

RELEASE IN FULL

CONFIDENTIAL

May 9, 2010

For: Hillary
From: Sid
Re: Sunday, State of Play

Clegg is still in talks with Cameron. About 1,500 Liberal Democrats spontaneously protested at Lib-Dem headquarters against a deal with the Tories given their policies, especially on Europe. But Clegg remains in negotiations. He seems quite intent on working it out with Cameron, it appears. His inner Tory magnetically draws him to his heritage. Clegg has also misplayed almost every turn, presented with big chances and blowing them through a combination of inexperience (derived partly from heading a party out of power for nearly 100 years) and inbred arrogance (from no less a privileged background than Cameron, though seeming less snobbish because he went to Westminster instead of Eton and has a less pronounced upper-class accent, more neutral, because of his more cosmopolitan roots through his family).

What about Labour? Shaun and a couple of others have rounded up about 29 votes from other parties (Scottish National Party, NI parties, Welsh party) that could be part of a grand progressive once-in-a-lifetime coalition that required the LDs. Gordon has said he will allow Clegg-Cameron discussions to play out and a general offer to Clegg is on the table, its terms giving far more on a referendum and policy than the Tories. Behind the scenes, Labour is putting whatever harsh pressure it can on LD leaders. Peter is playing a cynical double game. He is a sectarian in a sect of one. Yet Gordon for strange psychological reasons rooted in his triangle with Tony and Peter relies on Peter. Peter, according to Shaun, has wrung a pledge from Brown that if Brown emerges from this crisis he, Peter, will replace David as Foreign Secretary. Meanwhile, Peter has advised David to sideline himself. David has done so instead of being forward as a strong party man behind Brown in dire straits. Standing back only makes David look ambitious, waiting for Brown to lose and aiming to a leadership contest afterward, when Peter, as he has promised, would guide David to the prize. The plot thickens: Ed Miliband, David's younger brother, the environment secretary, will run for leader against his brother if Brown loses. Ed has more of a common touch. The outcome of that contest would be more than uncertain. But before that eventuality Gordon's team reaches out to the LDs in private. Yet Shaun's attitude, as I read it, leans toward pessimism. A London Times polls just out says 62 percent want Gordon out. Where were the fickle voters in the election? The poll shows more than discontent with Gordon, but also how people are being whipped by the Murdoch media.

What about the Tories? A secret memo from William Hague to Cameron written before the election was leaked this morning to The Observer (the Sunday paper of The Guardian), proposes an anti-Europe line of the new government. (I've enclosed the article below.) The atmosphere inside the Conservatives is acrid and anxious. But Lord Ashcroft, the Tory moneymen, who spent five million pounds alone in marginal districts, is furious that Cameron failed to win outright, failed in his campaign, made a foolish decision to include Clegg in the debates, etc. Many agree with the evil Ashcroft. But the finger pointing won't matter if a deal works with Clegg. The Conservative strategy would be to coopt Clegg now, do whatever deal can be done, maintain a more or less center-right but moderated government for about a year, call a new election, win outright on the momentum of the recovery engineered by Brown but claimed by Tories as proof that the change was responsible, jettison Clegg and the LDs, and govern from the radical right as the children of Thatcher for five years. The Tories would then move on their electoral reforms: cutting the number of seats in Parliament, redistricting in Conservative favor, and trying to outlaw union contributions to the Labour Party.

What about the LDs? Clegg's deal with the Tories would of course thwart any Lib-Lab coalition, probably the only chance for a grand progressive alliance that would keep the Tories out of power forever. Clegg's personal instincts obviously lean toward the Tories, having little to do with policy. The party's leaders may be opposed, but they are also likely to be feckless and weak as they always have been.

So, whatever the case, I would doubt you'll see David again as Foreign Secretary. Prepare for Hague, who is deeply anti-European and will be disingenuous with you. Tory budget cuts in NI, already announced, would cause havoc with peace and economic recovery. I'd send a private message asap on that score the second a new government is announced, if it is. Tilt publicly to Merkel on Europe for this reason among others.

Article below:

Tory-Lib Dem coalition threatened by secret hardline memo on Europe

- Draft letter by William Hague sets out tough stance on EU
- Leak follows leaders' 'constructive, amicable' meeting

Toby Helm and Anushka Asthana

- The Observer, Sunday 9 May 2010

David Cameron's hopes of forming a coalition with the Liberal Democrats were dramatically undermined last night by the leaking of a top-secret letter outlining the hardline Eurosceptic stance he and William Hague planned to adopt in government.

