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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE NETHERLANDS
PRIME MINISTER IN THE HAGUE AT 1445 HOURS ON 19 SEPTEMBER 1983

Present:

The Prime Minister	Dr. R.F.M. Lubbers
Mr. P.R.A. Mansfield, CMG	Mr. H. van den Broek
Mr. D.H.A. Hannay, CMG	Jhr. J.L.R. Huydecoper, KCVO
Mr. A.J. Coles	Mr. A.P.R. Jacobovits de Szeged
Mr. B. Ingham	Mr. H.C. Posthumus Meyjes
Mr. M.F. Chapman, CVO	Mr. J.P.M.H. Merckelbach
Mr. C.R. Budd	Mr. M.J.D. van der Voet
	Mr. N.P. van Zutphen

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Mr. Lubbers proposed that the afternoon's discussion should be devoted to the run-up to the Athens European Council, and asked for the Prime Minister's impression of how matters stood.

The Prime Minister noted that Messrs. Craxi and Andreotti were taking things very gently indeed. She had stressed to them that there would be a major crisis if no agreement were reached at Athens; with the Community on the brink of the abyss a settlement was of vital importance.

Surveying the scene, she found the absence of progress depressing, on four fronts in particular: we were getting nowhere in our campaign for a guideline for CAP expenditure, and making little headway with our safety net proposal. A vegetable oil tax, which had been suggested, would be a calamity. Finally, while there was chronic over-production of milk, the proposals for reform now on the table would penalise the efficient producer and there was a risk that the small producer would

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slip through the net. It was imperative that there should be no exemptions; otherwise the small producers would just go on increasing their production. All in all, the Community was not getting on very well in tackling the structure of the CAP, besides which it was clear that without a guideline it would be impossible to constrain it properly at all.

Dr. Lubbers said he agreed that the main element in the whole discussion was and had to be the CAP. The difficulties were not between the UK and the Netherlands, but with others. There was a key role for the Germans, but he had the impression that so far there was some confusion in the German Cabinet about what they wanted, with disagreement between the Ministries of Finance and Agriculture. The Dutch agreed that a formula was needed to bring the agricultural budget under control. Strict budgetary procedures were needed to enforce discipline. As to the form measures of agricultural policy should take, the Dutch were relatively flexible. They could accept some control on milk production, as was inevitable if budgetary control were to be achieved.

The dossier also contained some problems for the Netherlands, such as the phasing out of MCAs. There it was essential for the Germans to accept some phased reduction, since the Northern countries had to be able to show their Southern partners that they were prepared to make some concessions. MCAs were of both substantive and psychological importance. It might be possible to get the Germans to accept phasing out in a longer period than two years.

The Prime Minister said that she saw no difficulty about that. It was worth noting that only 27% of all the farmers in the EC received their main income from farming, and in Germany in particular farming usually provided a second income. Basically she believed in the price mechanism. The German position might now be less tractable than before: while Schmidt

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had realised the stupidity of the way the CAP operated, Kohl was more of a politician.

Dr. Lubbers said that in his view it would be impossible to solve the budget problem if we could not adjust the agricultural system; and we could not do that if the Germans would not make up their minds. The Prime Minister noted that there was a new generation growing up in Germany, who would feel it an injustice to be paying so much to the EC budget - or alternatively would feel that if they paid the piper they should call the tune. Much depended on how far we could bring the Germans along. Dr. Lubbers said that the Germans could not on the one hand say the EC was too expensive and on the other refuse to contribute to its costs. The Prime Minister said they could, because of the politics of the situation. Mr. Hannay commented that while Kiechle presented his policy in a more reasonable way than Ertl had done he was still protecting the same interests.

Mr. van den Broek pointed out that too stringent a policy on MCAs would present the Germans with a conflict of interests: the automatism and short period for phasing out MCAs favoured by the Commission would risk causing a negative price movement in Germany. A more gradual approach was needed. The Prime Minister asked if France and Denmark would agree to slower phasing out of MCAs. Mr. van den Broek said that was a good question. The high inflation countries also formed a stumbling block in the way of price restraint. But if the UK and the Netherlands could get the FRG on to their side they could form an impressive force with which to oppose the others.

Dr. Lubbers said he was nervous about the proposed oils and fats tax. The Prime Minister replied that it was wrong to turn the EC into a protectionist club. Dr. Lubbers wondered if it might not be acceptable to stabilise imports of cereals substitutes at their present level. Some form of compromise would be needed if any progress was to be made at Athens. the Prime Minister said that action on imports of cereals

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substitutes would also be a form of protectionism. If the Community took that road the other agricultural economies would soon get upset. The sort of protectionist club President Mitterrand wanted would be a very different, and very dangerous, Europe. It was essential to keep a wider view.

