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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 2 FEBRUARY 1989
at 10.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

The Rt Hon Lord Mackay of Clashfern
Lord Chancellor

The Rt Hon Douglas Hurd MP
Secretary of State for the Home Department

The Rt Hon George Younger MP
Secretary of State for Defence

The Rt Hon Norman Fowler MP
Secretary of State for Employment

The Rt Hon Tom King MP
Secretary of State for Northern Ireland

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment

The Rt Hon Lord Young of Graffham
Secretary of State for Trade
and Industry

The Rt Hon Kenneth Baker MP
Secretary of State for Education
and Science

The Rt Hon Kenneth Clarke QC MP
Secretary of State for Health

The Rt Hon John MacGregor MP
Minister of Agriculture, Fisheries
and Food

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland

The Rt Hon Paul Channon MP
Secretary of State for Transport

The Rt Hon John Moore MP
Secretary of State for Social Security

The Rt Hon John Wakeham MP
Lord President of the Council

The Rt Hon The Lord Belstead
Lord Privy Seal

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

The Rt Hon John Major MP
Chief Secretary, Treasury

The Rt Hon Antony Newton MP
Chancellor of the Duchy of Lancaster

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon David Waddington QC MP
Parliamentary Secretary, Treasury

The Rt Hon Peter Brooke MP
Paymaster General

SECRETARIAT

Sir Robin Butler
Mr R G Lavelle (Items 3 and 4)
Mr P J Weston (Items 3 and 4)
Mr A J Langdon (Items 1 and 2)
Mr S S Mundy (Items 1 and 2)

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PARLIAMENTARY
AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons in the following week.

White Paper
on the Reform
of the
National
Health
Service

THE PRIME MINISTER said that the Cabinet would wish to congratulate the Secretary of State for Health on his extremely successful presentation of the White Paper on the reform of the National Health Service.

The Cabinet -

1. Warmly endorsed the Prime Minister's remarks.

Previous
Reference:
CC(89) 3.5

Companies
Bill:
Political
Donations by
Companies

THE LORD PRIVY SEAL said that at Committee Stage of the Companies Bill in the House of Lords on the previous Monday, an amendment had been carried against the advice of the Government which sought to provide that companies would need to obtain the approval of their shareholders at the annual general meeting for any proposed donations for political purposes. He was discussing the matter with the Secretary of State for Trade and Industry and with the Lord President of the Council, and he hoped shortly to bring forward proposals for remedying the matter.

THE PRIME MINISTER, summing up a brief discussion, said that, as had been pointed out in the debate on the amendment, companies were already required to disclose in the directors' report any gifts of money for political purposes that exceeded £200, and shareholders who were concerned about such donations were able to raise the matter at the annual general meeting and, if they were sufficiently dissatisfied, dispose of their interest in the company. These safeguards were entirely adequate, and the analogy which the Opposition had sought to draw between political donations by companies and the trades unions' political levy was manifestly specious. The Lord Privy Seal should bring forward proposals for reversing the effect of the amendment, in the way in which he had indicated.

The Cabinet -

2. Took note with approval of the Prime Minister's summing up of the discussion and invited the Lord Privy Seal to be guided accordingly.

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HOME AFFAIRS
Industrial
Action at
Wandsworth
Prison

2. THE HOME SECRETARY said that on the previous Monday most of the uniformed prison officers at Wandsworth Prison had refused to implement a new shift system that the Governor had introduced under the Fresh Start scheme. Consultations had been undertaken on the new system for two months, and it was entirely reasonable. After the staff concerned had been warned of the consequences of not accepting their duties, they had been suspended without pay. Since then only a handful of uniformed prison officers had been working in the prison, which was being run by governor grades and police officers from the Metropolitan Police. During the Monday night there had been considerable tension in the prison, but the police had worked hard to improve the situation and the prison was now calm. Discussions with the Prison Officers' Association (POA) had taken place at the Home Office in an attempt to resolve the dispute, and they would continue that day. The member of the POA National Executive Committee who was handling the dispute was seeking to reach a settlement, but might not carry his branch members with him. Wandsworth was the most difficult of the London prisons which were, in turn, the most difficult prisons in the country. Despite substantial increases in staff, with the prospect of a further increase the following month, the Wandsworth staff had been the slowest in the country to relinquish restrictive practices and to adapt to the improved efficiency and management that was embodied in Fresh Start. The imposition of the new shift system and the acceptance of prisoners at Wandsworth up to the prison's maximum operational capacity were key points on which there could be no concession. Nevertheless, there might be scope for reaching some accommodation with the POA on the Wandsworth dispute, by way of careful phrasing rather than substance, although Mr John Bartell, the national Chairman of the POA, would undoubtedly seize on any opportunity to make trouble. Speculation in the press that legislation was in preparation to prohibit prison officers from certain forms of industrial action was damaging and should be dampened down.

