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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on

THURSDAY 2 MARCH 1989

at 10.00 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 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 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

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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1. The Cabinet were informed of the business to be taken in the House of Commons in the following week and that, subject to the progress of business, the House would rise for the Easter Adjournment on Thursday 23 March until Tuesday 4 April.

Water Bill

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that Committee Stage in the House of Commons of the Water Bill was due to be completed on the following Tuesday. While this had gone very successfully, with no amendments being carried against the Government, the public's attitude towards the Bill had been coloured by a series of alarmist stories, about the implications of privatisation. In fact, the Government had an excellent case to make and it would be very helpful if colleagues could take the opportunity in their speeches over the next few weeks to draw attention to the benefits of water privatisation. Among the main points to make were that the Water Bill was the largest ever environmental protection measure and that one of the main improvements which the Bill would bring about would be the separation of the roles of regulator and provider. Water companies would be required to meet costs of around £3 billion by the end of the century as a result of various environmental improvements which were required under European Community law, and this would inevitably drive up water charges. The Opposition had been seeking to make capital out of this by claiming that any increased water charges would be directly attributable to privatisation. This line of argument was fallacious, however, since the costs of the environmental protection measures would need to be met regardless of whether the water industry was privatised, and privatisation would in fact have the effect of making water slightly cheaper for the consumer than would have been the case under existing arrangements.

In discussion, the following main points were made:

a. While the Water Bill had been handled very skilfully in Parliament, the general public continued to be sceptical about water privatisation. In describing the benefits which the Water Bill would bring about, it would be necessary also to make out the case for privatisation itself. Among the points to make in that context were that private sector water companies would be much better placed to obtain capital finance; that, while it was true that such companies would be monopoly suppliers within their own areas, the need to compete for capital in the market would provide a powerful incentive towards achieving good management; and that allowing employees to hold shares in the companies for which they worked would improve their motivation. It would also be important to remind the public that around 25 per cent of the population was already served by water companies which were in the private sector: the privatisation of the public sector water utilities therefore did not raise any new issues of principle. It was relevant that in France, under a socialist government, water remained under private control.

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b. Opponents of the Water Bill had sought to argue that alleged deficiencies in existing water and sewerage standards demonstrated the risks of moving public sector water utilities into the private sector. This line of argument ought to be stood on its head, however, since any such deficiencies served to show that the existing arrangements were not working properly and needed to be improved.

c. The Secretary of State for the Environment had examined the proposals by the private statutory water companies (SWCs) to increase water charges by up to 30-70 per cent, and as a result the present indications were that a number of SWCs would significantly moderate their proposed increases. The SWCs had professed themselves to be appalled by the link which had been drawn in some quarters between their proposals for very high increases in charges and the Government's plans to privatise the water industry, but the fact remained that the SWCs' behaviour had been most unhelpful. Under the law as it stood, SWCs were not allowed to build up reserves and this had led them to neglect essential maintenance work. The Water Bill would introduce a far more appropriate regulatory regime for these companies.

d. The set of leaflets entitled the Environment in Trust, which had been issued the previous day, brought out clearly that, contrary to the impression which some people had sought to convey, the United Kingdom's record over a wide range of environmental matters compared very favourably with that of other European countries. The conference on the protection of the ozone layer which was being held in London in the following week and which was due to be attended by 650 representatives, including 80 Ministers, from 115 countries, would further underline the United Kingdom's concern for environmental issues.

THE PRIME MINISTER, summing up the discussion, said that it was important that the Government should make every effort over the following few weeks to seek to dispel doubts among the general public about the benefits of water privatisation. The Secretary of State for the Environment should circulate concise briefing material for both Ministers and Government backbenchers which set out the key arguments in favour of the measures contained in the Water Bill, taking account of the points made in discussion. The series of leaflets on the Environment in Trust which had been issued the previous day were a model of their kind.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of the discussion and invited the Secretary of State for the Environment to be guided accordingly.

