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Thank you

Prime Minister

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PM/91/073

PRIME MINISTER

This is straightforward. We could usefully have more about Dutch intentions on S. Africa, glaringly referred to in para 26 of the paper.

OPD(E) : Prospects for Dutch Presidency

AM
- 29/9

1. The European Community is entering a busy and important phase in its development. For the next six months the agenda will be dominated by the two IGCs and by the GATT Uruguay Round. CAP reform and the start of the future financing review will be important too. 1992 should see the completion of the Single Market and preparations for the next round of enlargement negotiations. In the next eighteen months, culminating in our Presidency, there will be a great deal at stake for the United Kingdom.

2. The attached paper looks at how the Dutch Presidency may handle these issues. It also looks ahead to the Portuguese and UK Presidencies next year. The analysis suggests that UK strategy should be to:

- continue to participate actively in the political union IGC, in order to achieve by Maastricht our main aims of a structure which recognises the validity of inter-governmental cooperation outside the Treaty of Rome, the strengthening of the rule of law in the Community, and the development of a stronger European foreign policy which recognises that Europe's defence must be based on the Alliance - and to resist the over-ambitious aims of the Commission and some of our

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partners. There will be a tough negotiation ahead. We shall be considering our tactics in OPD(E) and OPD in the autumn.

- continue in the EMU IGC to press for a Stage II which incorporates UK ideas and principles, especially the retention of national monetary policy responsibility and practical steps towards convergence and to insist on a satisfactory 'no imposition' formula for Stage III.
- work to get as much Single Market legislation as possible agreed under the Dutch, who are allies, concentrating on the areas highlighted at the Luxembourg European Council, such as financial services, transport liberalisation and public procurement.
- work with the Dutch to bring the GATT Uruguay round to a successful conclusion by the end of the year.
- seek to demonstrate sensible progress, where possible, on the Social Action programme, while at the same time resisting extension of competence and more QMV in the social area in the IGC.
- work with the Germans and the Dutch to strengthen cooperation on Interior and Justice matters, building on the ideas Kohl put forward at the European Council last month. For us, this activity must remain outside the Treaty of Rome.
- resist attempts to pre-empt future financing issues in the context of the IGC.

/- work

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- work with the Dutch to conclude the EEA negotiations as soon as possible and encourage them to process the Swedish application and the Commission Opinion on Austria in low key.
- support Dutch efforts to lift the Greek reserve on enhanced EC/Turkey relations.
- press for the conclusion of comprehensive liberal Association Agreements with Hungary, Czechoslovakia and Poland.
- use our Presidency, and the period before it, to take forward the enlargement process.

3. Given the IGCs, the rapidly approaching Single Market end-game, the negotiations on CAP reform and future financing, and the approach of our own Presidency, we shall need:

- an intensive high-level programme of IGC-related bilateral contacts in the autumn, involving you as well as other colleagues and me. We should concentrate for the political union IGC on the Dutch, Germans and French; and smaller countries sympathetic to us, eg Denmark, Portugal, Ireland.
- separately, a series of high-level contacts in the autumn with the Commission, Dutch and other key partners on GATT.
- increased contact with the Portuguese as their Presidency approaches, at Ministerial and official level.

/- close

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- close consultations with the Dutch and Portuguese on the handling of the Single Market end-game.
- regular contacts with the Dutch, Germans and perhaps French on immigration.
- close coordination of northern views on future financing and 'cohesion', and targetted bilateral action on CAP reform.

4. I am copying this minute to OPD(E) colleagues, to the Chancellor of the Duchy of Lancaster, the Secretaries of State for Education, Health, Scotland, Wales and Northern Ireland, the Minister of Overseas Development and to Sir Robin Butler.

DH

(DOUGLAS HURD)

Foreign and Commonwealth Office
28 July 1991

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10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

31 July 1991

Dear Richard

OPD(E): PROSPECTS FOR DUTCH PRESIDENCY

The Prime Minister was grateful for the paper analysing the prospects under the Dutch Presidency which was attached to the Foreign Secretary's minute of 28 July. There is a brief reference in para 26 of the paper to Dutch intentions on South Africa. The Prime Minister would find it helpful if this could be spelled out a little more.

