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Conclusions

CABINET

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

THURSDAY 16 MARCH 1989
at 9.30 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 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 Major 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 T J Wilson
Mr R G Lavelle (Items 3 and 4)
Mr W Reeves (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 and in the first week after the Easter Adjournment.

The Budget

THE PRIME MINISTER said that the Cabinet would wish to congratulate the Chancellor of the Exchequer on the success of his Budget Statement, which had been very well received.

Previous
Reference:
CC(89) 10

The Cabinet -

Warmly endorsed the Prime Minister's comments and congratulated the Chancellor of the Exchequer on the success of his Budget Statement.

Green Papers
on the Legal
Profession

THE LORD PRIVY SEAL said that there would be a debate in the House of Lords on Friday 7 April on the Lord Chancellor's Green Papers on the legal profession. Legal interests were well represented in the House of Lords and those who were opposed to the proposals in the Green Papers would no doubt seize the opportunity to register their objections. However, every effort was being made to ensure a good range of speeches in favour of the proposals, which enjoyed particular support among consumer interests and magistrates.

Previous
Reference:
CC(89) 2.4

THE PRIME MINISTER said that it would be most important to ensure that those who supported the Government's proposals, including certain members of the legal professions, should play a full part in the debate.

Football
spectators
Bill

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he wished to congratulate the Lord Privy Seal and the Captain of the Gentlemen-at-Arms on their successful handling of the Committee Stage in the House of Lords of the Football Spectators Bill.

The Cabinet -

2. Took note.

HOME AFFAIRS

2. THE HOME SECRETARY said that a Home Office statistical bulletin would be published that day on notifiable offences recorded by the police in England and Wales in 1988. This would show that 5 per cent fewer crimes had been recorded in 1988 than in 1987, which was the

Crime
Statistics

largest year-on-year decrease since the mid 1950s. The decrease had been evident over most of the country, with particularly large falls in a number of provincial cities. The decrease was, however, concentrated in property crime, and crimes of violence had continued to rise in 1988. It had also to be acknowledged that all the figures of recorded crime were still far too high. Nevertheless, even after making allowance for the caution with which a single year's figures must be approached, the 1988 figures were markedly better news on the crime front than the country had been used to hearing for some considerable time. The Labour Party, and certain academics, would no doubt try to pick holes in the figures. In particular, they might argue that crime prevention schemes such as Neighbourhood Watch, which had their main impact on property crime, merely had the effect of steering criminal activity elsewhere. But these were the very critics who had been accustomed to assert that the Government was responsible for the rise in crime through most of the 1980s, and they could not now have the argument both ways.

Teachers' Pay in Scotland

THE SECRETARY OF STATE FOR SCOTLAND said that a settlement for teachers' pay in Scotland had been reached in the Scottish Joint Negotiating Committee. The overall cost of the settlement worked out at about 6.5 per cent, which was broadly in line with the figure for England and Wales. A main factor in the settlement had been the recognition by Scottish local authorities that funding could no longer be obtained by increasing non-domestic rates, and that any higher pay settlement for teachers would have had an intolerable effect on community charge levels in Scotland. This was a most satisfactory demonstration of the new disciplines applying to local government finance.

Unemployment Previous Reference: CC(89) 6.2

THE SECRETARY OF STATE FOR EMPLOYMENT said that the unemployment figures for February would be published that day. The seasonally adjusted total had fallen by 41,200 to 1.947 million. The rate of unemployment had fallen to 6.8 per cent, which was the first occasion since December 1980 that it had been below 7 per cent, and it was now falling faster than in any other industrialised country. The Labour Party manifesto at the previous General Election had said that a Labour Government would reduce unemployment by one million within two years of taking office, but under the present Government unemployment had already fallen by more than one million in the period of well below two years since the General Election campaign. The unadjusted total of unemployment had fallen by 56,000 to 2.018 million in the period since January. Unemployment had fallen in all regions, with the largest reductions in the unemployment rate having occurred in the West Midlands and Wales, followed by the South West, Yorkshire, Humberside and the North West. The Labour Force Survey which had been published earlier that week had confirmed the figures and trends in the unemployment rate which had been derived from the monthly Labour Market Statistics: this rebutted the claims by the Opposition that the reductions in unemployment had been largely a

