: the main issue will be whether non-European countries should be invited to negotiate the Charter. We believe this would be undesirable but that the Charter should not discriminate against non-European countries.

The Prime Minister might take the following line with Mr Lubbers:

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- Pleased your proposals for a European Energy Community have been received so favourably both inside and outside the EC. We strongly support them.

- EC needs to move quickly if we are to meet objective of signing Charter by end year. How much importance do you attach to this? Grateful for your offer to host signing conference.

- Hope you can agree that non-European countries should not negotiate Charter, but could sign protocols later. Danger that, if we start to admit non-Europeans to Charter, others (eg Algerians) will also demand access, so diluting content.

Suriname

The army coup on 24 December 1990 prompted the Dutch government to re-examine its policy towards Suriname. In February 1991, a Dutch newspaper published leaked details of a plan which had been discussed at Cabinet level in the Dutch government. Under the terms of the plan the Netherlands would resume responsibility for the defence of Suriname; its monetary policy (via a currency union); co-responsibility for foreign affairs; and a role in the legal system. Surinamese citizens would also enjoy dual Dutch nationality. The Dutch believe that the plan would be approved if put to the Surinamese people in a referendum. They recognise that in some quarters the plan might be condemned as neo-colonialist.

The Dutch may seek our views. We have not yet seen detailed proposals but provided that the majority of Surinamese supported the plan we see no reason to object. The Prime Minister could ask if the objective would be to restore full independence after having strengthened the economy and political institutions.

Our commercial and political interests in Suriname are minimal. But in the interests of regional stability and our desire to curb drug trafficking from the Caribbean, a stronger Dutch presence in the region would be welcome.

/ (For additional information on Suriname see Annex A).

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Hostages in Lebanon

The Prime Minister may wish to thank Mr Lubbers for the firm support the Dutch have given us on the question of hostages in Lebanon. During his recent visit to Riyadh, Van den Broek asked the Saudis to press Iran for the hostages' release. He was also a member of the Troika mission which raised hostages with the Iranian Foreign Minister on 3/4 April. The Dutch announced on 5 April their intention to restore full diplomatic relations with Iran.

CAP Budget Discipline

We and the Dutch are (alone) supporting the Commission in resisting other member states' demands for the CAP budget guideline to be increased. We understand that, although the Dutch Finance Ministry remains sound, the Agriculture Ministry is wobbling, claiming to fear that the Netherlands may become isolated if the UK position were to change. We have reaffirmed our position in Ministerial and official level contacts, eg the Chancellor's remarks in ECOFIN on 8 April. But it would be helpful if the Prime Minister could personally reassure Lubbers that we firmly reject raising the guideline, and encourage continued UK-Dutch cooperation in order to maintain CAP budget discipline.

I am copying my letter to Simon Webb (MOD), Nicholas Holgate (Chief Secretary's Office) and Sonia Phippard (Cabinet).

*Yours ever,
Christopher Prentice.*

(C N R Prentice)
Private Secretary

Stephen Wall Esq CMG LVO
10 Downing Street

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BACKGROUND

SURINAME

Political

1. During the 20 years prior to achieving full independence from The Netherlands in 1975, Suriname had been a self governing, multi-party, parliamentary democracy. This form of government continued following independence.
2. Increasing dissatisfaction with the government's performance in easing social inequality prompted the army in 1980 to stage a coup. The leader of the coup was Lt Col Desiré Bouterse (pronounced Bowterzay) whose political orientation was generally left wing. In 1982 Bouterse had many of his political opponents murdered. As a result he came under strong international pressure, particularly from Holland. Dutch aid (worth US \$100 million a year) was suspended.
3. The Dutch government continued to put pressure on Bouterse (mainly by continuing to withhold aid) to allow a return to democracy. In March 1987 the National Assembly approved a new draft Constitution which led to free elections in November 1987. The Front for Democracy and Development, a three party coalition representing the three major ethnic groups, won overwhelmingly. The pro-Army NDP won only 2 seats. Bouterse accepted the result but continued to interfere in the affairs of government, often deliberately undermining the government's authority.

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4. Matters came to a head in late December 1990 when Bouterse was incensed on being denied entry to The Netherlands at Amsterdam airport. Bouterse had arrived from Paramaribo on the same flight as President Shankar who had not intervened on his behalf. On 22 December Bouterse resigned as Army Commander. On the evening of 24 December soldiers seized the television station in Paramaribo and Acting Army Commander Lieutenant Graanoogst announced the coup (which Bouterse had undoubtedly organised). It was announced subsequently that elections would be held on 25 May 1991, to which independent observers were to be invited.

5. The bloodless coup was promptly condemned by the Dutch and US governments. Venezuela announced that it would not maintain diplomatic relations with Suriname. The European Community, the OAS and CARICOM issued statements condemning the coup and calling for a restoration of the democratically elected government. The Dutch government later announced that it was suspending direct financial aid while humanitarian aid, essentially food and medicine, would continue through NGOs.

