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2 December 1988

From the Private Secretary

See Stephen

**PRIME MINISTER'S MEETING WITH THE PRIME MINISTER OF THE
NETHERLANDS AT THE RODOS PALACE HOTEL IN RHODES ON 2 DECEMBER**

The Prime Minister had a talk with Mr. Lubbers this morning before the start of the European Council. Mr. Van den Broek and the Foreign Secretary were also present. The discussion was concerned almost entirely with the proceedings of the European Council.

The Prime Minister said that she was expecting a gentle meeting. The Council should take note of the Commission's report on the internal market and confirm the priorities agreed at Hanover. She would speak up if necessary against tax harmonisation. She was also opposed to worker participation. But there was little point in an argument about this now: there were plenty of other things to get on with. The Prime Minister stressed the importance of retaining some border controls, particularly as a deterrent to terrorists and drug smugglers. We also had to keep immigration controls against people from outside the Community, although we were prepared to introduce a single channel through immigration for all Community citizens. There should be no discussion of monetary matters at this Council: they would be on the agenda in Madrid the following June. It would be important to reaffirm the Community's commitment to keep open its markets. The draft declaration on the environment was acceptable. We should make use of existing international institutions to deal with environmental issues rather than create new ones. There was no need to re-open discussion of the Middle East. The statement agreed by the Foreign Ministers recently was perfectly adequate. During her visit to Washington she had urged PresidentElect Bush to bring the Middle East up the agenda. The recent United Nations resolution on Arafat had not helped with the Americans, who were vital to making progress.

Mr. Lubbers agreed that there would be no particular problems at the Council. He attached the greatest importance to making a success of the GATT Mid-Term Ministerial meeting in Montreal. The Community would have to be more flexible on agriculture and the Americans must move also. The Prime

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Minister interjected that President-Elect Bush had assured her that they would. Mr. Lubbers continued that the draft declaration on the environment was quite a good one. On borders the Dutch had a problem. Ultimately they were ready for free movement. But for that, there must be a better system of internal controls, based on identity cards. However there was a lot of psychological resistance to them in the Netherlands. It was unlikely that the Schengen Group would be able to meet its 1990 target. The Dutch would not lift controls at Schipol at any price. The Prime Minister commented that it was never wise to let something go until you had something better to put in its place.

Mr. Lubbers said that good progress had been made in discussing a convention on broadcasting standards in the Council of Europe. He saw no need for a separate Community regulation: the Community should simply adopt the substance of the Council of Europe's agreement. He could accept President Mitterrand's initiative on audio visual.

Mr. Lubbers continued that his Finance Minister had warned him that Delors might bring up the question of harmonising withholding-tax on capital. The Prime Minister said that there was no question of this: it would only lead to capital leaving Europe. The Community must not make extra regulations the condition of greater freedom.

Mr. Lubbers said that he would like to tell the Prime Minister how he saw the social dimension discussion in the Community. At the basic level, there could be agreement on minimum health and safety conditions. Those already embodied in the Council of Europe's Social Charter were perfectly adequate. Then there were the more difficult questions such as worker participation. Discussion of these lay in the future. Most difficult of all was the concept of harmonising social security benefits, which some would argue should involve financing them at the European level. He saw no prospect of this being agreed. He would like to see the issues treated gradually, starting with agreement on standards. He also believed that these matters should be treated separately from the internal market. The Prime Minister agreed with much of Mr. Lubbers' analysis. The social dimension should not be treated as yet another area for transfer of resources. There was already enough of that in the structural funds.

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

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