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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 9 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 Peter Walker MP
Secretary of State for Wales

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 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.

Parliamentary
Statements

THE PRIME MINISTER said that the time allowed for questions to be put to Ministers on statements made in the House of Commons had increased greatly. It would be interesting to see figures illustrating the growth in recent years of the time consumed by statements.

The Cabinet -

Endorsed the Prime Minister's comments and invited the Lord President of the Council to circulate information about the time consumed by Parliamentary statements, on the lines that the Prime Minister had indicated.

HOME AFFAIRS

Food Safety:
Salmonella
and Eggs

Previous
Reference:
C(88) 39.5

2. THE SECRETARY OF STATE FOR HEALTH said that he and the Minister of Agriculture, Fisheries and Food had given evidence about salmonella and eggs to the Select Committee on Agriculture the previous afternoon. Media attention had been predictably concentrated on the subsequent appearance before the Committee of the former Parliamentary Under-Secretary of State, Department of Health and, in general, the press continued to treat salmonella and other food safety issues in a sensational fashion. In the present instance it was regrettable that the press had seized on the published report of a working group of experts in order to whip up public anxiety over salmonella and to allege that the true facts were being kept from the public; the carefully weighed evidence that he and the Minister of Agriculture, Fisheries and Food had given to the Committee had largely gone unreported. The part of the report that had particularly attracted media attention was an appendix by the Public Health Laboratory Service (PHLS) that discussed the difficulty in establishing the true extent of salmonella infection, and noted that in the United States it tended to be assumed that verified cases of salmonella infection under-represented the true extent of infection by a factor of about 100. The Chief Medical Officer's own view was that a factor of 10 might be more appropriate in respect of the United Kingdom. It was very desirable that the hostility and sensation-seeking in the press on food safety matters should be changed. He did not believe, however, that these presentational aspects could be greatly improved until the alarming growth in food-borne disease was seen to be brought under control. For that to be achieved, he believed that the Government would need to do more to demonstrate that it was guided by fully independent expert advice in food safety matters.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the report that had been mentioned by the Secretary of State for Health had been produced by a joint working group of experts from his own Ministry, the

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Department of Health and the British Egg Industry Council. The working group, which had first met in September 1988, had been given the remit to review the scientific information on salmonella and eggs, and to identify areas where further research was needed. The existence of the working group was generally known and there was nothing in its report that conflicted with the line that had been taken by the Secretary of State for Health and himself. He had been concerned to handle it with maximum openness, so as to afford no basis for accusations of a cover-up. The report had therefore been placed in the library of the House of Commons following a Parliamentary Question, and he had mentioned its publication in his evidence to the Select Committee. Some newspapers had recognised that nothing was being held back, and had decided not to run a story on the matter, but other newspapers persisted in referring to the report as a secret document, though all the facts spoke against them. His Ministry routinely took a great deal of action on food safety matters, but there had been very little interest in this field until the recent explosion of media interest. He believed that the guiding principle for the Government should be to keep the public fully informed of the results of scientific study, though media interest was now so volatile that all announcements in this field would require the most careful preparation and handling.

In discussion the following main points were made:

- a. Following salmonella and eggs, the next area of major food safety concern among the public might well be that of listeria infection, on which a survey by the PHLS was due to be published shortly. Listeria was especially prevalent in certain soft cheeses and pre-cooked poultry and it represented a health hazard to pregnant women in particular. The Department of Health was therefore preparing to issue urgent advice to the consumer about the prevention of listeria infection.
- b. The control of temperature was an important aspect of food safety precautions at many points of the food chain, including the point of consumption. It was now clear that the proper use of microwave ovens in the home and elsewhere was an important aspect of the problem. The controls applied to industry and the advice given to the consumer should both deal fully with the question of temperature.
- c. Although the increase in food-borne disease was probably related to the considerable changes in techniques at all stages of the food chain, the renunciation of modern methods did not represent safety. There was increasing reason to suppose that free range eggs presented at least as great a threat of salmonella infection as did battery produced eggs: the opportunity had not arisen to stress this point during the Select Committee's hearing the previous day, and it was doubtful if the public yet appreciated it. Untreated milk was another example of so-called natural methods presenting a health risk: the Minister of Agriculture, Fisheries and Food had announced on the previous Friday that he was embarking on the necessary statutory consultation with

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a view to prohibiting the sale of untreated milk from the earliest possible date.

d. Irradiation was another field in which the natural food lobby had been impeding progress in food safety. This technique could be helpful in food hygiene, and it had now been established that its proper use did not present any human health hazard.