I am copying this letter to the Private Secretaries to members of OPD(E), Robert Canniff (Office of the Chancellor of the Duchy of Lancaster), Christina Bienkowska (Department of Education and Science), Stephen Alcock (Department of Health), Jim Gallagher (Scottish Office), Judith Simpson (Welsh Office), Jonathan Margetts (Northern Ireland Office), Suma Chakrabarti (Overseas Development Administration) and Sonia Phippard (Cabinet Office).

Yours sincerely

A Turnbull

(ANDREW TURNBULL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

2

CABINET

STEERING COMMITTEE ON EUROPEAN QUESTIONS

PROSPECTS FOR THE DUTCH PRESIDENCY

Note by the Foreign and Commonwealth Office

Introduction

1. The Dutch Presidency will be dominated by the Inter-Governmental Conferences, which are expected to conclude at Maastricht in December, and by the effort to conclude the GATT Uruguay round by the end of the year. An informal European Council may be held in October. The Dutch will also press ahead with the Single Market, in ways generally in line with UK thinking, but we face pressure on social and frontiers issues. The Dutch should prove strong allies on CAP reform and the external agenda.

(A) DUTCH PRESIDENCY

2. Although the Dutch Foreign Minister's programme speech in Strasbourg on 9 July reaffirmed the Dutch commitment to federalism, their pragmatism and talent for consensus-building should be helpful to us. The Dutch share our liberal instincts and are firm budget disciplinarians; they are Anglophile and will be keen to keep the UK on board. They can be expected to manage their Presidency with quiet efficiency.

3. Detailed work is proceeding in Whitehall on the main policy areas, particularly the IGCs. What follows is a snapshot of Dutch priorities and UK objectives.

Political Union IGC

4. The Dutch aim to fulfil the Luxembourg European Council mandate to complete the Inter-Governmental Conferences in December. They will work on the basis of the draft treaty text drawn up by the Luxembourg Presidency, but recognise that no individual element can be settled until the whole package is agreed.

5. Dutch unitarist instincts, on which van den Broek dwelt in his Strasbourg speech, will be tempered by pragmatism and a wish to reach an agreed outcome. So far they seem willing - as Presidency - to continue discussion on the basis of the existing texts for both CFSP and interior/justice cooperation, even though they see their national interest lying in a unitary structure. On some other issues, including defence, cohesion, energy and peripheral extensions of competence, their views are close to ours. But on many of the most difficult for us - social policy, co-decision and significant extensions of both competence and qualified majority voting - they will side with the majority in favour of change. Negotiations on all these areas are therefore likely to become more difficult during the autumn.

6. The Dutch may table an up-dated draft treaty text in late October. Whether or not a special European Council is called in October, to discuss the IGCs or GATT, the Dutch plan at least one Ministerial Conclave in November to prepare the ground for the European Council in Maastricht in December. There will be pressure to settle most issues before Maastricht, to leave Heads of State and Government

with a manageable agenda, and difficult decisions will be needed on the issues that should be left for the final round of negotiations. A series of meetings of OPD(E) and OPD are planned for the autumn.

EMU IGC

7. The Dutch have signalled that they intend to make substantial and rapid progress early in their Presidency. Topics identified for discussion before the Informal ECOFIN in September include transition to Stage III (including provisions for a multi-speed outcome), transition to and content of Stage II, monetary policy and institutional matters, external monetary policy in Stage III and economic policy in Stage III (including budget deficits).

8. The UK's principal objectives include:

- to secure satisfactory Treaty language which respects the UK's position that it cannot commit itself to moving to Stage III without a separate decision by the Government and Parliament at the appropriate time;
- to ensure a satisfactory regime for Stage II including development of the ecu, no central bank until after a decision to move to Stage III and no requirement for the independence of national central banks in Stage II;
- to build up the convergence criteria for the move to Stage III;
- to ensure that Stage III is workable, with adequate arrangements for accountability;

Single Market

9. The Dutch have claimed the Single Market to be their top Presidency priority, with the objective of reaching agreement on all outstanding Single Market legislation by the end of the year. In practice they will be heavily preoccupied with the conclusion of the IGCs. There is no realistic prospect that the legislative programme can be completed by the end of 1991, but the Dutch can be expected to work effectively on Single Market issues.