The document, obtained by the *Observer*, is headed "draft letter from Foreign Secretary to Prime Minister" and was written last week. It assumed an outright Tory victory and spelt out how Hague intended to adopt a tough approach to Europe at a meeting of EU foreign ministers in Brussels tomorrow.

In the letter, compiled by civil servants but written in the first person, Hague tells Cameron how his message would be that "the British relationship with the EU has changed with our election" to one firmly against any further integration.

Exposing the massive gulf between Liberal Democrat leader Nick Clegg and the Conservative leadership on Europe, Hague says he would demand the right to repatriate powers over criminal justice as well as social and employment policy during the first term of a Tory government – demands many EU leaders say they would resist.

Hague planned to tell his EU counterparts: "Rest assured that we seek engagement, not confrontation. But our aim is to achieve these commitments during this parliament." He would also tell his first foreign ministers' meeting "we will never join the euro" and conclude: "You will find us firm but fair, playing a leading role, fighting our corner, practical and straight-talking."

Last night the Tories said they had no knowledge of the letter. But the *Observer* understands it was drawn up on the basis of detailed briefings between senior civil servants and Hague. The document came to light as Clegg, a strong pro-European, yesterday met his MPs and senior party figures to discuss a possible coalition with the Tories, who emerged from Thursday's general election with the largest number of seats but short of an overall majority.

Cameron and Clegg held face-to-face talks late yesterday as they continued their attempts to thrash out a power-sharing deal. A senior Conservative party spokeswoman said the talks were "constructive and amicable". The 70-minute meeting took place at Admiralty House in Whitehall. A Lib Dem spokesman also described the discussions as "constructive and amicable".

Tory and Lib Dem sources said last night that discussions would not conclude until the beginning of the coming week at the earliest. An emergency meeting of the 1922 committee of Tory backbenchers will be held tomorrow to discuss the possible coalition. Today, Hague, Oliver Letwin and George Osborne will resume talks with the Lib Dems' Vince Cable, Chris Huhne and David Laws.

But the stark language used in the letter is bound to alarm Clegg, who has been savage in his criticism of the Conservatives' attitude to Europe which he believes is rooted in the past and will limit Britain's ability to fight cross-border crime and meet the environmental challenges of the 21st century.

The document will also be seen by Lib Dem MPs and the party's rank and file as evidence that their pro-Europeanism would be compromised by linking up with the Tories. A Lib Dem spokesman said the party was strongly pro-European, but would not be drawn on the document.

Yesterday Cameron came under pressure from senior figures in his own party not to give in to Clegg's demands by watering down Conservative manifesto commitments. Shadow defence secretary Liam Fox warned that a Tory government could not be "held to ransom" by Lib Dems demanding proportional representation.

Clegg may also face opposition from within his party to any attempt to form a coalition with the Tories, particularly on economic issues.

Yesterday the Social Liberal Forum, which represents left-leaning Lib Dems and includes a third of the party's MPs, issued a set of "red lines" which it said the party must not cross, including any measure that would increase the gap between the rich and poor – ruling out supporting the Tory pledge to cut inheritance tax. Three other red lines were any suggestion of cuts to frontline services in the current financial year, any worsening treatment of asylum seekers and any watering-down of the human rights act.

Meanwhile, Gordon Brown and his closest advisers were working on how to expand their counter-offer to the Lib Dems, including a referendum on changes to the voting system. Senior officials said Labour was planning to draw up a formal "coalition contract" – as happens in Germany – that would bind the Lib Dems and other smaller parties into a deal if the Tory discussions with the Lib Dems were to fail.

Most Labour ministers now believe Brown would have to step down before Clegg would consider a pact, though senior government insiders insisted this was not being discussed as an option.

One re-elected Labour MP, John Mann, of Bassetlaw, called on Brown to step down as Labour leader, claiming that the party would have influence on the outcome of the current negotiations only if Brown agreed to give up the leadership.

"Brown should not lead Labour into any future election and he should stand down before the next Labour party conference," he said. "Gordon Brown's continuation as leader rules out the credibility of a Lib-Lab pact that has to prioritise the modernisation and reform of the antiquated UK political systems."