Mr. van den Broek commented that on the question of imports of cereals substitutes, as on protectionism in general, the Dutch and Germans stood together with the UK (the Prime Minister remarked that this was not true of the Germans on services: the Germans only kept their railways going by imposing lorry quotas on others). The Dutch were not in principle in favour of limiting imports of cereals substitutes, but there was a real problem here: the Commission had proposed that EC grain prices should be adjusted downwards towards the world market level, but the French were only prepared to cooperate if at the same time imports of cheaper cereals substitutes were curbed. They were prepared to set a lower price but not to decrease the volume of their sales. The question thus was: should other Member States refuse to accept a stabilisation of imports, or should they make a concession on that if the French accepted lower prices? It was in that framework that the Dutch were contemplating the stabilisation of imports of cereals substitutes.

The Prime Minister asked what would happen if Thailand or some other country affected retorted by stabilising the level of its industrial imports from the Community. Mr. Hannay said that a reduction in the cereals price would in itself make cereals more competitive with imports of cereals substitutes. It also needed to be remembered that the US had GATT-bound rights in this area: if the EC stabilised its imports of cereal substitutes then the US might insist on compensation or take counter-measures in the industrial field. Mr. van den Broek noted that the Dutch had in mind action which would be agreed with the trading partners in question. The Prime Minister said

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that the US might take it out of the EC by limiting engineering exports to the US. The action the Dutch were contemplating could involve sacrificing their industrial exporters to their farmers, and could only be described as protectionist.

Dr. Lubbers stressed that there was nothing protectionist about the position of the Netherlands Cabinet. On the contrary. The point was that they were worried by the prospect of no agreement at all being reached at Athens. The Prime Minister repeated that before taking action to limit imports of cereals substitutes one had to consider the consequences for the non-agricultural sector. The US would always win any competition over subsidies or protectionist measures. The Community should sort out its own problems without damaging the US. It all came back to the fundamental point: we were producing surpluses we did not want, at too high a price. Mr. van den Broek emphasised that the Dutch were proposing only self-limitation arrived at by mutual agreement. What could be done was to discuss the problem with the US and attempt to reach a settlement. If France could sell more grain in Europe that would, after all, mean less competition on world markets and fewer problems for the US.

The Prime Minister said that when it came to grain there was only one market - the Soviet Union. Western countries were all in surplus. In selling wheat to the USSR the US would always undercut EC countries. Mr. Hannay said the problem was that, while it might be possible to ask the US to accept a ceiling on exports of cereals substitutes, with the EC promising a lower price for cereals in return, the US would in fact be likely to ask for a degree of automaticity in the reduction of the cereals prices which the French and others would never accept. There would then be the risk that we might end up without a deal at all, with the French refusing to accept a price cut for cereals, since the condition set for it - US complaisance in stabilising exports of cereals substitutes - had not been met. There was also the risk that provocative proposals put to the US at this stage might become a factor in the Presidential election campaign.

/ Dr. Lubbers

Dr. Lubbers noted that while cereals took up much less of the CAP budget than milk they aroused much greater passions in terms of the potential damage to the international trading system.

The Prime Minister said that the problem underlying the CAP really needed to be tackled, and better now than in three years time. It was necessary to face up to the fact that the present system could not work. She therefore did not mind the prospect of a crisis. The UK had no intention of increasing its contribution to the EC budget, and a watch had to be kept for levies and taxes which would amount to increased contributions achieved by the back door method. The EC needed to consider the proper alternatives: those in which the UK and the Netherlands believed. Dr. Lubbers said he was worried that the real problems facing the Community were still being under-estimated.

The Prime Minister said that the Athens Council seemed set for disaster. It would be important to make clear that it was not a disaster for the EC, merely a family quarrel. She was not prepared to go down the wrong road to get another patched-up agreement. The UK could not go on paying its present contribution, and that was that.

Dr. Lubbers said it would also be wrong to conclude at Athens that nothing worked any more. What would happen then? If the EC simply ran out of money, then that would lead to a revival of national policies. The German and French Governments would subsidise their farmers, which the French would find too expensive; protectionism would follow, and step by step the unravelling of the EC. All of which was no reason to do the wrong thing: we should fight as hard as possible for what we believed. But the question of the proper financial system needed hard analysis: his impression was that so long as the Germans felt they could deal with their financial situation by singing the British song ("We are paying too much") then they would feel able to avoid cutting back on the CAP. All Member

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States were now prepared to take into account the British position, but not to accept paying for the Germans. The Dutch were certainly not prepared to do so. If the EC were just a market place of amounts going in and out then that was a Community in which he did not believe at all.

The Prime Minister said that countries with below average income per head should be given help. She thought the EC was piling up difficulties with the Germany of the future by refusing to recognise its problem. The FRG should pay for its duty and levy free imports from the GDR, but we should take care not to give the Germans an unfair deal. Dr. Lubbers asked if it was not the history of the EC that the German economy had been given an enormous economic opportunity to be the main supplier of capital goods on the Continent. The Prime Minister noted that all Member States benefited from the common market. Were we really going to say the Germans should pay an unfair share for ever?

