



Foreign and Commonwealth Office

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23 June 1989

*Jean Charles,*

Madrid European Council: Bilateral with Mr Lubbers

The meeting with Mr Lubbers and Mr Van den Broek on Sunday night will be a key opportunity to try to maintain through Madrid the Anglo-Dutch alliance which has served us well at recent European Councils. The Hague telno 271 discusses the effect of his government's current caretaker status on Lubbers' approach at Madrid: it may make him keener on the concept of a social charter, but is unlikely to affect his attitude on monetary issues, which should be generally helpful, as the Chequers discussions on 29 April showed.

The Dutch accept Economic and Monetary Union as an objective, but have responded cautiously to the Delors Report and are strongly opposed to its calls for increased resource transfers. They are keen to avoid a confrontation at Madrid, and will be inclined to support the ECOFIN S'Agaro formula, which separated the measures in Stage 1 of the Report, on which work should begin at once, from those in Stages 2 and 3.

They have, however, signalled very clearly that they would not stand by us if, stepping back from Hanover, we were to dismiss EMU as unrealistic even as a long term aim; or if what we say about ERM suggests that we do not believe the right time for sterling's inclusion will ever come. Conversely, they have suggested they would not object to work to define "operational elements" of Stages 2 and 3 taking years rather than months; and that they will be ready to fight hard against IGC pressures provided it is clear that all parties agreeing to tackle Stage I do so in good faith.

The Prime Minister may wish to emphasise that:

- we agree that the Council should focus on Stage 1; and have no difficulties either in agreeing a start date or with any of the measures proposed for Stage I (except of course the French idea of a Reserve Fund). We also favour other measures, such as the promotion of the private ecu and increased holdings of EC currencies in reserves, which are not in Stage I;
- we think Stages 2 and 3 as described in the Delors Report are fundamentally flawed, and require much further work. Major issues are involved. But we can accept the S'Agaro

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formula, and would be content for the European Council to commission further ECOFIN work to define the "operational elements" of these stages, in slow time;

- we cannot, however, accept the "in for a penny" formulation at paragraph 39 of the Delors Report; or the call for an early IGC at paragraph 66. It would make no sense to contemplate a Treaty amendment to create new institutions until an agreed version of Stages II and III has been devised. Far better to concentrate on practical progress.

The Dutch may be less helpful on social issues. They favour binding EC social legislation. But Mr Lubbers should be receptive to the argument that the Community's No 1 priority remains the Single Market: Dutch unemployment is currently above the EC average, at 10.3% in 1988. The Prime Minister might say that:

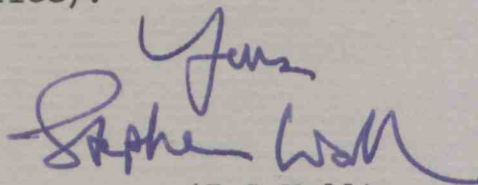
- we recognise the social dimension to Community policies, and 1992. We accept that Community action is right in such areas as Health and Safety at Work, training, labour and mobility. At a national level, we ourselves have a good track record. But there is no need to impose uniformity on varying national practices. The Community principle of subsidiarity should apply. Hence our objection to the idea of a Social Charter.

On Single Market issues Dutch policies are in general similar to ours. (The exception is barriers to takeovers, where they are one of our main targets, but there is no need to raise this in Madrid.) The Prime Minister might say that:

- Spanish success has taken us past the half-way mark on 1992 measures, with very welcome progress on financial services. Time to set priorities for next year: in particular transport liberalisation and financial services, including life insurance. Also important to improve EC-wide implementation and enforcement of the Directives so far adopted.

On frontiers, the Dutch have been helpful to us. And on fraud they have consistently been our closest supporters in the campaign for new Community action which is now underway, and on which good progress was made in ECOFIN this week.

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



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THE MADRID EUROPEAN COUNCIL : DUTCH DOMESTIC SCENE

## SUMMARY

1. THE DUTCH REMAIN POTENTIAL USEFUL ALLIES DESPITE HAVING ONLY A CARETAKER GOVERNMENT. THE EUROPEAN ELECTION RESULTS MAY BE A POINTER TO THE OUTCOME OF THE SEPTEMBER GENERAL ELECTION. THE CHRISTIAN DEMOCRATS DID WELL BUT BOTH THE LIBERALS AND DUTCH LABOUR PARTY HAD POOR RESULTS. A CONTINUING COALITION GOVERNMENT LED BY LUBBERS IS NOT IMPOSSIBLE. IN THE PRESENT CIRCUMSTANCES DUTCH OBJECTIVES FOR MADRID ARE LIMITED. WITH AN EYE ON THE ELECTION LUBBERS WILL WISH TO APPEAR POSITIVE ON THE SOCIAL DIMENSION. THE DUTCH MAY BE READY TO WORK FOR A NON-CONFRONTATIONAL RESPONSE TO THE DELORS REPORT.

