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CABINET

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

THURSDAY 18 MAY 1989

at 11.00 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 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 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

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 P J C Mawer (Items 1 and 2)
Mr S S Mundy (Items 1 and 2)

C O N T E N T S

Subject	Page
PARLIAMENTARY AFFAIRS	1
Business in the House of Lords	1
Football Spectators Bill	2
HOME AFFAIRS	
Unemployment	2
National Health Service Reforms	3
Community Charge	4
Abolition of the Dock Labour Scheme	4
Industrial Action in the Transport Sector	5
University Lecturers' Pay	5
Monopolies and Mergers Commission Report on the Supply of Beer	6
FOREIGN AFFAIRS	6
China	6
Argentina	6
Panama	7
Lebanon	7
COMMUNITY AFFAIRS	
Community Competence	

PARLIAMENTARY
AFFAIRS

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

Business in
the House of
Lords

THE LORD PRIVY SEAL said that amendments had been carried against the advice of the Government at the Committee Stages of both the Water Bill and the Electricity Bill in the House of Lords earlier that week. The amendment to the Electricity Bill sought to require the Secretary of State to oblige each of the public electricity suppliers to provide evidence that they had promoted the efficient use of electricity and empowered the Secretary of State to refuse or to amend any application for tariff increases or for major capital projects. The first part of the amendment did no more than replicate a provision in the draft public electricity supply licence, but the second part would destroy an essential principle of the Bill that the Director General of Electricity Supply, rather than the Secretary of State, would be responsible for approving increases in electricity charges. The amendment to the Water Bill on which the Government had been defeated sought to provide that, after a date specified by the Secretary of State which had either been agreed with the European Commission or was no later than 1 September 1993, customers would be entitled to a payment whenever the European Community drinking water directive was contravened. While the Government was committed to complying with the directive, the amendment set a totally unrealistic timetable. Both defeats had been unexpected because it had appeared that the Opposition would not seek to contest either of the amendments. The Opposition had until that week secured no significant changes to either Bill, and it was now clear that this had led them to mount what was effectively a Parliamentary ambush. The amendment to the Electricity Bill was broadly in line with a recommendation of a Lords Select Committee, which was a factor which always carried considerable weight in that House. He would be content for Government spokesmen to make clear that both amendments were unworkable, but it would be helpful to the further handling of the Bills in the House of Lords to avoid any explicit reference to an intention to reverse the amendments.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that it would be absurd to put into statute what amounted to a deadline for the completion of the extremely expensive programmes of work which would be required to meet the drinking water directive. While some of the directive's provisions would be implemented before 1993, some could not reasonably be implemented until well after then: a requirement for the whole of the directive to be completed by 1993 would be bound to lead to very high increases in water charges. His Department had earlier that week received a letter from the European Commissioner confirming that the Bill's provisions and the Government's stated intentions as to their application would together satisfy the Commission, and that letter would be of great assistance in preparing for privatisation.

THE PRIME MINISTER, summing up the discussion, said that the Secretary of State for the Environment and the Secretary of

State for Energy, in consultation with the Lord President of the Council and the Lord Privy Seal, should arrange for amendments to be prepared to overturn the substance of the amendments passed in the House of Lords.

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 and the Secretary of State for Energy to proceed accordingly.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that, following consultation with the Lord Privy Seal, he proposed to make an announcement in the following week that the Government would be proceeding with the Third Reading of the Football Spectators Bill in the House of Lords in the week beginning 12 June. This would have the advantage that the widespread violence and disorder by football supporters over the previous weekend would still be fresh in the memories of Members in both Houses. The previous weekend's disturbances had clearly had the effect of strengthening the support for the Bill among Government backbenchers.

