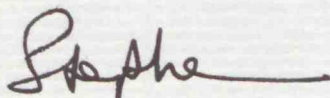


PRIME MINISTER

YOUR MEETING WITH MR. LUBBERS: 18 SEPTEMBER

Your meeting with Mr. Lubbers starts at 1030 tomorrow (Dutch time). We take off from Northolt at 0800 BST.

I attach the FCO brief together with a checklist of points from this afternoon's briefing meeting.



J.S. WALL

17 September 1991

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## PRIME MINISTER'S MEETING WITH MR. LUBBERS: CHECKLIST

- No imposition (including UK addition: "Unless a Member State decides to participate in the final stage it shall be under no obligation to do so");
- Clear distinction between Stages II and III. Under Stage II monetary policy must remain clearly in national hands;
- No binding rules on budget deficits In Stage II;
- Rigorous convergence conditions necessary.

### Political Union

- Want to reach agreement at Maastricht. Political capital invested in achieving changed UK mood. None of provisions of political union text from Luxembourg commend themselves to House of Commons. Only selling point was pillared structure.
- Still more gloomy about proposed Dutch text. No prospect of securing House of Commons agreement to unified structure even if we wanted to.
- Many other points of difficulty including extensions of competence, accompanied by conspicuously more QMV.
- Changes to social text that would affect employment legislation wholly unacceptable.
- Large scale extension of co-operation agreement with European Parliament tantamount to co-decision by another name. Wrong to give European Parliament a veto over Council.

- Want to conclude at Maastricht not least because Community needs to get itself in order so that it can look outwards and tackle what is going on in the rest of Europe in a constructive way.
- Hope to reach conclusions on both texts.
- Can see possibility of getting to our goal on the EMU text by December. However long we negotiate on your draft political union text could not reach agreement unless it is radically changed.
- [For use in private]  
Common view in the Twelve that Britain will always come round in the end, because disagreement too costly in European and political terms. Would prefer agreement to a disagreement but if I was asked to decide on your draft text at Maastricht I would have no difficulty in getting support right across the House of Commons for saying no.

#### CAP Reform

- Welcome Commission proposals but with some modification. Not happy with scale of compensation proposed or intention to increase guideline limit on expenditure.
- First priority has to be successful conclusion of GATT round.
- Dunkel should put forward framework agricultural agreement which could then be put to Council as only deal in town.

#### Yugoslavia

- Dangers of unilateral recognition of Croatia/Slovenia;
- No such thing as peace-keeping force in the present circumstances;

● Madness to send in a force when there is no ceasefire, no agreement by any party and no likelihood of success.

- Should consider other means including tougher sanctions.
- Not rule out recourse to UN Security Council.

EC/Eastern Europe Association Agreements

Soviet Union

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Foreign &  
Commonwealth  
Office

London SW1A 2AH

18 September 1991

*Dear Stephen*

Prime Minister's Meeting with Prime Minister Lubbers,  
18 September

At his briefing meeting this afternoon, the Prime Minister asked for an additional speaking note criticising the Luxembourg draft treaty text on social questions.

/ I attach such a note. This draws on the line the Foreign  
Secretary has himself taken at the IGC before the summer  
/ (UKrep Brussels telno 1231, copy enclosed).

*Yours ever*

*R H T Gozney*

(R H T Gozney)  
Private Secretary

Stephen Wall Esq CMG LVO  
10 Downing Street

POLITICAL UNION : SOCIAL POLICY

- One of most sensitive areas of IGC. Existing Treaty strikes good balance between need for some Community action and diversity of national practices.
- The search for the right framework of industrial relations, in particular the respective roles of government, employers and employees, has been a dominant theme in post-war Britain and the cause of much bitter social strife. Radical changes since 1979 have finally resolved the problem.
- UK now experiences far less industrial disruption than before. This has benefitted economic growth. Our new system of de-centralised industrial relations is not seriously questioned.
- Luxembourg text would put this at risk: the Dutch text even more so. We oppose Community competence in setting minimum standards on employment legislation or equal opportunities.
- Specific difficulties include:
  - : invitation to <sup>Man. + T. U. L.</sup> social partners to conclude collective agreements at Community level;
  - : Community action on social security and access to employment by third country nationals;
  - : provisions for adequate social protection; (relativity laws)
  - : all aspects of working environment (beyond health and safety, where we support Community action).
- To decide most of these issues by QMV would, for the UK, add insult to injury. Distinctive UK tradition at risk.
- The principle of subsidiarity in a liberal economic environment means devolving these decisions to the marketplace, not centralising them.