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THE SECRETARY OF STATE FOR TRANSPORT said that the European Commission had put forward proposals to impose a time limit on the United Kingdom and Republic of Ireland derogations from certain European Community (EC) requirements on the allowable weights and dimensions of heavy lorries. The United Kingdom position had consistently been that many of its bridges were not strong enough to carry vehicles of the weight sought by the Commission. The following Wednesday's debate in the House of Commons was on a motion to take note of the relevant EC document and to support the Government's intention to ensure that a premature end date to the derogation was not imposed on the United Kingdom. This was designed to strengthen the Government's hand at the meeting of the EC Transport Council on 14 March, when the allowable weights on smaller lorries would come under particular attention. There were problems about the United Kingdom's room for manoeuvre in the longer terms, and the Government's position would come under greater pressure in the Community during the second half of the year. The Government's negotiating position was constrained by certain considerations of Community law and he was in consultation with the Law Officers about this.

European
Community
Legislation
Lorry Weights

Progress of
Business in
the House
of Lords

THE LORD PRIVY SEAL said that the three Bills in the present session that bore on security matters had now come up to the Lords from the House of Commons. In the previous week the Security Service Bill had had a very satisfactory Second Reading debate under the Lord Chancellor's oversight, and the Prevention of Terrorism (Temporary Provisions) Bill had completed its Committee Stage. The Opposition's attempt to delete the provisions on exclusion orders from the latter Bill had been easily repelled, with all the cross-bench votes save one being for the Government. The Second Reading of the Official Secrets Bill would take place on the following Thursday, and every effort was being made to marshal a weighty body of experienced and respected peers to speak in favour of the Bill.

Select
Committee
Report on
Gurkhas

THE SECRETARY OF STATE FOR DEFENCE said that the report on Gurkhas by the Select Committee on Defence would be published that day. Whilst the substance of the report was not far distant from the Government's own thinking, the Select Committee also criticised his Department's officials for not being more forthcoming in their evidence. This criticism was totally unjustified, since the information sought by the Select Committee, and denied to them, related to the nature of the advice that officials had offered to Ministers. There were well understood reasons why the Government refused to divulge information of that kind, and he proposed to hold firmly to the accepted line on these matters. His immediate response to the Select Committee report would not only give the usual undertaking that the Government would study it carefully, but would also stress that it raised wider issues about relations with Select Committees.

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THE PRIME MINISTER said that it was essential that Select Committees' attempts to obtain access to advice offered to Ministers should continue to be resisted.

The Cabinet -

2. Took note.

HOME AFFAIRS

Hammersmith
and Fulham
Council:
Allegations
of Financial
Speculation

2. THE SECRETARY OF STATE FOR THE ENVIRONMENT said that Hammersmith and Fulham Council had the previous week asked him to indemnify councillors and officials against potential court action over various payments relating to the Council's elaborate dealing on the money markets. This approach, which had been stimulated by warnings of possible illegality given to the Council by their auditors, was the first that he had known of the matter, though it now appeared that the auditors had first warned the Council as long ago as the previous July. The Council had apparently been indulging in speculation on the future course of interest rates and had already become too deeply involved for an easy withdrawal when they were first warned by the auditors. The legality of these speculative transactions, which went far beyond anything that might have been justified by reference to the structure of the Council's own debt, was plainly in question, and he had announced that week that he was not prepared to indemnify councillors and officials in the way that had been requested. Even if he had granted the indemnities he could not have legalised the actions of the Council if the payments were, in fact, illegal; and he therefore could not have prevented any other action which might be taken against the Council. Indemnifying the Councillors and officials would not only have been open to just criticism as a whitewash, but would have pre-empted by administrative action a judgment that should be taken by the courts. The ratepayers had a great interest in the outcome of the matter, since the possible shortfall had been estimated to be as high as £60 million. It was unlikely that many local authorities had been speculating in the same way as Hammersmith and Fulham, though he understood that similar transactions had been undertaken by Oaker Council. Whilst the behaviour of the Hammersmith and Fulham Council seemed to be so extraordinarily reckless as to constitute a scandal of monumental proportions, it was most important that the Government should stand back from the matter at the present stage and allow it to be dealt with under the normal audit arrangements and legal processes, and Ministers should be very careful in any public comment not to go beyond the terms of his own public statement. The next step, which was expected in the following week or two, would be for the auditor to take the Council to court.

The Cabinet -

Took note.