In discussion the following main points were made:

a. The POA had a notoriously bad record for seeking to preserve restrictive practices and obstruct management reforms, and some prison officers behaved reprehensibly in pursuit of those aims. There was, for example, truth in the allegations that some Wandsworth prison officers had incited the prisoners to misbehave on the previous Monday in order to make the task of the police more difficult.

b. The management reforms in the prison service were slowly bearing fruit, though the effects were still patchy. In some prisons there had been noticeable improvements in both the standard of management and the quality of life for the inmates. The POA was the main barrier to progress, and that would remain the case for some time to come. Although new recruits to the prison service tended to be of good quality, the traditional source of recruitment from the armed forces had declined many years previously. In the interim there had been many years' recruitment of staff who lacked standards and esprit de corps, and whose voice was prominent in POA affairs.

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c. Some prison officers who had been expelled from membership of the National Executive of the POA were making moves towards the foundation of a breakaway prison officers' union, of an ostensibly more moderate cast. Given the origin of this movement, however, it was unlikely that it would attract general support among prison officers.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet fully supported the action that the Home Secretary was taking in response to the industrial action by prison officers at Wandsworth Prison.

The Cabinet -

1. Endorsed the Prime Minister's summing up of the discussion.

Takeover Bid
by Minorco
for
Consolidated
Gold Fields

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he had announced earlier that morning that the Monopolies and Mergers Commission (MMC) had concluded that the takeover bid by Minorco, the Luxembourg-based company, for Consolidated Gold Fields PLC might be expected not to operate against the public interest. He had no power to intervene in a takeover bid where the MMC had reached such a conclusion and, while the original bid had lapsed, Minorco would now be free to proceed with a fresh bid. Some people had sought to make a connection between the MMC investigation and the entirely separate investigations by his Department's inspectors into Consolidated Gold Fields' allegations of insider dealing and of breaches of the Companies Act. These investigations would not be completed for some months. If they produced evidence of wrongdoing, legal action might be appropriate under either the civil or criminal law and he might have power to refer the bid back to the MMC.

In discussion, it was noted that some local authorities had in the past boycotted Consolidated Gold Fields in their procurement arrangements because of the company's links with South Africa, but that, under the Local Government Act 1988, discrimination by local authorities of this kind was now illegal.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had noted that Minorco was now free to pursue its takeover bid for Consolidated Gold Fields.

The Cabinet -

2. Took note.

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3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Soviet withdrawal from Afghanistan was continuing and it was uncertain how it would end or what would happen afterwards. The decision by the United States to withdraw their Embassy from Kabul had been the key factor in a finely balanced argument prompting the rest of the Western allies, Turkey excepted, to follow suit. Although the United Kingdom had maintained an Embassy there throughout the nine years of the war, to have stayed on as the only non-Muslim member of the Alliance would have left the British Mission dangerously exposed. The remaining members of the British Embassy staff would be leaving by air within the next day or so. The keys of the Embassy building would be left with the Turkish Ambassador, along with some basic supplies for his comfort.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Government's decision to reduce the British garrison in Gibraltar by withdrawing the infantry battalion over a two year period had been received relatively calmly in Gibraltar, despite a press leak over the weekend before his own visit on 30 January. The Chief Minister of Gibraltar, Mr Joseph Bossano, who had been given advance notice of the decision, had made some helpful and sensible public remarks, as had the Spanish Foreign Minister. Opinion in Gibraltar had been reassured when it was understood that the decision also entailed the release to Gibraltar of a considerable amount of land, mostly without charge. The importance of this could be seen against the background that up to now the Ministry of Defence had occupied about 50 per cent of the available land in Gibraltar, while contributing some 15 to 20 per cent of Gibraltar's gross national product. The Gibraltar economy was strong. Some 2,000 Spaniards worked there. The annual rate of growth was in the region of 7 per cent. Mr Bossano was energetically pursuing ambitious plans for economic development, by means inter alia of joint ventures and privatisation. Mr Bossano was also keen on cross-frontier co-operation with Spain. The only major complication was the implementation of the airport agreement.

