



Foreign and Commonwealth Office

London SW1A 2AH

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26 April 1989

Dear Charles,

Visit of Dutch Prime Minister: 29 April: EC Issues

Discussion of EC issues with Lubbers, van den Broek and Ruding at Chequers on 29 April will probably focus on monetary issues and the Delors Report, on which briefing is being submitted separately. However, the Foreign Secretary thinks that it would be useful to touch on the following additional EC subjects.

The Prime Minister could recall her support for Mr Lubbers' letter to the Spanish Presidency prior to the GATT Trade Negotiations Committee (TNC) meeting in Geneva earlier this month. Failure at the TNC would have put the whole GATT system at risk. But agriculture remains the key to a successful conclusion of the Uruguay Round next year - and the substantive phase of negotiations will not be easy. We and the Dutch must work together to ensure that the Community lives up to the short-term obligations of limiting restrictions on trade in agricultural products, and making a serious earnest of intent in the form of some cut in existing restrictions. It will be essential to maintain the momentum of CAP reform if our long-term goal of exposing agriculture more fully to market forces is to be achieved. The Prime Minister might add in the 1992 context that we and the Dutch (and Germans) have succeeded in obtaining good EC commitments to "no Fortress Europe"; but we now need to ensure that these liberal intentions continue to work through into detailed Single Market measures. Otherwise protectionism will creep in by the back door.

Like us, the Dutch have opposed the Commission's proposals for a withholding tax on interest as ineffective and harmful. They have also advanced (for tactical reasons) their own scheme for compulsory reporting of interest payments throughout the Community. The Prime Minister may like to repeat our fundamental objections to the current Commission proposals, which are unnecessary, and would be likely to damage financial markets. UK and Dutch officials should keep in close touch.

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The Dutch support the principle of administered indirect tax approximation (partly because they fear diversion of business to the FRG - the Dutch standard VAT rate is 18.5%, the FRG - 14%). Initially they saw no major problems in the Commission proposals, but they have recently shown readiness to consider alternative approaches - eg for excise duties, removal of fiscal controls at frontiers without prior harmonisation of rates. The Prime Minister may wish to note that EC discussions have entered a new phase, following Commission acceptance that their VAT clearing house and excise duty harmonisation proposals were going nowhere. She may wish to explain that the UK approach envisages practical and early steps leading to the abolition of fiscal frontiers. She may wish to remind the Dutch of our determination to retain our pledged zero-rates.

The Dutch might raise frontier policy, on which the Madrid European Council will receive a report of progress in the "coordinators" group of national officials. The Dutch are committed to abolishing land frontier controls by January 1990 under the Schengen Agreement (between the FRG, France and Benelux). But they argue that all ports and airports should be treated as part of the Community's external frontiers: in consequence they agree with us that controls at airports and ports must remain. The Prime Minister might repeat our concern to strengthen European cooperation in the fight against terrorism, drugs and illegal immigration, and our determination not to dismantle our defences at the "water's edge" against such threats, while removing all unnecessary controls as part of completion of the Single Market. The Prime Minister could also say that we hope to continue to cooperate closely with the Dutch on the movement and integration of third country nationals, on which a Commission study is being prepared to follow up Lubbers' initiative at the Hanover European Council.

I am sending copies of this letter to Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).

Jans,
Stephen Wall
(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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