CAP.

Points to make

- Must continue to work together to keep costs down. That means keeping within the guideline. Commission have not shown a convincing case for an increase
- will mean some pain for farmers: but that is needed anyway if we are to get a GATT round agreement this winter, which we must
- Later MacSharry proposals some improvement on his earlier ones. But still discriminates too heavily against efficiency. So we must ensure that the burden falls more equitably but within existing guideline

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J S Wall Esq  
10 Downing Street  
London

14 September 1991

Dear Stephen,

**PRIME MINISTER'S MEETING WITH MR LUBBERS, 18 SEPTEMBER**

The Prime Minister and Foreign Secretary will meet the Dutch Prime Minister and Foreign Minister for talks and a working lunch on Wednesday 18 September.

The meeting takes place at a time when the Dutch coalition of Christian Democrats (CDS), to which both Lubbers and van den Broek belong, and Labour (PvdA), led by Finance Minister Kok, is looking increasingly shaky and unlikely to last much beyond the New Year. The government was on the verge of collapse last month over Labour's difficulties in accepting the abolition of a linkage ("Koppeling") between rises in social security benefits and private sector salaries. Linkage had been a precondition for Labour entering the coalition. After a long parliamentary debate Labour reluctantly agreed to the proposal. The next crisis point will be 28 September when Labour holds an extraordinary congress to discuss these issues. In the meantime the crisis has distracted Lubbers and other Ministers from their Presidency responsibilities in general, and the IGCs in particular.

Agenda

This meeting is part of the Prime Minister's programme of bilateral contacts in the run-up to Maastricht. The main focus should therefore be the IGCs, but discussion is also likely on developments in the Soviet Union and Eastern Europe and on other EC issues. The Dutch have told us that, since Dankert will be arriving late, they propose to start the meeting with GATT, possibly with a presentation by their Trade Minister, Yvonne van Rooy. After that the Prime Minister may prefer to tackle the Soviet Union and Eastern Europe first, looking ahead to a possible special European Council next month, before getting on to the more difficult IGC territory.

The IGCs

The Dutch have produced separate new treaty texts for political union, which is worse from our point of view than the Luxembourg draft, and for EMU, which is better. The political union text retains much of the language of the

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Luxembourg draft, but abandons the previous structure, with separate pillars for a Common Foreign and Security Policy (CFSP) and interior/justice questions, thereby bringing all cooperation under the umbrella of the Treaty of Rome, albeit with different procedures. Though it omits the term 'co-decision', the text also greatly enhances the European Parliament's legislative powers through a strengthened and extended cooperation procedure, giving the EP the last word.

In the Dutch text all areas of CFSP designated for "common action" would politically come within Community competence, with gradual extension to all areas in which member states have essential interests in common. The Dutch text does not address the issues of defence and security, since they wish to tackle these issues after the NATO Summit on 7-8 November. The Dutch are generally sympathetic to our views on European defence, though they have indicated they could live with a reference to the ultimate goal of a defence policy of the Union.

There are some crumbs of comfort in the Dutch text, eg dropping the extension of Community competence to tourism and consumer and civil protection, but the overall effect is clearly negative.

The Dutch have discussed the text informally with other partners, and distributed it widely, eg to the press and at Strasbourg. Belgium, Italy and other federalists have welcomed it. The Germans welcome the new structure, but are cool on the content. The Danes and the French have joined us in arguing that the Dutch should not table the text, but neither feel as strongly about this as we do. The Prime Minister has spoken to President Mitterrand and sent a message to Lubbers; the Foreign Secretary has tackled van den Broek, Dumas and others; Mr Garel-Jones has made our views known to Dankert; and officials have been in regular touch with their opposite numbers. We have made clear in these contacts that the unitary approach in the Dutch text is not an acceptable basis for negotiation, and that we wish to return to the Luxembourg draft, for all its imperfections from our point of view.

