

SUBJECT CC MASTER



bcc PC

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From the Private Secretary

14 April 1991

Dear Richard,

WORKING DINNER WITH THE DUTCH PRIME MINISTER

The Dutch Prime Minister, Foreign Minister and Finance Minister came to a working dinner at No.10 this evening. The Foreign Secretary, Mr. Maude and Sir Michael Jenkins were also present. I attach a full list of the Dutch participants. I was grateful for the briefing provided.

The subjects covered were: European Community, South Africa, the European Energy Charter, the Economic Summit and Iraq. Discussion on the European Community is covered below. The other subjects are dealt with in separate letters.

European Community.

EMU The Dutch Finance Minister said that the linkage between the two IGCs - as well as the substance of EMU - remained unresolved issues. There was no agreement yet on the contents of the second stage though it was set to start from 1 January 1994 provided sufficient member states had ratified the Treaty by then. The extent of the independence of the institution set up in Stage 2 was still unresolved. It was impossible to envisage a European Central Bank from the beginning of 1994 without a co-ordinated monetary policy. Mr. Kok thought that the Luxembourg Presidency would try to give the June European Council a clear picture of progress made but it would be for the Dutch Presidency to finalise the process. What would happen in Stage 3 was still not agreed - certainly in respect of the UK.

In discussion it was agreed that the Germans were placing increasing emphasis on the need for convergence not least as a result of their experiences over unification. Mr. Kok thought that Pohl had exaggerated the implications of the German experience for Europe as a whole. The need for convergence was a practical, rather than a juridical point. The southern members of the Community, however, wanted to deal with it in the Treaty.

The Prime Minister asked whether we should be aiming to measure convergence by Stage 2 or Stage 3, or both. Mr. Lubbers thought it was impossible to get agreement on Stage 3 now, partly but not wholly because of the British position. So there would have to be a further decision later. But this itself caused problems because if an entire Treaty was going to be put to national parliaments then something would have to be said in

the Treaty about Stage 3. The question was what. In discussion it was thought that preambular language could be devised to cover the ultimate goals.

Mr. Lubbers went on to identify two further problems:

- i) what was the nature of the institution we were talking about in the second stage. The French would want to put a lot into Stage 2 in order to postpone the advent of Stage 3. The Germans by contrast wanted a modest second stage;
- ii) cohesion was a very dangerous concept and conclusions would have to be reached on it before we moved to the third stage. But we could not do that now. That was another reason not to be ambitious on defining Stage 3 at this point.

Mr. Lubbers indicated that he would prefer to reach conclusions, albeit minimalist ones, during the Dutch Presidency than to defer decisions into the next Presidency. In reply to the Prime Minister, Mr. Kok defined minimalist conclusions in respect of Stages 2 and 3 as meaning that the basic directions set out at last October's European Council had to be put into Treaty form - nothing more, nothing less. The Prime Minister said that he assumed the Treaty would not set out the details of full currency union or the statute of a Central Bank. Mr. Kok said that was for Stage 2. Further decisions would have to be taken between 1994 and 1997. But the characteristics of the end goal would have to be decided now. The Prime Minister asked whether Mr. Kok envisaged a phantom Central Bank at Stage 2. Mr. Kok said he did not envisage a real Central Bank. We would need a Council of Governors - with a juridical basis for the second half of the Stage 2 process.

The Prime Minister said that our own proposal for the hard ecu was not a blueprint though hardening of the ecu was in principle a desirable way into Stage 2. He could sell to the House of Commons the establishment of an institution in Stage 2. He could not persuade the House of Commons to accept in the abstract the notion of an independent Central Bank. We did not after all have an independent Bank of England. An independent institution managing its own currency or the basket ecu was one thing, but if EC colleagues insisted on calling it an independent central bank and making it the arbiter of a single currency then that would not be acceptable.

The Dutch side agreed that their position and ours were close on this although we approached it from different angles. Mr. Lubbers thought that this kind of approach, ie without a Central Bank in Stage 2 would make it easier to handle the issue of cohesion. During the second phase we would work on convergence and there would need to be a further decision, both on convergence and on the large jump forward to Stage 3. We and the Dutch agreed that there was an inextricable relationship between convergence and cohesion: the more you talked about convergence the more you paid in cohesion. Mr. Van den Broek thought we should perhaps talk of convergence of policies.

The Prime Minister said that we envisaged an institution in one form or another which would be responsible for hardening the ecu, for convergence criteria and for monitoring convergence but it would have no executive authority over handling the ecu. Mr. Lubbers thought the French might object to this. The Prime Minister thought there was something of a division in the French camp between Mitterrand and Dumas on the one hand and Beregovoy on the other. There was also some discussion on what the institution would be called. The Prime Minister said that the key thing was not to call it a Bank.

