

PRIME MINISTER

BILATERAL WITH MR. LUBBERS

You are to have a bilateral with Mr. Lubbers and Mr. Van Den Broek shortly before the opening of the European Council, in the Dutch delegation offices. You will want to go through the agenda rapidly with him to see where we can join forces. That should be easy on the Single Market where the Dutch are as determined as we are to liberalise transport, telecommunications and financial services. You will want to seek his support for encouragement to the French Presidency to include a package of further Single Market measures at the Internal Market Council on 21 December.

On EMU you will want to see whether the Dutch have any more information on Chancellor Kohl's intentions. The Dutch are ready to accept an IGC in the second half of 1990. But there are suggestions that they may table a compromise saying that this date depends on adequate preparatory work having been done in the meantime and that the IGC could if necessary be postponed. It is not much help but it could be better than nothing. You might like to seek his explicit support for the conditions on an IGC which we would like to see in the Council's conclusions and, in particular, a reference to the need to take full account of the effects of Stage I of EMU before moving to any subsequent stages.

Finally, Lubbers should be a good ally on the question of a Bank for Eastern Europe. He will probably be ready to accept it in principle but will support further study against strict criteria, cost effectiveness, conditionality, private sector involvement and no overlapping with other multi-lateral institutions.

A fuller note by the FCO is in the folder.

C.D.P.
(C. D. POWELL)

7 December 1989

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C&PC



Foreign and Commonwealth Office

London SW1A 2AH

7 December 1989

Dear Charles,

European Council: Bilateral with Mr Lubbers

The following covers some of the issues which may be discussed with Mr Lubbers on Friday morning.

On the French proposal for a new European Bank for Eastern Europe, Mr Lubbers will probably agree the principle of a new institution, but may prove an ally in calling for further study against searching criteria. The Prime Minister might take the following line:

- need to ensure that any bank would add to the efficiency of our response to Eastern Europe's needs. French proposal should be further considered by experts in the Monetary Committee to see if it is consistent with:
- differentiation between Eastern Europeans;
- avoidance of duplication and undermining of IMF programmes;
- targeting on the private sector, and involving the Western private sector;
- cost effectiveness;
- sound financial principles.

On EMU, Mr Lubbers favours an end-1990 start-date for an IGC. But he has indicated to his parliament that this should be conditional on full preparation in the interim, and on France and Italy meeting the July 1990 deadline for the abolition of their exchange controls. He may at Strasbourg float the idea of a specific checkpoint, at which these conditions would have to be seen to be met, before an IGC went ahead. The Prime Minister might like to draw his attention to the need to take full account of the effects of Stage I before turning to subsequent stages. In practice, Mr Lubbers may be helpful, provided he remains confident that we stand by our commitment to all elements in Stage I.

Mr Lubbers is a good ally on Single Market issues, and the Dutch share our determination to liberalise transport, telecoms and financial services. The Prime Minister might like to mention:



- the case for reaffirming the Madrid priorities, particularly financial services and transport; and
- our suggestion to the French of a package for the 21 December Internal Market Council, including merger control, public purchasing in excluded sectors, and testing and certification.

/ I enclose a copy of The Hague telno 502.

I am copying this letter to John Gieve (HMT), Neil Thornton (DTI) and David Hadley (Cabinet Office).

Jans.
Stephen Wall
(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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FRAME GENERAL

STRASBOURG EUROPEAN COUNCIL: DUTCH OBJECTIVES

SUMMARY

1. THE DUTCH HOPE THAT THE STRASBOURG EUROPEAN COUNCIL CAN BE USED TO REINFORCE THE COHESION OF THE COMMUNITY. THEY ARE READY TO SUPPORT HOLDING AN IGC ON EMU IN 1990 UNDER CERTAIN CONDITIONS. THEY AGREE TO THE SOCIAL CHARTER. CONDITIONAL SUPPORT FOR THE IDEA OF A EUROPEAN DEVELOPMENT BANK.

DETAIL

2. LUBBERS AND VAN DEN BROEK WILL BE GOING TO STRASBOURG PREOCCUPIED BY THE SITUATION IN EASTERN EUROPE AND ITS SIGNIFICANCE FOR THE DEVELOPMENT OF THE EC. THIS WILL CONDITION THEIR ATTITUDE TO THE SUBJECTS ON THE EUROPEAN COUNCIL AGENDA. IN RECENT WEEKS THEY HAVE EXPRESSED THEMSELVES MORE CLEARLY IN FAVOUR OF THE VIEW THAT DEVELOPMENTS IN EASTERN EUROPE NECESSITATE REINFORCING THE POLITICAL AND ECONOMIC COHESION OF THE EC. AT THE SAME TIME THEY HOLD STRONGLY THAT THE PRINCIPLE OF SUBSIDIARITY SHOULD UNDERLIE EC POLICY-MAKING.

EMU

3. VAN DEN BROEK MADE CLEAR AT A MEETING TODAY WITH EC AMBASSADORS THAT THE DUTCH SUPPORT THE PROPOSAL FOR HOLDING AN IGC AT THE END OF 1990, BUT ON CONDITION THAT IT IS THOROUGHLY PREPARED. THEY SEE SUCH A DECISION AS PROVIDING AN IMPORTANT SIGNAL THAT THE EC WISHES TO PRESS AHEAD WITH ECONOMIC AND POLITICAL INTEGRATION. THIS MEANS THAT VAN DEN BROEK'S BELIEF IN THE SYMBOLIC IMPORTANCE OF FIXING A DATE HAS PREVAILED OVER THE MORE CAUTIOUS LINES ADVOCATED BY THE TWO SUCCESSIVE MINISTERS OF FINANCE, RUDING AND KOK.