The Dutch Cabinet discussed on 12 September whether or not to table the new text, but reached no clear decision. They will return to the issue next week after further inter-departmental consultation. But even if they do not formally table the text, the structural approach it embodies is bound to resurface in the negotiations.

Our aim on Wednesday is therefore to ensure, whether or not the Dutch text is formally on the table, that Lubbers understands that a text embodying the pillared approach is the only realistic basis for agreement at Maastricht. There is no need for Wednesday's meeting to be a detailed negotiating session on the text: that is likely to start in earnest in the



second half of October as the Conclave approaches. But we need to impress on Lubbers that, while we are willing to work very hard for agreement at Maastricht, there are real political constraints on what could be acceptable in Westminster: he must be brought to realise the extent of our objections to the Dutch text, particularly - but not only - on structure.

We should avoid too direct a link between the IGC and enlargement, making clear that deepening and widening is our song, not one or the other. We should also remind Lubbers of the international context in which Maastricht will take place. External pressures (Soviet Union, Eastern Europe, GATT, EFTA) make the argument for settlement at Maastricht more compelling. So does the likely press of Community business in 1992 (Completion of the Single Market, Future Financing negotiations, preparation for enlargement).

The Prime Minister might wish to take the following line:

- Important for Community credibility to conclude IGC at Maastricht. UK willing to work hard for agreed outcome, but new Dutch text takes us further from agreement. Reopens arguments we hoped Luxembourg had settled.
- UK wants EC to develop into a more integrated Community, with a proper political dimension and capacity to project itself internationally. "Deepening" is a fact of life. The UK could accept a deal in the two IGCs which would mark a significant step forward in Community's development, and give the Community the settled foundation it needs for the next phase of growth.
- But to try to push too far ahead this time will be counter-productive. Deadlock at Maastricht would send a miserable signal to the Eastern Europeans and Russians just as they are looking to the Community for a lead in shaping the new Europe. So don't let the best (from your point of view) be enemy of the good (for us all).
- Structure of Dutch text unacceptable. Effectively extends Community competence into areas where we and others are not ready to contemplate it. Massive shift in institutional balance towards Commission, EP and a federal structure. Simply not possible to sell such a text to Westminster.
- Pillared structure offers best way forward, building on existing cooperation. Luxembourg text on right lines.
- UK wants a CFSP. Life itself is creating this already. But almost all accept this cannot be run on a Community basis. Must be clearly outside Treaty of Rome.
- Must avoid presumption that all issues of importance would gradually come into "common action" and thus Community



competence. UK not prepared to sign away national responsibility for foreign policy.

- Welcome your intention not to tackle defence in IGC until after NATO Summit. WEU Ministerial (29 October) an opportunity to put real content into the European defence identity. Proposal to develop "common guidelines" for the Rome Summit among the Eleven IGC countries who are members of NATO could also be helpful.
- Interested in Kohl's ideas on interior/justice cooperation (Europol and immigration/asylum). Willing to strengthen cooperation, but must remain inter-governmental.
- Clear that EP's role needs to be enhanced as a result of this IGC. Already a full package of measures in the non-legislative field (eg ombudsman, rights of enquiry and petition, modest role in appointment of Commission and strengthening financial accountability). These we can accept.
- Recognise pressure from others, but any substantive increase in EP's legislative powers would be very difficult for UK to accept. Neither those proposed in Dutch or Luxembourg text will run.
- Welcome Dutch efforts to slim down extensions of competence. Should reduce much more. Any extension will be difficult for UK, more so if accompanied by QMV. But changes to social text that could affect employment legislation would be wholly unacceptable.

It is not clear how much influence Lubbers has on EMU. But this meeting provides an early opportunity to set out our concerns on no imposition and to stiffen their resolve on issues on which we have a common position

The Dutch have made a business-like start to their Presidency, circulating new texts on the content of Stage 2 and transition to Stages 2 and 3. For the most part, the texts are helpful to the UK: their key characteristics are:

- a clear distinction between Stages 2 and 3. A European Monetary Institute is set up at the beginning of Stage 2 with a European Central Bank only coming into operation at the beginning of Stage 3;
- rigorous convergence conditions for the move to Stage 3;
- a separate decision by individual member states on whether to move to Stage 3, in response to our "no imposition" concerns. (To underline the "whether" nature of the text, the Chancellor has tabled an amendment which would add the sentence: "Unless a member state decides to participate in the final stage it shall be under no obligation to do so");



- the start of Stage 3 to be triggered by as few as six member states being ready and able to make the move (we have argued for a higher number);
- a requirement that member states introduce legislative proposals before Stage 2 with a view to making their national central banks independent before Stage 3.