The Cabinet -

2. Took note.

2. THE SECRETARY OF STATE FOR EMPLOYMENT said that the unemployment figures for April would be published that day. There had been a further steep reduction in unemployment, with the seasonally adjusted total having fallen by 60,000 to 1.856 million and the unadjusted total having fallen by 77,000 to 1.884 million. The rate of unemployment had fallen to 6.5 per cent, which was the lowest rate since November 1980. It was of interest, especially in the context of the current debate on the Social Dimension of the Single European Market, that the rate of unemployment in the United Kingdom was 2.5 percentage points below the European Community average, and in particular below the rates in Spain, France, Italy, Belgium, Ireland, Greece and the Netherlands. The number of people in work was at its highest ever level. The unemployment rate had continued to fall in all regions, with the largest reductions over the previous year having occurred in the West Midlands and Wales, followed by Yorkshire and Humberside, the North and North West. Long term unemployment was falling more quickly than unemployment generally. Vacancies, of which there were 220,000 at job centres, were continuing to hold up well. A cause for concern was that the increase in average earnings, which remained at 9 1/4 per cent, continued to be too high. He would also be publishing that day figures on working days lost as a result of

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industrial disputes which showed that the number of working days lost in March was provisionally estimated at 73,000, which was the lowest March figure since 1949 and which contrasted with an average March figure over the previous 10 years of more than 900,000. The number of stoppages in 1988 was the lowest annual total since 1935.

In discussion the point was made that the financial markets might interpret the continuing large reductions in unemployment as a sign that the economy was failing to slow down. This ignored two important factors, however: first, the labour market always lagged behind changes in the rest of the economy; and second the reduction in the seasonally adjusted total for April was artificially high because the season adjustment factor did not allow for the fact that, for the first time for more than a decade, the Easter holiday had fallen entirely in March.

The Cabinet -

1. Took note.

ational Health
Service Reforms

previous
reference:
(89) 17.2

THE SECRETARY OF STATE FOR HEALTH said that the British Medical Association (BMA) had held a special meeting on the previous day which had called for immediate negotiations with the Department of Health on the White Paper on the reform of the National Health Service (NHS) and had advised BMA members not to co-operate with the reforms pending the satisfactory completion of negotiations. He would be seeing BMA representatives shortly: the talks were likely to attract considerable media attention. The BMA would try to insist that the Government withdraw its reform proposals, go back to first principles and provide more funding for the NHS. It was unclear, however, what practical effect the call for non-co-operation would have, as many doctors were already helping to implement the reforms. This would become clear when proposals to apply for self-governing status for hospitals began to be firmed up in the following month. The General Medical Services Committee (GMSC) of the BMA was meeting that day to consider the outcome of the negotiations on a new contract for General Practitioners (GPs). BMA negotiators would be commending the new contract to the Committee and he was reasonably confident that the Committee would endorse the new contract although there would be some vocal opposition from elements who wished to see the Government forced to impose the contract, so encouraging continued opposition from GPs to the Government's wider NHS reforms. He would shortly be announcing the establishment of the Policy Board and Management Executive which would oversee the future development of the Health Service: this would involve a number of strong and independently-minded businessmen whose appointment would encourage those managers in the Service who were striving to implement the Government's plans for improving the efficiency and performance of the NHS. Finally, the debate in the House of Commons on the previous Thursday had gone well and he had had a positive meeting with a number of the Government's supporters in the House the previous day, who had warmly endorsed the Government's plans.

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In a brief discussion it was suggested that, especially if the GMSA rejected the new GP contract, there would be much to be said for an advertising campaign designed to set out for the benefit of patients the consequences of the new contract for the family doctor service. However, it would be important to ensure that any such campaign was within the Government's own rules on advertising and did not have the effect of provoking the GPs into greater opposition to the contract.

THE PRIME MINISTER, summing up the discussion, said that it was important that the Government should win the public argument. However, it would need to be considered whether, in the light of the Government's rules, this objective should be pursued through an advertising campaign or other forms of publicity.