It would be announced that afternoon that, in accordance with advice from the Food Advisory Committee, the Minister of Agriculture, Fisheries and Food was embarking on the necessary statutory consultation with a view to ending the use of mineral hydrocarbons in food production as soon as possible.

THE PRIME MINISTER, summing up the discussion, said that public awareness of food safety was now at a high level, and there were several forthcoming issues which were potentially very sensitive. It was essential that the public should be given full and authoritative information and advice before irresponsible sections of the media and various interest groups had the opportunity to exploit public concern. The Secretary of State for Health, the Minister of Agriculture, Fisheries and Food and other Ministers concerned should therefore keep in very close touch about the specific issues that could be expected to come to public attention and the effective presentation of the true facts and of the steps that the Government was taking about these matters.

The Cabinet -

1. Endorsed the Prime Minister's summing up of the discussion and invited the Ministers concerned to be guided accordingly.

Industrial
Action at
Wandsworth
Prison

Previous
Reference:
CC(89) 4.2

THE PRIME MINISTER said that members of the Prison Officers' Association (POA) at Wandsworth Prison who had been taking industrial action in protest against the new shift system which the Government had introduced under the Fresh Start working arrangements had voted on the previous Tuesday to return to work. This followed an agreement that there would be a maximum period of 10 days for discussions between the local POA branch and the Wandsworth prison management about the implementation of the new working arrangements, at the end of which both parties intended that those arrangements would be in place. The prison service management had made no concessions either on the principle that staffing levels and inmate numbers were not negotiable or on any of the other central issues, including an increase in the prison roll up to the operating capacity of 1555. The outcome was highly satisfactory.

Eleventh
North Sea
Off-shore
Licensing
Round

THE SECRETARY OF STATE FOR ENERGY said that the period for submitting bids under the eleventh North Sea off-shore licensing round had closed the previous day. The outcome had been highly satisfactory with 125 applications having been received, the highest number since the seventh round.

Increased
Water Charges
Proposed by
Private
Statutory
Water
Companies

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the private statutory water companies (SWCs) had announced on the previous Sunday that they intended to increase water charges by up to 30-50 per cent. He was calling in the chairmen of companies which were planning increases of more than 10 per cent to make clear to them that there was no justification for increases of the order which had been proposed. The Opposition's allegation that such price increases were the inevitable result of the Government's privatisation proposals was without foundation. The SWCs were claiming that the proposed increases were needed to finance the capital expenditure which would be required to improve drinking water standards and sewage treatment, and to cover their costs of converting to public limited companies (PLCs) and of defending themselves against hostile takeover bids. However, their proper course was to await their conversion to PLCs and then to raise the necessary funding from the equity market. Under the law as it stood, the Government was empowered to exercise controls over SWCs' dividend payments and assignment of funds to reserves, and he would be prepared to appoint accountants to investigate the SWCs' proposals. The Water Bill would replace the existing powers with more effective controls which would operate directly on water charges. Once the Bill had come into force, the Director-General of Water Services would be empowered not only to approve proposed increases but also, if necessary, to order reductions in existing charges. It appeared that the planned increases by the SWCs were intended to further the campaign to retain the existing system of controls, but in fact they served to demonstrate the need for the more rigorous system of controls proposed in the Bill. In a separate development there had been an unhelpful intervention by Mr Ripa, the European Commissioner for the Environment, who had claimed that clause 19 of the Water Bill was inconsistent with the European Community directive on water in that it permitted water companies to phase in the improvements in water standards required under the directive. However, he was satisfied that it would be entirely reasonable for the Government to take a limited derogation under the directive in order to allow water companies to be free of the threat of enforcement action while they achieved the required standards within a period of 2-3 years.