The Dutch have come under heavy fire from the Commission and Southern member states for their acceptance of a two-speed approach and their failure to give Stage 2 more content. As a result, Kok is now apparently distancing himself from his officials' text. Given the long agenda for the meeting, the Prime Minister may wish to concentrate on "no imposition" and to discourage the Dutch from making concessions on issues where the UK and Netherlands share common positions.

The Prime Minister may wish to:

- congratulate Lubbers on start to Dutch Presidency. EMU texts clear and concise. Obviously some areas still cause UK difficulty, but should enable early progress towards goal of agreement at Maastricht;
- welcome provision in draft texts which would require member state to make a separate decision before moving to a single currency and single monetary policy without a separate decision by UK Government and Parliament; and Chancellor tabled amendment last week to underline this point. Believe Dutch text is very helpful, and attach very high priority indeed to its remaining on the table;
- welcome also emphasis on rigorous convergence conditions. To allow member states which failed the convergence test would be a recipe for disaster;
- also support clear distinction between Stages 2 and 3. In Stage 2 monetary policy remains clearly in national hands. ECB only set up when decision to move to Stage 3 has been made. UK strongly supports this approach. Believe Germany can also. Should be no question of returning to Luxembourg text: must be no possibility of confusion about where responsibility for monetary policy lies in Stage 2 (and Germany will not tolerate dilution of Bundesbank's sovereignty in Stage 2).

#### CAP Reform

In July MacSharry tabled his long awaited proposals for radical reform of the CAP. Although the UK has long been an advocate of CAP reform, we have difficulties with the details of MacSharry's proposals. The main elements are price and quota cuts in a few major products, coupled with compensation in the form of direct payments. The Commission are also seeking an increase in the guideline limit of agricultural



expenditure. The UK believes that the priorities for reform should be to increase efficiency in the agricultural sector and reduce expenditure. Although the proposals in their present form would bring a net benefit to the UK economy, they are weaker than originally hoped. We will therefore be arguing for changes to be made. The Dutch broadly share our views of the MacSharry proposals and how they should be improved. They have also expressed the wish to push ahead rapidly on CAP reform because of the need to buy GATT flexibility from other member states with commitments to compensate producers for some of their losses.

The Prime Minister may wish to say that:

- The UK welcomes the Commission's proposals but would like to see them modified - in particular we are not happy with the scale of compensation proposed nor the Commission's intention to increase the guideline limit on expenditure.
- We think that the first priority should be the successful conclusion of the Uruguay Round. But we do not want a poor quality GATT agreement, which would inevitably be the case if the Community gave very generous compensation to farmers for GATT cuts and exempted these from control in future by placing them in the GATT "green box".

#### Soviet Union

The Congress of People's Deputies on 5 September established transitional central government structures (a State Council chaired by President Gorbachev and including leaders from the republics; a two-chamber Supreme Soviet (parliament); and an Inter-Republican Economic Committee). These affirmed the huge shift of power to the republics. For the moment, President Gorbachev has managed to preserve certain central Union structures. But it is unclear how far he now has an effective power base and his future influence will depend on his acting as a broker between the republics. Negotiations will now begin on a new Treaty of Sovereign States: a loose confederation is the likely final shape. The Economic Committee seem well seized of the need for radical reform although there is a worrying lack of consultation between the politicians and the central bankers on the increasingly severe foreign debt problems.

Armed forces (including nuclear) will almost certainly remain under a single military command (with small, republican national guards). This would be consistent with Presidents Gorbachev's and Yeltsin's assurances to the Prime Minister during his visit.