10. The Dutch Presidency offers both opportunities and potential problems for the UK. The Dutch are arguably the UK's closest allies on a wide range of Single Market questions and we should see eye-to-eye on measures such as insurance and competition/industrial questions. We should in particular work closely with them on transport liberalisation, including maritime cabotage, international bus transport, market access for international road haulage transport and aviation liberalisation. But as Presidency the Dutch will also have an eye to areas where agreements can be reached. This could put the UK under increased pressure to give ground as has already happened over Investment Services. The Dutch are unenthusiastic about company law issues, but can be expected nonetheless (as Presidency) to hold meetings on the European Company Statute. We can expect the Dutch to be fairly quiet over implementation, given their own unremarkable performance, although we hope the Commission will keep up the pressure.

Indirect Tax

11. The agreement on indirect tax at the 24 June ECOFIN removed a major political problem from the agenda of the Dutch Presidency, although several outstanding issues remain. These include:

- whether to translate the political agreement on VAT into a legally-binding Directive (the Commission may come forward with a text during the Autumn);

- agreement on a minimum excise rate for spirits, in the light of a Commission report on possible distortions in the drinks market;
- agreement on rules to distinguish between commercial and private alcohol and tobacco transactions;
- remaining work on VAT and excise technical systems (including the related issue of duty-free sales).

12. The UK will continue to resist a legally-binding minimum for VAT; will look for an agreement on excise duties on alcohol that does not discriminate against UK producers nor undermine UK health and social policies; and will press for a substantial retention of duty-free shopping after 1992. We will also be pressing for early adoption of as much as possible of the legal texts for the VAT and excise technical systems, given the weight of domestic legislation which will follow.

Social Dimension

13. Van den Broek's European Parliament speech was silent on the substance of the social dimension, although the Dutch Presidency paper (published in the spring) refers to insufficient progress having been made in this area. The Dutch want to conclude several major Social Action Programme items. Their targets include the proposals on the table that cause the UK the greatest difficulties: European Works Councils, protection of pregnant women at work and working time. The latter two proposals are both based on Article 118A (health and safety: QMV). Working time is the most costly - at least £2.5 billion per year for British employers. The pregnant women proposal contains unacceptable provisions on maternity leave and pay. On the proposal for European Works Councils, which runs counter to the whole thrust of the UK's industrial policy in the 1980's, we will be pressing the Employment

Secretary's proposal for a non-binding Recommendation to avoid European-level legislation on informing and consulting workers. We will need to continue to argue on the detail to protect our position as far as possible on the QMV proposals, and encourage progress on health and safety measures - eg on mobile (construction) sites, so as to demonstrate further that the UK is not blocking progress in the social area, and supporting our case that there is no need for extension of competence and more QMV in the social area in the IGC. But we face being outvoted during the Dutch Presidency, at least on working time and pregnant women.

Frontiers

14. The Dutch are at the opposite end of the spectrum to us on frontiers issues. The Dutch Presidency paper hopes for clear progress in this area, with the Schengen agreement as a point of departure (van den Broek stressed his view of Schengen as a transitional agreement in his 9 July speech to the European Parliament). The Dutch have long wanted harmonisation of asylum policy, and will have added impetus to run with that ball in the light of the European Council endorsement of the objectives underlying Chancellor Kohl's proposals.

15. Handling of all of this will not be easy for the UK. We will want to work with the Presidency and the Germans, in line with the Prime Minister's call at Luxembourg for strengthening the external fence and increased police cooperation; but avoid harmonisation that would weaken our own controls. On Europol, we will need to help develop the proposal in the direction of better cooperation while making clear our difficulty with any enforcement action within the member states, given that there is no common system of law to enforce nor a justification for one, nor of police powers to enforce it. The European Council also called for completion by June 1992 of a convention on data protection. All this activity, particularly in the light

of agreement on the substance of the External Frontiers Convention (EFC), may mean that the Dutch will be less inclined to press for internal frontier abolition; but the Commission will not have lost sight of that goal, and want to have measures in hand in time for implementation by the end of 1992. We will in any case need to continue to try to find a way out of the impasse with Spain on the application of the EFC to Gibraltar.