The Cabinet -

2. Took note, with approval, the Prime Minister's summing up of the discussion and invited the Secretary of State for Health to consider further an advertising campaign, in consultation with the Chief Secretary, Treasury, and the Secretary of the Cabinet.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that on the previous Tuesday the High Court had rejected an application by Greenwich Borough Council for an order restraining the distribution to households of an explanatory leaflet about the community charge pending judicial review. A decision by the court to accept the application would have had very serious implications in opening the way for challenges through the courts to the accuracy of and completeness of Government leaflets. Even so, the court had not entirely ruled out the prospect of its entertaining jurisdiction in such matters in future. In the light of the case, it would be particularly important for colleagues to ensure that the accuracy of Government leaflets was very carefully checked. It was ironic that Greenwich Borough Council had itself circulated a leaflet on the community charge containing two blatant untruths, for which the Council had now been forced to apologise.

THE PRIME MINISTER said that the Secretary of State for the Environment was to be congratulated on the successful handling of the affair.

The Cabinet -

3. Endorsed the Prime Minister's comments.

abolition of
the Dock
Labour Scheme

THE SECRETARY OF STATE FOR EMPLOYMENT said that the result of the workplace ballot held by the Transport and General Workers Union (TGWU) over the abolition of the Dock Labour Scheme was

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previous
reference
(89) 17.2

expected to be announced within the next two days. A majority in favour of industrial action seemed likely, although dockers in a number of smaller ports were thought to have voted against industrial action. Another union with members in the docks, the General and Municipal Workers Union, had not yet balloted. The High Court hearing of the action challenging the legality of the TGWU ballot which had been brought by the three major port employers was due to start that day and likely to take some 6 to 8 days to complete. Strike action before the Whitsun Bank Holiday was therefore unlikely. Meanwhile the Dock Work Bill was making good progress. Committee Stage in the House of Commons would be completed that day and Report Stage would take place the following week. It was important to keep up the momentum of the Bill, since its passage would provide the most effective answer to industrial action.

Industrial
action in the
transport
sector

previous
reference:
(89) 17.2

THE SECRETARY OF STATE FOR TRANSPORT, reporting on industrial action in the transport sector, said that the rail unions would be balloting their members on industrial action in the following week against the pay settlement which had been imposed by British Rail, though it was possible that they would seek approval for action which fell short of a full strike. There was the possibility of a settlement on the following day of the dispute involving London bus workers. There were three actual or potential disputes involving the London Underground. First, the unions were balloting their members on industrial action against proposed changes in working practices, including that the system of promotion for station staff should in future be based on merit rather than on seniority, though the results of that ballot would not be known until mid-June. Second, there were some signs that the dispute over a claim involving pay differentials of drivers of one-person operated trains was beginning to weaken, though there might be one further day of unofficial action. Third, the annual pay negotiations might provoke a further dispute, but it was too early to judge the likelihood of this since the negotiations had not yet begun. He would keep colleagues informed of developments.

University
lecturers'
pay

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that the long-running dispute over the pay of university lecturers appear to be moving towards a settlement on the basis of a 6 per cent rise in basic rates backdated to 1 April, a lump sum payment of either £150 or £285, and an additional 1 per cent to be paid from 1 October to reward merit or to recruit scarce staff. Only those universities which agreed to make greater variation in the pay of professors would receive grant for additional merit payments, but Cambridge University was the only university currently refusing to vary professors' pay. Provided the dispute was swiftly resolved, there would no longer be any risk of universities being unable to award degrees to students completing their courses during the Summer.

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Monopolies
Mergers
Commission
Report on
Supply
Beer

Previous
reference:
(89) 15.

THE CHANCELLOR OF THE DUCHY OF LANCASTER said that the Secretary of State for Trade and Industry had made clear to the Brewers Society at a meeting earlier that week that, while it would be necessary to address the public interest issues which the Monopolies and Mergers Commission (MMC) Report on the Supply of Beer had revealed, he was willing to consider alternative means of tackling those matters. The Brewers Society were expected to bring forward proposals during the following week. Meanwhile, consumer groups had recently begun to mount a campaign in favour of the MMC's recommendations and, overall, public comment on the MMC's report was striking a better balance than had been the case a week or so earlier.