## DETAIL

2. IN HIS ROLE AS LEADER OF A CARETAKER GOVERNMENT PENDING A 6TH SEPTEMBER ELECTION, LUBBERS HANDS ARE TIED A LITTLE MORE THAN AT PREVIOUS COUNCIL MEETINGS. HE CANNOT EMBARK ON ANY NEW DOMESTIC LEGISLATION. BUT HE HAS MADE IT CLEAR TO THE DUTCH PARLIAMENT THAT HIS CARETAKER GOVERNMENT WILL CONTINUE THE LINES OF ESTABLISHED POLICY AND THAT THE GOVERNMENT NEEDS TO CONTINUE TO SPEAK ACTIVELY FOR NETHERLANDS INTERESTS INTERNATIONALLY. THIS IS, IN EFFECT, BUSINESS AS USUAL. MINISTERS NEED TO AVOID CONTROVERSIAL COMMITMENTS IN WHICH THEY MIGHT HAVE DIFFICULTY IN COMMANDING A PARLIAMENTARY MAJORITY, BUT IN IS THE MAJOR INPUT WHICH VAN DEN BROEK HIMSELF MADE TO THE SUCCESSFUL OUTCOME OF THE MAY NATO SUMMIT IN CHAIRING THE MINISTERIAL DRAFTING GROUP. HE SUBSEQUENTLY ROBUSTLY DEFENDED WHAT HAD BEEN ACHIEVED AT BRUSSELS AGAINST LEFT WING CRITICISMS IN THE DUTCH SECOND CHAMBER.

3. BECAUSE OF THE IMPENDING SEPTEMBER GENERAL ELECTION THE EUROPEAN PARLIAMENTARY ELECTION RESULTS IN THE NETHERLANDS HAVE HAD A SPECIAL SIGNIFICANCE. THE TURNOUT (47.2%) WAS LOW BY DUTCH STANDARDS AND NONE OF THE PARTIES FEELS CERTAIN THAT THE TRENDS LAST WEEKEND WILL BE



CARRIED FORWARD TO SEPTEMBER. HOWEVER, LUBBERS AND VAN DEN BROEK WILL BE ENCOURAGED BY THE STRONG SHOWING OF THE CDA. THE PARTY RECEIVED 34.6% OF THE VOTE. THIS WAS THE SAME AS AT THE SUCCESSFUL CDA GENERAL ELECTION IN 1986, AND UP ON THEIR FIGURES AT THE EUROPEAN ELECTION IN 1984. THE VOTE CAN BE INTERPRETED AS A PERSONAL VOTE OF CONFIDENCE IN LUBBERS.

4. SOME OF THE VOTES FOR THE CDA WERE AT THE EXPENSE OF THEIR LIBERAL COALITION PARTNERS WHO HAD BAD RESULTS. THE DUTCH LABOUR PARTY ALSO HAD A DISAPPOINTING ELECTION IN COMMON WITH THEIR COUNTER-PARTS IN FRANCE AND GERMANY. THEIR SHARE OF THE VOTE, IF REPEATED IN SEPTEMBER, WOULD REDUCE THEIR SEATS IN THE DUTCH LOWER HOUSE. THEY LOST GROUND TO A FAR LEFT/GREEN ALLIANCE. THE VOTE MAY ALSO INDICATE A PREFERENCE ON PERSONAL GROUNDS FOR LUBBERS RATHER THAN THE MIDDLE OF THE ROAD LABOUR LEADER, KOK.

5. DESPITE THE LOW TURNOUT, THE RESULTS DO SUGGEST THAT THE CDA HAS A GOOD CHANCE OF BEING RETURNED AGAIN IN SEPTEMBER AS THE LARGEST PARTY IN THE SECOND CHAMBER. THE RELATIVE STRENGTH OF THE LIBERAL AND LABOUR VOTES WOULD THEN DETERMINE WHETHER THE PRESENT CENTRE/RIGHT COALITION WOULD CONTINUE IN OFFICE OR BE REPLACED BY A CENTRE/LEFT COALITION. EITHER WAY THIS WOULD NOT RULE OUT THE POSSIBILITY THAT LUBBERS HIMSELF MIGHT CONTINUE IN OFFICE AND HE CERTAINLY APPEARS TO HAVE AN APPETITE TO DO SO.

6. FOR THE PRESENT, DUTCH OBJECTIVES IN MADRID ARE LIKELY TO BE FAIRLY LIMITED. THEY ARE UNSURE HOW THE SPANISH INTEND TO PLAY THE COUNCIL AND ARE WAITING TO HEAR MORE FROM GONZALES. DUTCH MINISTERS ARE ASSUMING THAT THE TWO MAIN POINTS FOR DISCUSSION WILL BE MONETARY UNION AND THE SOCIAL DIMENSION. VAN DEN BROEK HAS TOLD ME THAT THE DUTCH ARE ANXIOUS TO AVOID ANY OPEN SPLIT ON EITHER ISSUE AND COULD BE FAIRLY FLEXIBLE IF THIS HELPED TO ACHIEVE AN AGREED CONCLUSION. BUT HIS PRIVATE SECRETARY HAS TOLD US SEPARATELY THAT ON THIS OCCASION MINISTERS HAVE NOT YET REALLY FOCUSSED ON WHAT THEY HOPE TO GET OUT OF MADRID. MOREOVER, WITH THE SEPTEMBER ELECTION IN VIEW, LUBBERS WILL NEED TO SHOW APPROPRIATE CONCERN ABOUT SOCIAL ISSUES. ON MONETARY QUESTIONS THE DUTCH POSITION HAS NOT CHANGED AND THEY COULD CONTINUE TO BE USEFUL SUPPORT FOR A NON-CONFRONTATIONAL RESPONSE TO THE DELORS REPORT.

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