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statistical artefact. The Labour Force Survey indicated that the number of people in employment in the United Kingdom had risen by 735,000 to 26.4 million in the 12 months to September 1988. This was around 1 million above the previous highest total in December 1979 and, even excluding people in training programmes, was around 1/2 million above that total. 86 per cent of the new jobs which had been created in the 12 months to September 1988 were full-time jobs. The rate of growth in employment over the previous two years had been higher than in any period since the second World War. Vacancies, of which there were 230,000 at job centres and an estimated 700,000 in the economy as a whole, were continuing to hold up well. The only cause for concern was that average earnings had risen from 8 3/4 per cent to 9 per cent. Overall, the position remained very healthy; and he would circulate briefing material to colleagues summarizing the main features.

In discussion, the following main points were made:

- a. The reduction in unemployment of 1 million since the General Election campaign had been a remarkable achievement. It was doubtful whether the general public fully appreciated what had been accomplished. Every effort should be made to bring out that the Government had surpassed the target which the Labour Party had set themselves at the general Election of a reduction in unemployment of 1 million within 7 years.
- b. The Labour Force Survey had revealed that the growth in employment in the year to September 1988 had been higher than had previously been expected and estimates of productivity growth had accordingly been revised downwards. Nevertheless, the rate of growth of productivity, which had never been higher, was better than in any other major European country and, so far as the manufacturing sector was concerned, was the highest in the world. Productivity in the economy as a whole was now only a little below that in France and in West Germany, although it remained well behind that in the United States.
- c. Although the latest increase of 1/4 per cent in the growth in average earnings was not of itself a matter of great concern, the rate of increase of average earnings had consistently been far too high: even before the current upsurge in the economy, the increase of average earnings was consistently above 7 per cent. Unit labour costs had risen by around 4 per cent in the United Kingdom during the previous year compared with an average increase of around 2 per cent in the rest of Europe. Profits had been increasing so fast that companies did not feel themselves under any real pressure to hold down wages even at a time when, following the reductions in income tax rates in the 1988 Budget, those on high earnings had enjoyed particularly large increases in net pay.
- d. The recent reductions in unemployment were in large part a reflection of the exceptionally rapid growth in the economy. The growth rate had now fallen, and this could be expected to affect the labour market later in the year. A further contributory factor
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to the reduction in unemployment was the success of the Government's policies in reducing the size of the black economy.

THE PRIME MINISTER, summing up the discussion, said that it was a cause for concern that the rate of growth of average earnings remained far too high. That aside, the position on unemployment and employment remained encouraging, and it was important to ensure that the public appreciated the extent of the Government's achievements. The main points to get across were that unemployment had fallen by more than 1 million since the General Election, which was a concrete achievement which surpassed the target in the Labour Party's manifesto, and that, while it was true that unemployment was approaching 1 million above the total which the Government had inherited when it had taken office in 1979, the number of people in employment had risen by about 1 million in the period since December 1979.

The Cabinet -

Took note

Air Crash at
Lockerbie

Previous
Reference:
CC(89) 1.1

THE PRIME MINISTER referred to a report in that morning's press that the Department of Transport had written to British airports and airlines on 19 December 1988 giving warning of the existence of an explosive device similar to that employed two days later to destroy the Pan American aircraft over Lockerbie.

THE SECRETARY OF STATE FOR TRANSPORT said that the press report was misleading in certain respects, and he would ensure that the Prime Minister was appropriately briefed.

FOREIGN
AFFAIRS

Anglo-
Iranian
Relations

Previous
Reference:
CC(89) 9.3

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that letters had been sent on 10 March to nine locally-engaged staff of the Iranian Embassy in London giving them a week to leave; nine further deportations were in hand. The Iranian press was still calling for trade sanctions against the United Kingdom, and there were signs that the Iranian Government might retaliate against locally-engaged Pakistanis at the British Embassy in Tehran. At the Ministerial meeting of the Organisation of the Islamic conference which was currently being held in Riyadh, only Libya had supported Iran's threats against Mr Salman Rushdie. The Japanese and New Zealand Governments had been persuaded to cancel high level visits to or from Iran. Ambassadors of European Community (EC) countries were unlikely to return to Tehran before next week at the earliest, but there would be pressure from some partners to send them back. It was important that the EC should continue to act together. A small encouraging sign was the Iranian Ministry of Foreign Affairs had asked Sweden to make a formal request for a consular visit to Mr Roger Cooper,

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the British citizen imprisoned in Iran, whose well-being was of particular concern.