The Cabinet -

4. Took note.

FOREIGN
AFFAIRS

China

Previous
reference:
(89) 16.4

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that momentous events were taking place in China. The visit of the Soviet President, Mr Mikhail Gorbachev, which represented a healing in relations between the Soviet Union and China after a thirty year rift, had coincided with the greatest expression of popular political dissent since 1949. It was sad and ironic that a visit which for the Chinese leader, Deng Xiaoping, represented in some ways the high point in a long career should have seen banners in the streets of Peking calling on him to step down. The very fact that the visit had taken place was a major achievement in President Gorbachev's foreign policy and in the progress he had made over the three major obstacles seen by the Chinese as preventing Sino-Soviet reconciliation, namely the Soviet invasion of Afghanistan, the Vietnamese occupation of Cambodia and the Soviet troop presence on the Sino-Soviet border. China was nevertheless likely to remain wary of the Soviet Union. It was not yet certain that further progress would be forthcoming in the solution of the Cambodian problem. It was unlikely that Sino-Soviet relations would return to the cosiness of the 1950s. On the streets of Peking and other cities major demonstrations were still being played out. There had so far been no violent reaction by the Chinese authorities but the possibility of deaths of hunger strikers could further raise the tension. The management of events, such as it was, seemed to be primarily in the hands of Zhao Ziyang whose conciliatory approach seemed sensible. But the situation was unpredictable.

Argentina

Previous
reference:
(89) 17.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that it was a historic moment for Argentina that for the first time in sixty years it had proved possible to replace one President by another peacefully through the ballot box. Nevertheless the Peronist victor in the recent elections, Mr Carlos Menem, represented a worrying prospect both for the future of Argentina and for the Falkland Islands. Mr Menem was not due to take office until

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December. But he had earlier made belligerent statements about the Falkland Islands, which had more recently been somewhat toned down, as had his promises about economic policy. The United Kingdom commitment to the Falkland Islands should and would remain firm, and so the prospects for any further normalisation in relations between the United Kingdom and Argentina in the near term were poor. Mr Menem had made pre-election threats to expropriate British property in Argentina, which included two banks and assets belonging to Imperial Chemical Industries, quite apart from the question of outstanding debt. There had also been a menacing note in recent references to the need for early completion of Argentina's missile programme Condor. Publicity of this kind, like other inflammatory statements by Mr Menem, might actually be helpful in the international community. It might help sober the expectations of the United States Administration about Argentina: this could assist the United Kingdom both in preventing American arms sales to Argentina and in resisting pressure to be more flexible over sovereignty of the Falkland Islands, although it was disturbing that Argentina continued to receive assistance from other countries in the development of its weapons programme.

panama

previous
reference:
C(89) 17.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the situation in Panama following the recent elections remained generally quiet. General Manuel Noriega remained internationally isolated but showed no signs of stepping down. The lack of support for him at the meeting on 17 May of the Organisation of American States had represented a success for the United States.

Lebanon

previous
reference:
C(89) 16.4

THE FOREIGN AND COMMONWEALTH SECRETARY said that there had been no news of one of the remaining British subjects, Mr Jack Mann, since his disappearance in West Beirut on 12 May. It must now be likely that he had been kidnapped. The only indication of this so far was a claim by an organisation calling itself the Group for the Armed Struggle, but the terms of their demand threw doubt on this: they had demanded the release of those held for the murder of a Palestinian cartoonist, a murder for which no one had so far been detained. It was even possible that Mr Mann had been the victim of freelance hooligan elements. The British Embassy remained in contact with Mrs Mann who was still in Beirut. Unfortunately the Palestinian Liberation Organisation did not appear to have any useful contacts through which enquiries about Mr Mann could be pursued.