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THE FOREIGN AND COMMONWEALTH SECRETARY said that the recent reconstruction of the Canadian Cabinet had left Mr Joe Clark, Mr John Crosbie and Mr Michael Wilson in charge of the key portfolios for External Affairs, International Trade and Finance respectively. But Mr Perrin Beatty had been moved from Defence to National Health and

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Welfare and replaced at Defence by the little-known Mr Bill McKnight. The consequences of this change for the Canadian Government's plans to purchase nuclear submarines were not yet clear.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

Discussions
with new
Commission

4. THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he had visited Brussels on 30 January to make contact with the new Commissioners on a number of matters of current interest. In his discussions with Sir Leon Brittan he had taken up the question of the Commission's approach to the Minorco bid for Consolidated Gold Fields. The Commission appeared to take the view that they were entitled to examine the bid under Articles 85 and 86 of the Treaty of Rome on competition grounds. However he had been assured that such an enquiry would be carried out quickly. The Commission were already examining the GEC/Plessey merger which had been put to the Monopolies and Mergers Commission. The problem of double jeopardy was therefore a real one. These cases were inevitably also quickening public interest in the issue of a mergers regulation. While negotiations on the regulation were still proceeding under a general reserve he believed that it would be important to make progress on the outstanding issues in this area over the next few months. In the discussions with Sir Leon Brittan he had also raised the question whether French action on Renault had been judged to comply with the Commission's earlier decision. Sir Leon Brittan had told him that the Commission had not been satisfied with the French offer and that he was pursuing the matter with the French authorities.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that his discussions with Vice President Bangemann about the European company statute had made clear that the latter still favoured worker participation provisions. However he took the same view as did the United Kingdom Government on the issue of French imports of cars from Nissan Motors UK. There had also been a useful exchange on the question of the Commission attitude to possible Toyota investment in the United Kingdom.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that reference had also been made in his discussions with Vice President Bangemann to the limit placed on holdings of shares in Rolls Royce by citizens of other member states. The effect of this limit, which had been adopted to safeguard defence interests had been to require some private sector divestment. Negotiations were taking place and the issue might be resolved by a small addition to the percentage limit.

In discussion reference was made to the special shares provisions to be adopted in relation to water and electricity privatisation. The limits on holdings protected by the special shares arrangement did not involve any discrimination by reference to nationality. There seemed no reason

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therefore to expect that they would give rise to any difficulty with the Commission who had indeed so far made no attempt to query them with the Government. It was important that the Commission should not create difficulties on this front in relation to the passage of current United Kingdom legislation. More generally it was suggested that the greatest care would be needed, in dealings with the Commission, adequately to insulate defence interests and so guard against interference with defence procurement. The Commission was very ready to exploit any openings by recourse to the European Court of Justice. The United States authorities had made clear their close interest in these matters.

Sixth
Directive
on Value-
Added Tax

THE CHANCELLOR OF THE EXCHEQUER said that he would shortly be publishing draft clauses arising out of the ruling of the European Court of Justice on zero rates of value-added tax. The Government's intentions had been announced in June and the details should be reassuring. The publication would nevertheless revive the controversy to some extent and there would be complaints from some large developers that the transitional arrangements were inadequate. But the Economic Secretary to the Treasury had examined these issues with the utmost care and had reached conclusions which were entirely fair and reasonable.

The Cabinet -

Took note.

Cabinet Office

2 February 1989

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