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In discussion, the following main points were made:

a. The existing system of controls on dividends was attractive to SWCs because it facilitated the raising of long-term loans from the banks. The new controls on water charges proposed in the Bill would oblige them to adjust their arrangements for raising capital.

b. The Government had put in accountants about ten years previously to investigate the case for proposed increases in water charges of some 20 per cent, which had been significantly reduced as a result.

THE PRIME MINISTER, summing up the discussion, said that price increases in the order which had been announced by the SWCs would be totally unwarranted. Every effort should be made to ensure that the proposed increases were moderated and to reassure the public that there was nothing in the Government's proposals to privatise the water industry which would justify increases of the magnitude which had been proposed.

The Cabinet -

2. Took note.

FOREIGN
AFFAIRS

Afghanistan

Previous
Reference:
CC(89) 4.3

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the withdrawal of Soviet forces from Afghanistan was going according to plan and should be complete by the 15 February deadline. Various resistance groups were being pressed to co-ordinate so as to permit the formation of an alternative government to the Kabul regime. The Soviet Union, Saudi Arabia, Iran and Pakistan were each trying to influence different factions within the resistance movement. A "Shoura" or council of all the resistance elements was to be convened in Pakistan on 10 February. It was not clear whether an alternative government would emerge from this and if so whether it could command real support in Afghanistan or would be able to deal effectively with the Soviet-backed regime of Mr Najibullah. The Mujahideen resistance leaders took the view that the present regime would crumble anyway and that therefore no deal should be struck. In that event how the resistance would deal with the present regime's military forces remained to be seen. The current resistance strategy was to lay siege to cities held by the regime. This had already given rise to anxiety, highlighted in the media, about the suffering likely to be caused to innocent civilians. In these circumstances it was important that the Government's aid programme for Afghanistan be seen to be aimed precisely at humanitarian help for those suffering and not for the Soviet-backed regime. The Minister for Overseas Development had skilfully answered a Private Notice Question about this in the House of Commons on 8 February, thus contributing to an understanding of the Government's policy. This year the Government had doubled its aid programme to £10 million, and this week there had been a timely announcement of a further £½ million contribution to the international programme for women and children in Kabul.

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Gibraltar
Previous
Reference:
CC(89) 4.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had had a further meeting with the Spanish Foreign Minister, Senor Fernandez Ordonez, on 9 February, as part of the so-called Brussels process, about Gibraltar and related issues. These talks had gone smoothly. The Spanish side had raised sovereignty in a ritual fashion and he had made it clear again that sovereignty could not change against the wishes of the Gibraltarians. The Spanish side had also pressed for movement on the airport agreement and he had reiterated the British wish for progress on this. He in turn had pressed the Spanish side for improvements at the frontier between Gibraltar and Spain including the withdrawal of the ceremonial guard and the reduction of delays. The Spanish had floated the removal of the frontier fence which was already falling into disrepair. It was clear that the absence from the talks of the Gibraltar Chief Minister, Mr Joseph Bossano, had been a negative factor and he had sent a message urging Mr Bossano to attend the next round. Apart from Gibraltar there were no other problems in Anglo-Spanish relations.

United States
Secretary
for Defense-
Designate

THE SECRETARY OF STATE FOR DEFENCE said that the predicament of President Bush's nominee for the post of United States Defense Secretary, Mr John Tower, in the current confirmation hearings in the United States Senate was giving rise to real concern on the part of a number of Defence Ministers of other member countries of the North Atlantic Treaty Organisation. If, as it appeared, the United States Senate did not sit the following week, it could be at least another ten days before a conclusion was reached.

Meeting of
the Group of
Seven

THE CHANCELLOR OF THE EXCHEQUER said that there had been a meeting of the Group of Seven (G7) in Washington on 9-10 February. Neither of the two newcomers to the Group, the United States Treasury Secretary Brady and the Japanese Finance Minister Murayama, had made a particularly good initial impression. He had not himself seen great merit in a meeting at the present time. He had strongly urged that, if one was held, it should be made clear in advance that there should be no communiqué after it. He had taken this view because the prospect of publication of a communiqué, which had become a regular practice since 1985, had the effect of building up market expectations. Markets were left in turmoil if expectations raised were not then realised. His proposal had been agreed and the absence of a communiqué on this occasion represented a useful precedent.