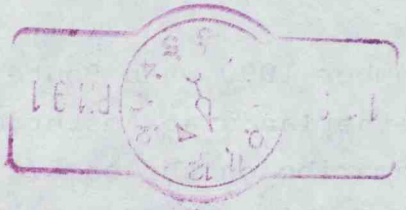
6. In February 1991 a Dutch newspaper published leaked details of a plan which had been discussed at Cabinet level in the Dutch government under which the Netherlands would resume responsibility for the defence of Suriname; its monetary policy (via currency union); co-responsibility for foreign affairs; and a role in the legal system. Surinamese citizens would also enjoy dual Dutch nationality. Many Surinamese would welcome the Dutch plan although some would oppose what would amount to virtual recolonisation. Certainly the army under Bouterse would be likely to reject the plan.

Drugs

7. Over 50% of the cocaine reaching The Netherlands is thought to arrive via Suriname. The Dutch and US governments suspect Bouterse of involvement in drug trafficking.

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**PRIVATISATION OF THE SHORT TERM BUSINESS OF ECGD: BRIEF FOR
PRIME MINISTER'S MEETING WITH DUTCH PRIME MINISTER**

Issue

We understand that, in the margins of his meeting with the Prime Minister on 14 April, Mr Lubbers may seek reassurance that any bid by the Dutch credit insurance company, NCM, for ECGD's short term insurance business, the Cardiff-based Insurance Services Group, will not be ruled out because NCM is foreign owned.

Line To Take

Mr Lubbers' office has already been told by the British Embassy in the Hague that:-

- a Two of the other five companies on the original short list of potential bidders are foreign owned while another included a foreign partner (though the latter has now withdrawn).
- b The Director General of Fair Trading is examining whether to recommend that any of the potential bids should be referred to the MMC on grounds of public interest.
- c Any reference to the MMC is normally made on competition grounds and the nationality of a potential bidder would of itself be unlikely to be a relevant factor.

The Prime Minister is recommended to take the same line if Mr Lubbers raises the matter.

Background

The Government's decision to privatise the short term business of ECGD was announced by Mr Ridley on 18 December 1989. The privatisation will take the form of a trade sale by competitive tender.

The Secretary of State for Trade announced on 5 March the following shortlist of companies invited to tender for the business:-

- Assicurazioni Generali (an Italian general insurer);
- Cobac (a Belgian credit insurer);
- A consortium comprising Eagle Star (a UK general insurer) and Gerling (a German credit insurer), with shareholdings of 95% and 5% respectively;
- NCM (a Dutch^x credit insurer);
- Sun Alliance (a UK general insurer);
- Trade Indemnity (a UK credit insurer).

Since then, the Eagle Star/Gerling consortium have said that they do not wish to pursue their interest further.

x private sector

Detailed discussions are currently taking place with the shortlisted companies to clarify the Government's proposals before the deadline of 30 April for submission of bids. The Prime Minister will wish to be aware that NCM are regarded as a serious bidder, and there would be great difficulty in excluding them or any other EC bidder simply on nationality grounds.

ECGD
12 April 1991

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TO DESKBY 121400Z FCO

TELNO 149

OF 121248Z APRIL 91

AND TO IMMEDIATE DTI

OUR TELNO 135 : PM'S MEETING WITH LUBBERS : 14 APRIL

1. THE ECONOMIC ADVISER IN LUBBER'S OFFICE, VAN DE GRAAF HAS ADVISED US THAT, IN THE MARGINS OF HIS MEETING WITH THE PRIME MINISTER ON 14 APRIL, LUBBERS MAY SEEK REASSURANCE THAT ANY BID BY THE DUTCH CREDIT INSURANCE COMPANY NCM FOR ECGD'S INSURANCE SERVICES GROUP WILL NOT BE RULED OUT BECAUSE NCM IS FOREIGN OWNED.

2. FOLLOWING TELECON SPRAKE - BELL (DTI-COMPETITION DIVISION) WE HAVE INFORMED VAN DE GRAAF THAT:

- A) TWO OF THE OTHER FIVE COMPANIES ON THE ORIGINAL SHORTLIST OF POTENTIAL BIDDERS ARE FOREIGN OWNED WHILE ANOTHER INCLUDES A FOREIGN PARTNER,
- B) THE DG OF FAIR TRADING IS EXAMINING WHETHER TO RECOMMEND THAT ANY OF THE POTENTIAL BIDS SHOULD BE REFERRED TO THE MMC ON GROUNDS OF PUBLIC INTEREST.

3. WE HAVE HOWEVER STRESSED THAT ANY REFERENCE TO THE MMC IS NORMALLY MADE ON COMPETITION GROUNDS AND THAT THE NATIONALITY OF A POTENTIAL BIDDER WOULD OF ITSELF BE UNLIKELY TO BE A RELEVANT FACTOR.

4. YOU MAY NEVERTHELESS WISH TO ENSURE THAT BACKGROUND BRIEFING IS AVAILABLE.

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