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3. THE FOREIGN AND COMMONWEALTH SECRETARY said that all the British Embassy staff had left Tehran safely and the Iranian Chargé d'Affaires here had returned to Tehran on 28 February. Sweden would be the protecting power in Tehran for British interests. The Iranian Parliament had voted on 28 February to break relations with the United Kingdom the following week if the Government did not meet certain conditions. In practice this made no great difference to the de facto state of affairs since Britain's relationship with Iran was already suspended. The Soviet Foreign Minister, Mr Eduard Shevardnadze, had made a visit to Iran: it seemed on balance unlikely that Mr Shevardnadze had raised the Salman Rushdie affair with the Iranians in the terms that he himself had asked him to do. Meanwhile efforts continued to sustain the United Western stance in the face of Iranian threats. Although France, Germany and the United States were being very supportive, this degree of solidarity would not last indefinitely. The Government were also seeking support from Muslim leaders in other countries. He himself has spoken to the Indian and Pakistan Foreign Ministers recently who had both responded sympathetically, no doubt partly with their own respective domestic situations in mind. Other Islamic countries were also playing a sensible and restraining role even if it was too much to hope for declarations of support for Britain's stance. He was hopeful that with appropriate advance lobbying the meeting of the Organisation of Islamic Conferences on 13-14 March would strike a moderate note.

Continuing, THE FOREIGN AND COMMONWEALTH SECRETARY said the Government had no alternative but to maintain its present insistence on the principle of free speech, while reaffirming respect for the beliefs of others, together with the wish for normal relations with Iran. The Home Secretary and the Secretary of State for Education and Science had recently made helpful statements along these lines to domestic audiences. As for the direct threat to lives and property, British diplomatic posts abroad had been put on alert, and the responsible authorities had been asked to ensure protection for British civil aviation around the world. The bomb attack against the British Council in Karachi on 26 February appeared to have been the work of the Iranian Revolutionary Guards: responsibility for other recent attacks was unclear. Mr Rushdie himself was continuing to receive a high degree of protection. There was also a threat to public buildings. He had asked officials to make an appraisal of what further action might be necessary if the crisis worsened and would circulate recommendations to colleagues very soon.

THE HOME SECRETARY said that leaders of Muslim opinion in the United Kingdom, while continuing to contain their demonstrations within the law, felt frustrated by their lack of ability to affect the situation. They were asking for a change in the law on blasphemy so that it extended to Islam. In his view it would be a mistake for the Government to reopen this question. There had been no Crown prosecution under the law of blasphemy since 1922 and the last private prosecution had been in 1977. The majority of the Law Commissioners had favoured abolition of the offence. There remained a possibility that someone would try to bring a private prosecution under the existing law arguing that its

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provisions could be held already to apply to Islam, but he was advised that any such action was likely to fail in the courts at an early stage. There was little alternative but to listen patiently to explanations from Muslim communities in Britain as to why they were so offended by Mr Rushdie's book, while urging them to remain within the law.

In a brief discussion it was pointed out that despite the widespread conclusion that the Soviet Union under the leadership of President Gorbachev favoured freedom of expression, the Russians had in fact refused to align themselves publicly with the West in standing up for the principle of free speech and opposing death threats, and had lost no time in sending the Soviet Foreign Minister to Tehran for talks with Ayatollah Khomeini. The debate about whether to change the law of blasphemy would no doubt continue. But it was noteworthy that in the case of a recent film which many Christians had found offensive, the churches had not argued for prosecution under the law of blasphemy, but had simply advised people not to go to see the film. There was also a danger, if the public argument continued at the present pitch, of a backlash from extremist non-Muslim opinion in the United Kingdom. Those who had been sufficiently attracted to come and live here by the degree of freedom in this country had to accept the implications of freedom.

Venezuela

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had had a discussion with Mr Tejera, the Foreign Minister of the new Venezuelan Government, when they had met at the funeral in Tokyo of Emperor Hirohito of Japan. The introduction of economic measures in Venezuela had since led to serious rioting there and the declaration of a state of emergency. The situation now seemed to be under control although United Kingdom citizens were being advised not to travel there for the time being. These events showed how difficult it was in Latin America to introduce sound economic policies.