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Continuing, THE CHANCELLOR OF THE EXCHEQUER said that the present performance of the world economy was in general not unsatisfactory. However there had been some resurgence of inflationary pressures for the first time during the 1980s. The meeting had accepted that priority had to be given to arresting such pressures through tightening of monetary policy and acceptance of higher interest rates. The meeting had also noted that trade imbalances in the United States, Germany and Japan would take longer to correct than had earlier been envisaged. These deficits were thought to be manageable provided that the countries in question followed appropriate economic policies. In the case of the United States the problem of the budget deficit remained a major issue. President Bush was attending a joint meeting of Congress that day at which he would be presenting proposals for containing the deficit within \$100 billion as required by the Gramm-Rudman legislation. This figure compared with a deficit of \$160 billion in the present year. The apparent extent of the proposed reduction was, however, to some extent illusory. Firstly a 10 per cent margin was permitted, which implied the possibility of a deficit of \$110 billion. The Gramm-Rudman provisions also only applied to the budget as presented, not its outcome. The proposals had been based on optimistic growth forecasts and also assumed a moderate level of interest rates, an assumption not wholly consistent with the views taken in the G7. Finally the provisions did not bear on expenditure reflecting decisions taken in the course of the year. Negotiations would now proceed. If they did not prove successful a sequester process would follow. For the reasons he had outlined it was not to be expected that the reduction in the United States budget deficit would be as much as \$60 billion. The deficit would however be reduced and the movement was in the right direction. It was less clear that this pattern could be maintained in following years.

THE CHANCELLOR OF THE EXCHEQUER went on to say that the second main area for discussion at the G7 meeting had been the debt strategy. A number of new proposals in this area were currently being canvassed. Those put forward by the French authorities, which President Mitterrand might well wish to bring forward at the July Economic Summit, were particularly unsatisfactory. Some evolution of the existing strategy would however be necessary and it was to be hoped that a measure of agreement could be reached upon it at the Spring meeting of the Interim Committee of the International Monetary Fund. A major issue was the need to ward off pressures for a shift of responsibility for the debt problem from the commercial banks to the public sector. The commercial banks had now effectively stopped new lending although they were still financing interest payments by debtor countries. For their part the debtor countries appeared in some cases to have lost the will to make appropriate policy adjustments. The increase in public sector involvement in part reflected International Monetary Fund and International Bank for Research and Development programmes. But to a much greater extent it derived from the activities of Export Credit Agencies whose exposure was getting steadily greater. In the case of the United Kingdom's Export Credit Guarantee Department, exposure in relation to countries involved in debt rescheduling arrangements alone amounted to some £10½ billion. There was a major requirement therefore

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to reduce the overall level of indebtedness and to find ways, collectively and within individual countries, to control the growth of exposure by Export Credit Agencies.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

Imports of
hormone
treated
meats

Previous
reference:
C(89) 3.4

4. THE FOREIGN AND COMMONWEALTH SECRETARY said that the issue of imports of hormone treated meat had been discussed on the previous day in the Council of the General Agreement on Tariffs and Trade. The prospects of a resolution of this dispute at present looked somewhat more hopeful with indications that the United States might be looking for a way out through negotiation and not retaliatory measures. He would be discussing the question with the United States Secretary of State, Mr Baker, on 12 February.

ex on
savings

THE CHANCELLOR OF THE EXCHEQUER said that proposals had now been tabled by the Commission for a 15 per cent withholding tax on interest paid by European Community (EC) residents to residents of other EC countries. The danger of such proposals was not only of damage to individual financial markets within the Community but that capital would leave Europe altogether.

In a short discussion it was recalled that the proposals derived from anxieties felt by France and some other member countries about the effects of implementation of the final stages of capital liberalisation. The United Kingdom had, however, already abolished exchange controls without there being a tax on savings and should make clear that it would have nothing to do with such a tax. It was for the countries themselves to find solutions to their concerns. The Community should aim to increase freedom, not to increase regulation.

The Cabinet -

Took note.

Cabinet Office

9 February 1989

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