Lebanon

Previous
Reference:
CC(88) 29.2

THE FOREIGN AND COMMONWEALTH SECRETARY said he would be seeing relatives of the British hostages in Lebanon in the course of the day. The security threat to Britons in Lebanon had been heightened by the Rushdie affair. Consular advice to leave or stay away from Lebanon had been strengthened, the staff of the British Embassy in Beirut had been reduced to an essential minimum and the office in West Beirut had been temporarily closed. The situation was under daily review, but it was desirable to keep the Embassy open for as long as possible since it was the United Kingdom's only remaining listening post in Lebanon through which information about the hostages might be gleaned.

Tibet

Previous
Reference:
CC(89) 9.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that martial law remained in force in Lhasa, and the Chinese authorities had now admitted to 16 deaths in the recent disturbances. Lhasa appeared to be quite but tense. The only two British residents remaining there had decided to stay. Following a British initiative in the European Political Committee the Spanish Presidency had proposed a demarche in Peking by the Troika.

Republic of
South Africa

Previous
Reference:
CC(89) 9.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that there now appeared to be open conflict between the President of South Africa, Mr P W Botha, and the National Party caucus, who wanted him to resign. There was however no constitutional machinery, short of impeachment, for forcing him out of office. President Botha had made it clear that he wished to continue in office into 1990. An election was due not later than March 1990, but in discussion the previous evening the South African Foreign Minister, Mr Pik Botha, had indicated that he thought the impasse might be resolved earlier than this.

In a brief discussion, it was suggested that President Botha's motives for clinging on to office were likely to be personal rather than political, and not entirely rational; he was believed to be bitter about receiving what he saw as insufficient credit for his past achievements. In fact the agreement over Namibia was a considerable achievement on the part of those responsible for it.

Visit by the
Secretary of

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he had just returned from a visit to Washington and New York, which had left him

State for
Trade and
Industry for
the United
States of
America

with two overriding impressions. The first was how little of the new Administration was yet in place; this was due in large measure to the length of the investigations of appointees which were undertaken by the Federal Bureau of Investigation. The second impression was of the widespread concern among Americans about Japanese economic penetration of their country. The fact that the United Kingdom's share of total inward investment in the United States dwarfed the Japanese share passed virtually unnoticed. These fears were being translated into legislation; for example, the Bryant Bill provided that overseas companies investing in the United States should be subject to much more onerous reporting requirements than American companies.

In a brief discussion it was noted that the large and permanent balance of payment surpluses of Japan and the Federal Republic of Germany were a factor of increasing significance. The possibility of effective action by the EC to protect European trade interests against Japan was frequently frustrated by the existence of bilateral agreements between individual European partners and Japan.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

Quota Hopping
by Spanish
Fishing
Vessels

4. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that an election commitment had been given to deal with the problem of Spanish-owned fishing vessels taking advantage of United Kingdom quota rules to fish in British waters. Action had been taken through regulations under the Merchant Shipping Act 1988 which obliged companies owning British registered fishing vessels to be at least 75 per cent owned by British nationals resident in the United Kingdom. Proceedings had been brought by the Spanish owners to challenge those provisions. The Divisional Court had granted an interim injunction the effect of which was to disapply the provisions of the Merchant Shipping Act. This decision raised important constitutional issues. An appeal had been lodged with the Court of Appeal seeking the revocation of the interim injunction. If this failed the case could well go to the House of Lords. It was likely that resolution of the substantive issue would be left to the European Court of Justice which might take 18 months or more. The problem had been exacerbated by the Commission decision to start infraction proceedings against the United Kingdom action under the Merchant Shipping Act, notwithstanding that the United Kingdom arrangements had been taken in support of agreements reached under the common fisheries policy and the existence of comparable arrangements in other member countries.

