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Dear Charles,

The Prime Minister will see Mr Lubbers from 1145 to 1230 on 2 December. He remains a useful ally in Community discussions, particularly on external trade issues, on which the Dutch approach remains very liberal, and on CAP reform, where further progress may become more difficult when Andriessen, the Dutch Commissioner, moves from Agriculture to External Relations, particularly if his replacement is MacSharry, as rumours suggest. (Like us, Mr Lubbers opposed Andriessen's move.)

On the social dimension we and the Dutch can agree on the need for a Framework Directive on health and safety at work. But The Hague ~~telno~~ 498 (attached) shows that Mr Lubbers may want to pursue a more active Community programme on social issues than we would want.

It might be useful to sound out current Dutch thinking on frontiers. The Dutch are joint signatories (with FRG, France, Belgium and Luxembourg) of the Schengen Agreement, committing them to abolish land frontier checks by 1990. Implementation is complicated by the question of third country nationals. The Dutch are worried about the large number of immigrants who are attracted to the Netherlands. At Hanover, Mr Lubbers proposed a study on third country nationals' access and integration into the community. We regard this as valuable in itself, and also as a way of injecting realism into Community discussions. We believe it important to distinguish between EC and non-EC nationals in handling immigration at frontiers. The latest indications are that the Dutch may be becoming more receptive to our arguments, at least for ports and airports.

Mr Lubbers is likely to agree that the Community must maintain a liberal trade policy (in relation to the Single Market, and the GATT Uruguay Round, including progressive reform of agriculture), and that we should avoid unnecessary confrontation with the US on trade issues. The Dutch, like us, see few problems with the proposed Rhodes Statement, but agree with us that the reference to "global reciprocity" would strike the wrong note in Washington and Tokyo, and must go.

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The Prime Minister may wish to take the following line:

- The Single Market, by removing barriers to growth, will address the Community's principal social problem: unemployment. Our concern is therefore with measures that encourage employment growth and increase labour market flexibility, eg training. We also have no problem with further action on Health and Safety at work.
- But no evidence (from business) of any need for a European Company Statute. And no prospect of our agreeing to mandatory worker participation provisions (or Germans agreeing to only voluntary ones). In the UK, we have instead encouraged employee share ownership: 1500 schemes now cf 30 in 1979.
- We supported your proposal at Hanover for a study on immigration. Important to distinguish between our obligations to EC and non-EC nationals. Can certainly speed up travel for the former: we plan early introduction of a single channel for all EC (including UK) nationals at all UK ports of entry.
- But we must retain the right to spot checks against terrorists, drug traffickers, illegal immigrants. As an island, it makes sense for UK to carry out such checks at the water's edge.
- On external issues we must ensure that the 1992 Single Market is open, that the Community takes a liberal line in GATT Uruguay Round discussions, including agriculture, and that we avoid unnecessary trade confrontation with US. The proposed Rhodes statement should be useful, though we must remove the suggested reference to "global reciprocity".

The Dutch have indicated that Lubbers may raise the UK attitude towards financing the European Space Agency in the period 1990-94. We have blocked a proposed budget increase, arguing that we first need to see evidence of cost-effective management of the Horizon 2000 programme (a series of space science projects) and pointing to the 27% (real terms) budget increase already agreed for 1985-89. But concern that we should not damage our chances of securing the lead role on the Columbus programme (for a polar-orbiting observation satellite) has led us to suggest, last week, that a 5% increase on the basic budget up to 1992 would be permissible, provided that a comprehensive review of the management and costs of the Horizon 2000 programme is undertaken before the future budget is next considered in 1990.

If Mr Lubbers raises the matter, the Prime Minister might wish to remind him of this new UK proposal.

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I am copying this letter to Neil Thornton (DTI) and Roger Lavelle (Cabinet Office).

Yours,
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Private Secretary

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