Environment

16. The Dutch will try to make significant progress in this area a high political priority for them. Dutch priorities include directives on habitats, the LIFE environment fund, waste and eco-labelling. On most of these, the Dutch and UK positions are well aligned. But we shall have a battle ahead on the politically higher profile issues, also high on the Dutch agenda, concerning burden-sharing proposals on climate change and a carbon/energy tax on which the Dutch hope to agree political conclusions by the joint energy/environment Council on 10 December.

CAP Reform

17. MacSharry's proposals have just reemerged; they will be argued over during the Dutch Presidency and probably (though CAP reform is a high priority for the Dutch) beyond. The Dutch as Presidency will want to press for early decisions on the MacSharry package, but UK interest will not be served by haste. On substance the Dutch, like the Danes, are our allies. Like us, they want CAP reform which is market orientated, tackles surpluses, respects budget discipline and applies fairly throughout the Community. The Dutch also propose that reform should take account of the environment (acceptable: this is a UK priority, provided it does not result in an increase in the overall cost of the CAP) and of rural development (less acceptable: this is often code for unwelcome uneconomic subsidies, which we resist). They also want to make

progress on animal welfare. They recognise the importance of agriculture in the GATT Uruguay Round (see below on GATT agriculture).

EC Budget/Future Financing

18. The Commission is expected to produce reports in the autumn on the operation of the own resources system (including the UK abatement) and the Inter-Institutional Agreement. Proposals for change, including figures, may come later; the contents are likely to depend on interaction with other negotiations (eg IGCs, CAP reform, structural funds review). Given other priorities, the Dutch are expected to treat the Commission's reports in a low key way during their Presidency, although others will no doubt aim to link future financing issues with the outcome of the IGCs. The UK will wish to support a low-key approach, and to avoid interaction with the IGCs, though this may have implications for what will need to be done under Portuguese/UK Presidencies (see below). Our overall objective will be to avoid any increase in the own resources ceiling and adverse modification of the UK abatement.

GATT

19. The Uruguay Round is the top external trade priority of the Dutch Presidency. The US fast track negotiating authority has been extended until May 1993. But unless the Uruguay Round is completed by the early months of 1992 (thus enabling the US Congress to deal with the necessary legislation before the Presidential campaign gets under way in earnest after the Conventions), provisional agreements reached so far may be lost. The Presidency will have an important role in helping the Commission overcome resistance by some member states (eg France and Ireland) to getting the substantive negotiations on the key agricultural issues fully engaged. They will also need to ensure that talks on CAP reform do not undermine or delay but where possible assist a successful GATT outcome. The

Round will feature on FAC and Agriculture Council agendas, and the Dutch are reserving the possibility of a special European Council on GATT if necessary.

Central and Eastern Europe

20. The Dutch Presidency began with difficult decisions on the Community's reactions to events in Yugoslavia. The pattern looks set to continue as further questions arise about how the Community should tailor its relations with Yugoslavia and its constituent republics and what role the Twelve should play on the ground.

21. The Dutch were given a remit by the Luxembourg European Council to conclude negotiations on Association Agreements with Poland, Hungary and Czechoslovakia by the end of October. Agreement is outstanding on extensive East European requests for trade liberalisation (particularly on steel, textiles and agriculture), financial cooperation and free movement of workers. The UK is at the liberal end of the debate on trade liberalisation, but will need to take a more forward line on agricultural concessions in the coming months. Polish threats to walk out of the negotiations are not serious at this stage but could become real if substantial, early concessions are not offered.

22. EC relations with Albania are likely to develop with the negotiation of a Trade and Cooperation Agreement and the extension of G24 and EC assistance, including food aid.

Soviet Union

23. The London Economic Summit called for a special association with the IMF/World Bank and intensified technical assistance. The EC role in technical assistance is key in view of the substantial funds available (400 mecu in 1991; an unspecified sum for 1992).