In discussion it was noted that some of the important constitutional issues involved had not hitherto been tested in the courts. A significant element in the present situation was the availability of

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access to the courts in this country to seek an interim injunction against the Crown, in particular when the substantive issue of Community law was in doubt. It seemed improbable that comparable remedies would readily be available in Spain or France. Section 2 of the European Communities Act 1972 provided for the supremacy of Community law, and section 2(4) provided for enactments, existing and future, to have effect subject to this requirement. However the extent to which a statute could in effect be rewritten by the courts so as to conform to Community law had never been clearly resolved. With the passage of time judicial attitudes changed, and it was perhaps unlikely that testing the issue in the context of this case in the European Court of Justice would lead to a satisfactory result. There had been cases where we had recognised the existence of a conflict between a domestic enactment and Community law but had as a deliberate political decision allowed the possible infraction to come before the European Court of Justice in order to buy time. The Irish Republic had adopted this approach in relation to the imposition of a 48 hour travel rule to discourage purchases at lower VAT rates in Northern Ireland on which an action was being taken against them in the European Court of Justice.

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In further discussion it was noted that the potential application of Community law was manifesting itself in other ways. For example Commission officials in the context of the Water Privatisation Bill had indicated what provisions would need to be taken to bring the Bill into conformity with Community law. More generally the issue had been underlined by the provisions for wider majority voting in the Single European Act. Action had had to be taken in the European Court of Justice in a number of areas, for example student support, to contain unwarranted extensions of Community competence. However it was also the case that it would often be in the United Kingdom interest that Community law was enforced against other member countries. In the present case one possibility would be to draw attention to the inequities of the situation by encouraging the registration of British fishing vessels in Denmark or Holland. Attempting to make United Kingdom law prevail over Community law would raise wider issues. The most effective remedies in the present case might well however not be legal ones but action at the political level to draw attention to the manifest inequities of the present situation and its inconsistency with the objectives of the common fisheries policy.

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THE PRIME MINISTER summing up the discussion said that subject to the outcome of the appeal lodged in the Court of Appeal, action would need to be considered along the lines indicated in discussion, including a further approach to the Commission to find solutions to the problem of quota hopping by Spanish vessels. The Foreign Secretary should arrange for an examination to be made of the assurances given to the House of Commons during the passage of the European Communities Act 1972 on the supremacy of Community law, with particular reference to possible conflict with future statutes.

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Transport
Council,
14 March

THE SECRETARY OF STATE FOR TRANSPORT said that at the meeting of the Transport Council on 14 March it had been possible to avoid an early decision on the United Kingdom derogation for two, three and four axle vehicles. A decision on this issue would however be necessary in June when discussion was likely also to involve the existing derogation on five and six axle lorries. Difficult negotiations were therefore in prospect.

Informal
Meeting of
Interior
Ministers,
10 March

THE HOME SECRETARY said that the informal meeting of Interior Ministers on 10 March had been concerned with frontier issues. The Spanish Presidency had adopted the approach taken by Lord Cockfield that the Single European Act provided for free movement of persons within the Community regardless of nationality and that the role of Interior Ministers was to devise compensatory measures to off set dangers from terrorists and illegal immigrants. The ensuing discussion had reflected a wide variation of views amongst member states. There might well also be differences between Foreign and Interior Ministers about the issues involved. While there were these cross currents of opinion within the Community the issues were likely to present difficulties for the United Kingdom in coming months. The subject would be pursued at a further meeting of Interior Ministers before the Madrid European Council.

In a brief discussion it was noted that the Commission's approach would raise major problems of immigration policy. The Home Secretary had already had a number of useful bilateral contacts on the approach to frontier questions with his opposite numbers in the Community. In the final analysis, the issue might be what view would be taken of frontier checks in the United Kingdom, whose international and internal frontiers were the same, by the European Court of Justice. A paper was in preparation which would examine the several issues involved.

Economic and
Finance
Council,
13 March

THE CHANCELLOR OF THE EXCHEQUER said that the main issue for discussion at the Economic and Finance Council on 13 March, which the Paymaster General had attended, had been Community action against fraud. The discussion had been largely based on a United Kingdom paper. While other member countries, with the exception of the Dutch, did not demonstrate great enthusiasm for this subject, the Commission had now accepted that it needed to be tackled effectively. A declaration produced by the Commission, focussing particularly on work to improve control of export restitutions and the operation and control of

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intervention, was reasonably satisfactory. A further meeting of experts was being arranged and a review of progress was to be made at the June meeting of the Economic and Finance Council.

The Cabinet -

Took note.

Cabinet Office

16 March 1989

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