Funeral of
Emperor
Hirohito of
Japan

THE FOREIGN AND COMMONWEALTH SECRETARY said that the funeral of Emperor Hirohito of Japan the preceding week had been a massive and impressive occasion. It was probably the largest turn-out of world leaders since the funeral of Queen Victoria. Considering the domestic sensitivity of the issue in the United Kingdom, British high level attendance had proved relatively uncontroversial. This had been helped by the presence of the United States President, Mr George Bush. His Royal Highness the Duke of Edinburgh had judged his participation well and had also visited the British Commonwealth War Graves cemetery at Yokohama. It had thus been possible to comply with the required courtesies to the dead Emperor and to emphasise the transition of the old Japan to the new. He himself had had useful meetings with the Japanese Prime Minister, Mr Noboru Takeshita, and the Japanese Foreign Minister, Mr Sosuke Uno. The long

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funeral ceremony had been an affair of antique, mystic and medieval elements, contrasting strangely with the morning coats and umbrellas of today's Japanese Royal Family.

Anglo-French
Summit,
27 February

THE FOREIGN AND COMMONWEALTH SECRETARY said that there had been a good atmosphere at the Anglo-French Summit on 27 February although little substantive progress had been achieved. France was reasonably close to the United Kingdom on the question of modernisation of short range nuclear forces but its position contained ambiguities and even contradictions.

THE SECRETARY OF STATE FOR DEFENCE said that he had since spent two days with the French Defence Minister, Monsieur Pierre Chévènement during which the French side had been more forthcoming than in the past. The French Government apparently still believed that they could offer an air-to-surface stand-off missile as a replacement for Britain's free fall nuclear bombs which would meet British specifications. He had said that he would be ready to consider the details of any such proposal but he remained sceptical about whether these would really measure up to British needs.

In discussion, the following points were made:

a. Despite President Mitterrand's assurances at Mont St Michel that the problem over the export to France of cars manufactured by Nissan UK Limited (NMUK) would be resolved, it had emerged that the United Kingdom built Nissans were being counted against France's overall quota for Nissan imports. The President seemed now disposed to leave this issue to Prime Minister Rocard. In his correspondence with the Foreign Secretary Monsieur Rocard had adopted deliberately ambiguous language. It was important to maintain the United Kingdom's position not least given its relationship to possible future Japanese investment in this country. The point had already been made that the effect of the French action could be to drive Japanese investment to Sweden since local content of 60 per cent was sufficient to permit duty free import into the Community of cars produced in European Free Trade Association countries. More generally it was noted that in recent discussions in Tokyo it had become clear that the Italian authorities would raise less objection to NMUK exports if they were given an assurance that more Japanese investment would go to Italy. The French authorities might have a similar calculation in mind. There was no doubt that Japan had a preference for investment in the United Kingdom on language and other grounds. There was increasing evidence of resentment in other member countries of the Community of this position and a readiness accordingly to seek to isolate the United Kingdom. It seemed unlikely that the French Government would change their stance unless other pressure were mobilised. A reference to the European Court of Justice should not be ruled out.

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b. There was a good deal of disquiet among French leaders about whether it would prove possible for the Federal German Chancellor to win his 1990 elections and stay in office against the background of the results in recent elections in Berlin. Chancellor Kohl's own position on the issue of modernisation vacillated and currently seemed to lean more in the direction of his Foreign Minister, Herr Genscher. There were signs too that the new United States Administration did not wish to force the pace. On the other hand, it was quite wrong to allow opposition parties such as the German Social Democrats to set the agenda of the public debate. A failure of the North Atlantic Treaty Organisation to take a timely decision on modernisation would be seen as a sign of weakness.

THE PRIME MINISTER, summing up the discussion, said that the Secretary of State for Trade and Industry should pursue urgently with the European Commission and through the European Court, if necessary, the current French attitude over the admission to France of Nissan cars built in Britain.

The Cabinet -

Took note, and invited the Secretary of State for Trade and Industry to proceed as indicated in the Prime Minister's summing up of their discussion.

COMMUNITY
AFFAIRS

Speech by
Sir John
Hoskyns

4. THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that the speech by Sir John Hoskyns, the Director General of the Institute of Directors, at the Institute's Annual Conference on 28 February had been ill judged, overstated and in a large number of respects misconceived. It had been the more surprising given the Director General's membership of the Steering Group on the 1992 programme since 1987, and attendance at most of its meetings, when he had given no indication of the views he had now expressed. The explanation for this unacceptable performance appeared to be a wish to gain publicity for his final address as Director General.

The Cabinet -

Took note.

Cabinet Office

2 March 1989

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