European Energy Charter

24. The Presidency will host a preparatory conference in The Hague on 15 July to begin negotiations on the European Energy Charter, to be concluded by December. We wish to see the Charter and its subsequent protocols open up the European energy market and provide real help for the Soviet energy sector.

Enlargement

25. The Dutch broadly share our support for accession to the Community by those EFTANs who want to join and (later) suitable Eastern Europeans. But they do not see enlargement as a key issue for their Presidency and have made clear that the IGCs must be completed before any further accessions are considered. They will, however, need to steer the Community's response to the recent Swedish application and the Opinion on the Austrian bid, which will emerge shortly. We want a straight procedural reference of the Swedish application to the Commission for its opinion, and see little need for substantive debate on the Austrian opinion until after the IGCs: the Presidency share these views.

Development Cooperation

26. A theme of the Dutch Presidency is likely to be human rights and good government: they aim to draw up operational conclusions on the basis of the declaration issued by the Luxembourg European Council. They will also seek agreement on untying the bilateral aid of EC countries. We support both in principle, but wish to ensure that any untying of aid proceeds on a Community-wide basis. The Presidency will hope to conclude trade and economic cooperation agreements with Uruguay and Paraguay, and to oversee implementation of the Fourth Lome Convention. We strongly support the Dutch view that the Community and member states should contribute constructively to the emergence of a stable and prosperous post-apartheid South Africa.

EC/EFTA

27. Van den Broek's speech to the European Parliament on 9 July stressed the Presidency's commitment to promoting a rapid conclusion of negotiations on the European Economic Area. We also attach importance to this. The negotiations are now in the end game. Our concerns on institutional and legal issues, and on the "mixed" nature of the agreement, have now been met. The outstanding difficulties are fish (where we must secure arrangements which protect UK interests), the Cohesion Fund (for which we want Northern Ireland to be eligible) and transit (in which we have no direct stake). It remains possible that the negotiations will stall on these issues. Failure to sign the EEA under the Dutch Presidency would lead to the unravelling of the package now agreed.

(B) FORWARD LOOK TO THE PORTUGUESE AND UK PRESIDENCIES

28. The Portuguese are an unknown quantity - this will be their first Presidency since accession in 1985, and they will be anxious to impress. We have given ~~a certain~~ ^{some} ~~amount of~~ help to the Portuguese Government in preparing for their Presidency, and are well placed to work to coordinate theirs and ours. Ministerial and official-level bilateral contacts are increasing. An Anglo-Portuguese seminar on 18-19 September at Chevening will bring together teams covering the main policy areas in order to review progress in the IGCs and Portuguese and UK Presidency priorities.

29. If the Dutch reach agreement in Maastricht (and the Portuguese fervently hope they will), the Portuguese Presidency will need to tidy up the IGC treaty text and arrange signature. If there is no agreement at Maastricht, the IGCs will have to run into extra time, perhaps with a special European Council in January or February. The SEA procedure suggests that there may also be moves during 1992

to adopt procedures ahead of the entry into effect of the new Treaty in 1993.

30. EQS and OPD(E) will discuss preparations for the UK Presidency in September/October. Assuming the IGCs are concluded at Maastricht, the focus during our Presidency will be on ratification of the agreement by national parliaments so that the revised Treaty may come into effect on time in 1993. That apart, two main themes of our Presidency will be the need for consolidation after the IGC negotiations, and openness to the rest of the world (including the first stages in the next round of enlargement), thereby showing that deepening and widening need not be incompatible.

31. Detailed priorities for the Portuguese and UK Presidencies include:

(a) Single Market: the Portuguese will be keen to make their mark and the end-1992 deadline will focus minds. We shall need to decide which of the remaining contentious items we should try to resolve during the Dutch and Portuguese Presidencies - provided satisfactory agreements can be reached - to avoid coming under pressure to give ground during our own Presidency. We shall want our Presidency to declare the 1992 programme complete and look ahead to its consolidation, including a continuing focus on member states' implementation and enforcement obligations. The question of a legally-binding Directive on VAT may reappear in the Portuguese and UK Presidencies, and there may be work to complete on indirect tax technical systems. The Portuguese are unlikely to be as helpful as the Dutch on transport issues.