4. LUBBERS MADE IT CLEAR TO THE DUTCH PARLIAMENT ON 27 NOVEMBER THAT DUTCH SUPPORT FOR AN IGC WAS CONDITIONAL ON THE COMPLETE LIBERALISATION OF CAPITAL MOVEMENTS, AND ON AGREEMENT THAT THE COMMUNITY WOULD WORK OUT THE VARIOUS ELEMENTS OF EMU BEFORE AN IGC

BEGAN. THE DUTCH ALSO WANT TO SEE COMPLETED A FULL STUDY OF THE MODALITIES OF AN INDEPENDANT CENTRAL MONETARY AUTHORITY, WHICH THEY BELIEVE SHOULD BE AUTONOMOUS, AND SHOULD HAVE PRICE STABILITY AS ONE OF ITS EXPLICIT OBJECTIVES.

SOCIAL EUROPE

5. THE DUTCH ARE READY TO AGREE TO THE PROPOSED SOCIAL CHARTER. ONCE AGAIN THE SYMBOLIC IMPORTANCE OF AGREEING THE DOCUMENT OUTWEIGHS CONCERNS THEY MAY HAVE OVER ITS FOLLOW-UP. ON THE LATTER, THEY STAND READY TO FIGHT THEIR CORNER WITHIN THE EC MACHINERY ON THE SEPARATE PROPOSALS TO BE PUT FORWARD BY THE COMMISSION. THEY UNDERSTAND OUR DIFFICULTIES BUT DO NOT SHARE OUR OBJECTIONS TO THE DOCUMENT. WITH THE DUTCH LABOUR PARTY NOW IN GOVERNMENT, MINISTERS ALSO TAKE THE VIEW THAT A DEMONSTRATION IS NEEDED THAT THE SINGLE MARKET IS NOT BEING CREATED ONLY WITH BUSINESS INTERESTS IN MIND.

SINGLE MARKET

6. THE DUTCH ARE ANXIOUS TO MAINTAIN THE MOMENTUM AND WOULD I BELIEVE BE SYMPATHETIC TO THE IDEA OF AGREEING A FURTHER PACKAGE OF SINGLE MARKET MEASURES. THEY ARE ALSO ANXIOUS TO SEE PROGRESS OVER A COMMON TRANSPORT POLICY AND MAY RAISE AT STRASBOURG THE GERMAN PROPOSALS FOR A NEW ROAD TAX (IF THE ISSUE IS NOT ADEQUATELY RESOLVED AT THE TRANSPORT COUNCIL) AS AN ILLUSTRATION OF THE NEGATIVE CONSEQUENCES OF THE ABSENCE OF A COMMON POLICY.

EC/EASTERN EUROPE

7. THE DUTCH BELIEVE THAT THERE IS AN URGENT REQUIREMENT FOR THE EC TO GIVE ECONOMIC ENCOURAGEMENT TO ECONOMIC AND POLITICAL REFORM IN EASTERN EUROPE. THEY HAVE AN OPEN MIND AS TO WHETHER THE FRENCH IDEAS FOR A EUROPEAN DEVELOPMENT BANK ARE NECESSARILY THE BEST VEHICLE FOR THIS. WHILE THEY MAY BE READY TO ENDORSE THE PRINCIPLE OF CREATING A NEW INSTITUTION FOR THE PURPOSE OF CHANNELLING FUNDS TO EASTERN EUROPE, THEY BELIEVE THAT ALL OPTIONS SHOULD BE EXAMINED BY A HIGH LEVEL GROUP AS SOON AS POSSIBLE AFTER THE EUROPEAN COUNCIL. THEY HAVE SOME CONCERN THAT A NEW FULL-BLOWN BANK WOULD TAKE MONTHS TO SET UP.

8. ON THE WIDER ISSUE OF RELATIONS BETWEEN THE EC AND THE COUNTRIES OF EASTERN EUROPE, DUTCH THINKING REMAINS NECESSARILY TENTATIVE. THE DUTCH TOOK A LEAD LAST YEAR IN SUGGESTING THAT FURTHER USE SHOULD BE MADE OF THE COUNCIL OF EUROPE IN THIS CONTEXT. THEY BELIEVE THAT THE COUNCIL COULD BE USED AS AN INTERIM MEANS OF DEVELOPING RELATIONS WHILE FURTHER CONSIDERATION IS GIVEN TO THE EC/EAST EUROPEAN OVERALL RELATIONSHIP. THEY ALSO THINK THAT THE ARRANGEMENTS BEING DEVELOPED

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BETWEEN THE EC AND THE EFTA COUNTRIES COULD SERVE AS A MODEL FOR THE FUTURE. MEANWHILE THEY REMAIN VERY CAUTIOUS OVER THE POSSIBILITY OF FURTHER EC ENLARGEMENT THROUGH AUSTRIAN ACCESSION, OR EVEN THE ACCESSION OF EAST EUROPEAN STATES.

SUPPORT FOR CONSENSUS

9. LUBBERS INSTINCT TO AIM FOR AS MUCH CONSENSUS AS POSSIBLE AT STRASBOURG WILL BE REINFORCED UNDER THE PRESENT CIRCUMSTANCES. A STRONG BELIEF IN THE PRINCIPLE OF SUBSIDIARITY, HIS STRESS ON THE NEED FOR CONDITIONALITY IN RESPECT OF AN IGC, AND HIS CONCERNS OVER SETTING UP A EUROPEAN DEVELOPMENT BANK MAY GIVE US SOME SCOPE FOR WORKING WITH THE DUTCH AT THE EUROPEAN COUNCIL.

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