The lack of coordination between the centre and republics on economic planning is a long term problem: the EC therefore should target its planned 400 mecu technical assistance programme on local projects, chosen in consultation with reform-minded republican leaders. 250 mecu of EC food aid is



on its way. A 500 mecu EC food credit guarantee is being finalised. The Soviet Union has now put forward a request for massive supplies of food aid. This needs to be assessed quickly. The West will want to respond quickly to identifiable shortages. A food aid stand-by facility may well be necessary. We should continue to seek opportunities for triangular trade. But food storage and distribution are the crux of the Soviet shortage. The EC technical assistance programme has identified these areas as a priority. The UK is sending the McIntosh team to the Soviet Union. An EC Commission team led by Andriessen returned from a fact-finding visit to the Soviet Union and Baltics on 12 September.

The Prime Minister has written to Economic Summit leaders and the Managing Director of the IMF reporting his discussions with Gorbachev on Soviet debt, stressing the sensitive nature of the subject and the value of detailed technical examination by experts including an IMF team of the Soviet external payments position. (Mr Lubbers should not be told that G7 Central Banks are also discussing possibilities for mobilising USSR gold.) The G7 will be comparing assessments later in September of likely Soviet food and medical aid requirements. They will also pool information on technical assistance programmes. Andriessen, G7 and Dutch Foreign Ministers will meet in New York on 21/22 September.

The UN arrangements for concurrent membership which the Soviet Union appears to envisage could prompt questions about the Soviet Union's own UN status, notably on the Security Council. Some of our EC partners would argue that any new Soviet arrangements along the above lines would reinforce the case for an EC seat on the Security Council, perhaps held by the Presidency at the expense of the UK and French seats. We and the French have a common interest in resisting these threats to the status quo. Dumas has acknowledged the problem, but is apparently not greatly exercised.

The Prime Minister might draw on the following:

- Temporary Union government structures now in place. Priority now radical economic reform plan. But difficult to draw up in view of new autonomy of republics. Risk of indecisiveness with weak centre unable to curb protectionist republics. Lack of coordination in economic planning a long term problem.
- You and I should ensure G7 and Community keep in step on Western aid: this must depend on effective economic reform. Yavlinsky told me that aid without reform would be harmful. Until Soviet Union's own resources mobilised by freeing internal economy, Western aid will merely prop up decaying structure.
- Emergency food aid different matter. Helpful that Commission and Dutch as Presidency are involved in G7



assessments of the need. Want European position made coherent, so that I can take it into account in any recommendations to G7. Hope our officials will stay in close touch. If claims of food shortages prove well-founded, Community should respond swiftly with well-targeted, efficiently distributed supplies of food. Should set up a stand-by facility so that food could be quickly delivered where there are identified shortages. Sourcing some of this food from East Europe will help their economies too. Scope also for medical aid - Commission should make proposals. Financing implications will need careful study. Might use unallocated provisions for technical assistance in 1991 EEC budget.

- Food distribution/shortage an immediate concern. UK undertaking bilateral initiative.
- Not convinced of need for Special European Council meeting to discuss Soviet Union.
- Raised control of nuclear forces with Gorbachev and Yeltsin. Reassurances from both that these will continue to be under central command. Note that Congress of Deputies outcome envisaged single military command.
- IMF team are now assessing Soviet Union's external debt and prospects. Discretion required to avoid a confidence crisis.
- (If raised) Clear that some republics (apart from Baltics) will apply for UN membership. UK wishes to retain existing Security Council structure which at present is working very well (eg Middle East).

#### EC Association Agreements with Poland, Czechoslovakia and Hungary

The 6 September FAC failed to agree Commission proposals for a revised negotiating mandate for the Association Agreements with Poland, Czechoslovakia and Hungary. The package was acceptable to the UK and most member states. But it was blocked by France (with some Belgian and Irish support) who would not accept any increases in beef and sheepmeat imports to the EC. It will now be reconsidered at the 30 September FAC: Mitterrand has said publicly that a satisfactory agreement should be reached by the end of this month.

The Prime Minister might say:

- made it clear to President Mitterrand last week my regret that 6 September FAC was prevented from reaching agreement on a revised negotiating mandate for the Association Agreements.
- strongly endorse your wish to conclude the negotiations as



soon as possible. Important that a breakthrough is reached at the 30 September FAC.

#### Uruguay Round

With negotiations now resuming in Geneva, the Community must begin preparing for the end game. The Dutch so far appear to have given little thought to the handling of this, particularly the linkage with CAP reform. The Commission must be encouraged to take up their responsibilities as negotiators and not hide behind member states.