In discussion of Stage 3 Mr. Lubbers said more than once that this would be a political decision rather than one based on convergence. Convergence would only take you so far. The Prime Minister said it would be essential for us to have a clause allowing each member state to take its own decision about whether and when to enter Stage 3. That would have to be written into whatever Treaty went to our parliaments. Mr. Lubbers said that that gave him personally no problems but it might give the impression of a two-speed Europe. Mr. Van den Broek commented that there was a difference between deciding the criteria for when Stage 3 would start and actually setting a joining date. It was possible to remain vague about the criteria but once a certain number of member states had started on Stage 3 they would want to know when it was likely to become fully operational. The Prime Minister pointed out that the pressures of economic reality would in fact make this a non-problem. British public opinion had moved a long way in five years. A lot could happen. Too much clarity would be a mistake, and not necessary.

Political Union

Mr. Van den Broek described the document put forward for discussion tomorrow. Early on, the Presidency paper said that a common defence policy was an objective, but was something to be looked at later. Six or seven articles further on, however, the document was rather more precise, saying that if the Council took a foreign policy decision with defence implications, then that would be dealt with in the WEU - but that should not be at the expense of NATO obligations. The British and Dutch Permanent Representatives had today been discussing whether we should not seek to say in plain language that issues relating to defence were reserved for the WEU and/or NATO.

As regards the long term objective, Mr. Van den Broek said that the Dutch were more forthcoming than the British, taking as their basis the Hague Declaration.

Mr. Van den Broek said that the Dutch were also more forthcoming than the British on foreign policy issues. Their view was that unanimity should be preserved when a proposal on foreign policy came from a member state or the Presidency but that majority voting should be introduced for proposals from the Commission.

In subsequent discussion it became clear that there was a difference on this between Van den Broek and Lubbers, with Lubbers declaring himself sceptical about the introduction of majority voting on foreign policy issues, but believing that the Community aspect of decision-taking on foreign policy should be assured by means of the accountability of the Commission to the European Parliament. He had in mind that where a decision was taken the Commission ought to be required to report to the Parliament on it.

There was a discussion on familiar lines on the differences between us on powers for the European Parliament and on the extension of competence and qualified majority voting. Mr. Hurd said that we might be able to move a little here and there but he envisaged a situation where, in the second half of the year, we would simply have to say 'no' to a number of propositions. British Ministers were ultimately answerable to the House of Commons and co-decision was incompatible with that. Mr. Van den Broek said that co-decision would effectively mean that if, after an attempt at conciliation, the European Parliament refused to approve a measure, then it would not go through. The Prime Minister went through the arguments in favour of giving the European Parliament greater authority over the Commission and over spending. The Dutch agreed that this was desirable - but did not think it enough.

The rest of this part of the discussion focussed on foreign and security policy. Both the Prime Minister and Mr. Lubbers thought that, though the French talked about a common defence policy, they would not in practice be willing to make the use of their nuclear deterrent a subject for common decision. Mr. Van den Broek did not find this strange - or a knock-out argument to use with the French. There was a parallel with NATO. NATO was a common defence organisation but the Americans took their own decisions about the use of their nuclear weapons. Mr. Lubbers said the difference was that political union went beyond the kind of inter-governmental relationship which was involved in NATO. That was one reason why he wanted to see the Commission involved. The Foreign Secretary pointed out that the last thing the French wanted was to involve the Commission. They saw the European Council at the top with one line of decision leading through the Commission to the Council on traditional Community issues and the other (excluding the Commission) leading to WEU.

In all this discussion there was no disagreement on the substance of our joint position, ie that defence decisions should be reserved for the WEU and NATO, but Mr. Lubbers clearly hankered after making the European Council the same as other Councils. He also saw, de facto, a situation growing up in which the European Council would be called upon to meet to discuss foreign policy and security issues, rather as it had been called to discuss the Gulf/Iraq last week. It was in that situation that he felt uneasy about the Commission not having a role of any kind. But the role he envisaged appeared to be one of accountability to the European Parliament rather than anything else.

Agriculture

The Dutch were clearly starting to feel uneasy about our and their isolation over the guideline and were wondering whether we would blink first. I think the discussion will have strengthened their determination to resist increasing the guideline. Mr. Lubbers had clearly toyed with the arguments that German unification provided some justification for the increase but he appeared to accept the rejoinder by everyone else present this evening that this was merely a pretext.

Comment

The atmosphere throughout the discussion was very good with the Dutch clearly trying to see their way through the difficulties they will face in their Presidency in a practical way. At a personal level at least there seemed no edginess between Lubbers and Van den Broek.

I am copying this letter to Jeremy Heywood (HM Treasury), David Rossington (MAFF), and Sonia Phippard (Cabinet Office).

Jaw,
Stephe

J. S. WALL

Richard Gozney, Esq.,
Foreign and Commonwealth Office