Dr. Lubbers said that the Dutch thought the agricultural budget could be restrained in such a way as to make the bill for Germany acceptable. The Prime Minister said that basically one had either to cut prices or reduce imports. If one took the latter option, new problems would arise. Dr. Lubbers accepted that in the first place the instrument had to be low prices. The EC needed a fair balance of means and policies. The new UK document on "Other Policies" was a very useful one. If the whole debate was limited to accounting questions a terrible deadlock would ensue. And what was to be said to the European Parliament?

The Prime Minister noted that the UK was locked into the budget problem because the system was so fundamentally unfair. Could the price nut, as a start, be cracked? Why was it so difficult to reduce farming incomes? Mr. van den Broek pointed out that the Dutch had said they were ready to accept a cut in agricultural prices. The problem was how to get an agreement

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in Brussels. The Prime Minister stressed that failure by others to move towards one's own position was no reason to move towards theirs. One should continue to cleave to the right line, and simply wait till the money ran out. If the French nationalised their agriculture other parts of their economy would suffer.

Mr. van den Broek said he was sure that the renationalisation of agriculture would be to the detriment of both the Netherlands and the UK. The Prime Minister said she had her doubts. Mr. Hannay pointed out that it was those countries which most benefited from the CAP and who were net beneficiaries under the budget that could least afford to abandon it. The Prime Minister said she did not believe such countries would renationalise their agriculture, and that in any event one should not give in to them. The UK could insist on being self-sufficient in butter and cheese. But we were prepared for measures which would check our production. She did not think the common market would fall apart.

Dr. Lubbers said that if Kohl and his Ministers were prepared to support the UK approach then there would be the makings of a strong alliance. But there was as yet no sign of this, so the Dutch felt impelled to look for compromises. That was the key problem. The Prime Minister said that the Germans would not do anything fundamental to upset the US.

Mr. van den Broek said that it was clear that a simple insistence on low prices would not allow agreement to be reached. Such a stand would have consequences in other areas. The Prime Minister said that if these consequences were so bad people would be less likely to stand out for high prices.

Mr. van den Broek asked how the Member States with high inflation could be called on to defend low price increases. A package deal was needed. The Prime Minister said that the high inflation suffered by some countries was their own fault. None of the EC's policies could be solved if the CAP were not returned to health. Why should the French be given special treatment just because they wanted cereals imports stabilised? The UK was quite capable in a number of sectors of producing more, but held back from doing so.

/ Dr. Lubbers

Dr. Lubbers said that if the UK could accept the political necessity of controlling agricultural prices then it must be able to follow the logic of Dutch refusal to allow the Germans a special position in relation to contributions to the EC budget. If the Germans could solve their financial problems by paying less then they would be uninterested in cutting the cost of the CAP. The Prime Minister repeated that any measures to help the Germans should take account of their gain over free imports from the GDR. Mr. Hannay explained that under the UK safety net proposal the upper limit on the German contribution would be much higher than that of poorer member states.

In answer to Dr. Lubbers, Mr. Hannay explained the UK's objections to the Danish proposal. It certainly did not look like the basis for an agreement. Mr. van den Broek said that for the Dutch its chief attraction was that it left the existing system basically intact. Moreover it could be adjusted to produce different figures.

Dr. Lubbers asked if it was important for the UK to go on getting results like those achieved in the summits of recent years. The Prime Minister emphasised that the UK could not go on paying the amounts it was forced to contribute at present. We were certainly not prepared to accept for the future the level of adjusted net contribution we had agreed at Stuttgart for 1983. That had only been possible because the election was behind us. It could not be repeated. If Mitterrand or anyone else were to propose at Athens a simple increase in own resources the UK response would be sharply negative.

When Dr. Lubbers mentioned the Maastricht Institute of Public Administration, the Prime Minister asked for an estimate of the job so far done by it. Mr. Posthumus Meyjes said it was a serious body with a well established work programme, supported now by all the member states except for France and the UK. The Prime Minister said that the UK was thinking of seconding a civil servant to join the staff of the Institute. But she hoped that the work being done in Maastricht was not adding to the multiplication of regulating

powers so characteristic of the Commission. Dr. Lubbers urged her to take a positive decision on a secondment: Europe needed well trained civil servants.

In conclusion Mr. Posthumus Meyjes reverted to the question of imports of cereal substitutes, to stress that the Dutch interest in possible action to stabilise imports was limited to two narrow sectors - maize gluten feed and citrus pellets - and certainly did not extend to oils and fats. There were some indications that the US might be willing to accept action in those sectors.

The meeting ended at 1630 hours.

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22 September 1983

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10 DOWNING STREET

From the Private Secretary

22 September 1983

Visit by the Prime Minister to the
Netherlands

I enclose a record of the formal talks which took place between the Prime Minister and the Netherlands Prime Minister in the Hague on 19 September.

I am copying this letter and enclosure to John Kerr (H.M. Treasury), Robert Lowson (Ministry of Agriculture, Fisheries and Food) and Richard Hatfield (Cabinet Office).

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

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