Our firm aim, to which Lubbers subscribed at the London Summit, is to conclude the Round this year. The best chance for a breakthrough is for the Council to avoid substantial debate on the Round until Dunkel tables a draft framework agriculture agreement. The Council would then be faced with the stark choice of either agreeing the package (or something close to it) or scuppering the entire Round. The Dutch may envisage a special European Council. The best present strategy is to leave Dunkel and the Commission to assume their responsibilities. The Prime Minister might say:

- Know you are as committed as I am to aim of concluding Round this year. Anxious that we should do everything possible to ensure this.
- Agriculture remains the key. We must keep pressing partners to be more flexible. Must also encourage Commission to stay in close contact with GATT Secretariat and work for best deal they can get.
- However, no chance of Council agreeing useful fresh mandate for Commission. So probably best to await Dunkel's framework agriculture agreement. Can then be put to Council as only deal in town.

#### EC/EFTA

Negotiations on a European Economic Area (EEA), which will extend the Single Market to the EFTA countries from 1993, are at a decisive stage. The Presidency are pushing for rapid political agreement on the remaining issues, if possible at the 30 September Foreign Affairs Council. There may also be a joint EC/EFTA Ministerial in mid October to conclude the negotiations formally. Failure to settle the outstanding issues by then would probably lead to the negotiations unravelling.

The Prime Minister might say:

- we are committed to an EEA agreement. We fully support the Presidency's efforts to bring the negotiations to a successful conclusion as soon as possible. Right to push for final agreement at 30 September FAC.





- in particular, need to find solution on fish. Considering how we can best contribute. Ready to concede to EFTA some liberalisation of trade in fish, but not total free trade. Concessions on some species - salmon, mackerel and herring - particularly difficult for us. Some other member states (France, Ireland) have similar problems.
- as part of any deal we must have improved access to Norwegian fishing grounds for UK boats. Accept that Spain and Portugal can have most new fish Norway will give Community under EEA. But we want a share. The greater the trade concessions demanded by EFTA, the more fish we will need in return.
- must not lose sight of other important problems. Hope Presidency will press Southern member states to be realistic about the likely size of the EFTA Cohesion Fund.

#### Yugoslavia

The Dutch response to the crisis has been impressive. Both the monitoring mission and the peace conference have been competently organised in difficult circumstances and in a short space of time.

The situation in Yugoslavia still gives little cause for optimism: there have been frequent violations of the EC-brokered ceasefire of 1 September, although the level of violence has subsided from that reached in late August. The monitoring mission has been unable to extend its operations throughout Croatia as agreed. There is also a danger that the EC consensus could be undermined by German pressure for recognition of Slovenian and Croatian independence and French suggestions for UN or EC peacekeeping. The Prime Minister may wish to make the following points to Lubbers:

- Welcome Presidency's unstinting efforts to help bring about a peaceful solution to the Yugoslav crisis. Hans van den Broek's energy has been heroic.
- Organisation of monitoring mission a success without precedent in EPC.
- UK wholeheartedly supports the efforts of peace conference under Lord Carrington's chairmanship.
- Important that the conference should be given every chance to work. Realise that continued fighting in Croatia makes agreement difficult. But the alternatives (recognition of Croatia and EC peacekeeping or other intervention) could exacerbate the conflict.
- Must avoid any steps which might undermine the consensus within the EC and the chances of rational discussion between the Yugoslav parties.

Lubbers and the European Commission

Whether or not the present Dutch coalition breaks up prematurely, Lubbers is likely to be a candidate to succeed Delors in 1993. At present, he is probably the strongest candidate, but Gonzalez, existing members of the Commission (Sir Leon Brittan and Bangemann) and others are also likely to be in the race. If Delors leaves before the end of his term, his successor would come from among the existing College of Commissioners, and most likely from the Vice-Presidents, with Andriessen - as the most senior - at the top of the list. If this does happen and Andriessen (another Dutchman) is given the job of caretaker, Lubbers' chances for the post-1993 Commission might well be affected. Meanwhile Van den Broek is rumoured to be interested in becoming Secretary-General of NATO.

I am copying this letter to Jeremy Hayward (HM Treasury) and Sonia Phippard (Cabinet Office).

Yours ever,

Rob Holland.

Resident Clerk