(b) Social Dimension: the Social Action Programme will continue to dominate the agenda, with further difficult proposals appearing; we will need, for the Portuguese Presidency, to continue as constructive an approach as

possible to the measures under discussion to get maximum improvement to proposals which we are unable to block. We will need as far as possible to prepare with the Commission for our own Presidency a reasonable raft of proposals, particularly on health and safety, that we would be able to support; handling of outstanding 'difficult' proposals will need particular care. We shall also want to use our Presidency to set out our view of the EC social dimension.

(c) Frontiers: Portugal joined Schengen in June; although not as ardent frontier abolitionists as the Dutch, they will not want to step outside the Schengen lines. Pressure from the Commission and more committed abolitionists will increase in 1992, so handling will be a difficult issue for our Presidency. But decisions on tactics, and indeed our game plan, are dependent on the outcome of the current policy review in the light of recent legal and other developments.

(d) CAP Reform: The Portuguese will take a different view from us of CAP reform, favouring changes that would increase expenditure and focus support on small producers and Mediterranean products. The 1992 price fixing is due to take place during the Portuguese Presidency, but if CAP reform spills over into 1992 the price-fixing might be delayed into this. Both the Portuguese and the other Southern member states will know that if they do not take this opportunity to conclude the negotiations, a UK Presidency will be less sympathetic to their concerns. The Portuguese will need to ensure that decisions on CAP reform are consistent with the GATT Uruguay Round, which we hope will have been concluded during the Dutch Presidency (see paragraph 19).

(e) EC Budget/Future Financing: Commission intentions remain unclear. Delors may aim to conclude the future financing review, including a new Financial Perspective for the period 1993-97 and any consequential implications for the own resources ceiling, during the Portuguese Presidency. But this timetable seems optimistic, particularly if little preparatory work is carried out under the Dutch Presidency. We shall have serious problems with any Commission proposals to increase the own resources ceiling or introduce adverse changes to the UK abatement. Given the complexity of the issues and the lack of urgency for an increase in own resources, given the headroom that exists below the current ceiling, a better option may be to roll-over the existing arrangements for one year or preferably two. Failing this, the UK may find itself having to preside over an old-style (ie pre-1988) negotiation on the 1993 budget, based only on Article 203 of the Treaty, while taking forward work on various aspects of future financing review at the same time.

(f) Environment: the Portuguese approach to environmental issues remains enigmatic. But they are likely to give priority to traditional southern concerns such as desertification, water and new funding for environmental programmes. The Portuguese will also have the task of preparing the Community for UNCED (June 1992).

(g) Trade Policy: Portuguese trade policy tends to the illiberal wing of EC opinion - their predominant concern is to protect the position of their textile industry in other EC markets against competition from lower cost producers; as a result they tend to support other protectionist proposals.

(h) Eastern Europe: The PHARE operation expires in 1992; during the course of that a successor will need to be agreed. There may also be pressure for renewed macro-economic assistance, in support of the IMF, for

Eastern Europe. If present reform trends are maintained, preparations for negotiating Association Agreements with Bulgaria and Romania are likely to begin during the Portuguese Presidency with negotiations being concluded during the UK Presidency.

(i) EC/Turkey: the Portuguese will be happy for this to stay on the back burner, given their concerns about competition from Turkish textiles. During our Presidency, we are likely to face Turkish pressure for the Community to look again at their application for EC membership.

(j) Enlargement: we hope to use our Presidency to take forward the enlargement process, perhaps by promoting a decision to open negotiations in 1993 with Austria, Sweden and other EFTANs who may by then have applied to join. The Portuguese, who broadly share our support for the first wave of enlargement (ie EFTAN countries), might play a preparatory role during their Presidency.

(k) GATT: if the Uruguay Round is completed this year or early next, the next two Presidencies will need to monitor the implementation of agreed measures. This would involve new Community legislation.

Foreign and Commonwealth Office

July 1991