THE FOREIGN AND COMMONWEALTH SECRETARY said that a coup had been mounted earlier that week in Ethiopia against President Mengistu during his absence abroad. This was not unexpected given the disillusionment of the Ethiopian armed forces. The coup had apparently been quelled in Addis Ababa but clashes were continuing in Eritrea. These events could very well herald

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further changes in Ethiopia. Meanwhile it would almost certainly be necessary to advise Her Royal Highness the Princess Royal to postpone her visit to Ethiopia planned for the end of May.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

Community
competence

4. THE SECRETARY OF STATE FOR HEALTH said that the main issue at the meeting of the Health Council on 16 May had been the proposed directive on tobacco labelling. He had voted against the directive who took no account of the success which the United Kingdom had achieved in voluntary arrangements, and laid down very detailed prescriptions for health warnings. He had made clear that he saw no reason for detailed regulation in this area on a European basis. The meeting had also considered a draft directive on the maximum content of tar in cigarettes which he had opposed on similar grounds but had not reached the stage of a formal vote. He had been able to block the agreement of conclusions for coordinated action at a Community level in relation to cardiovascular disease. In each of these areas the policy objectives were ones which the United Kingdom approved and in which the United Kingdom had achieved high standards. In the case of cardiovascular disease, the United Kingdom played a major part in the work being properly carried forward by the World Health Organisation. In other member states, existing standards were in some cases inadequate, and they might judge it expedient to remedy the position by European legislation. The proposals for tar limits in fact involved concessions to the tobacco industries and derogations in France, Greece and the Netherlands to accommodate their interest. To some extent the relevant section of the European Commission appeared to be looking for a role for itself but a number of member countries probably also saw general merit in a health care policy at the European level. The issues raised by the discussion at the Council were less significant in themselves than their constitutional implications.

In discussion, it was suggested that there was increasing evidence that the Community had departed from the spirit of the Cassis de Dijon judgement, which provided for recognition of disparities in national requirements, and was making increasing use of the Single European Act and its majority voting arrangements to impose centralised prescription. The tobacco labelling directive demonstrated the lengths to which the Commission was prepared to go to achieve rigid standardisation. A blocking minority might often be difficult to achieve. Where the policy objectives in question appeared themselves beneficial a United Kingdom veto was characterised as non-communautaire behaviour. The pressure for increased Community competence in the social area manifested itself in many different ways. For example Commission activities in relation to vocational training, where there was Community competence, were used as a justification for attempts to extend competence to schools. A

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classic pattern was the establishment of an expert group which in turn gave rise to a programme of work and eventually a proposed directive. The source of authority for such activities was not infrequently Council declarations, including references in the conclusions of the European Council, often of apparently unexceptionable generality. The cancer programme, begun under the UK Presidency, was one example. Another source was informal Councils, where discussion could again open the way to Commission proposals for a programme. The matter was complicated by the likelihood that a programme of harmonisation might well be debated over a period of years, during which political positions became steadily more entrenched. More generally it had to be recognised that the judgements of the European Court of Justice were informed by its view of the effective realisation of the purposes of the Treaty. The European Parliament also favoured an extended Community role. Underlying the institutional position was the Commission's power of proposal which was associated with the difficulty of ever definitively removing proposals from the Community agenda.

In further discussion it was noted that the proposals published the previous day by Commissioner Papandreu for a Social Charter seemed likely to present major difficulty. Although it would be possible to veto a Charter itself, the detailed proposals within it were in a number of cases, areas where directives could be brought forward for decision by qualified majority. The Charter dealt with a wide range of social issues going well beyond labour legislation including, for example, the position of the elderly. In this area the United Kingdom could not count on the support of some of its traditional allies. Germany, for example, had an interest in the widespread adoption of German labour legislation arrangements by others who would otherwise be more competitive. Nor did other member countries appear to attach much weight to the advances in employee share ownership in the United Kingdom, such as the example of the National Freight Corporation. However, the adoption of such a Charter, with the implication that each member country should have the same social security and other arrangements, regardless of productive capacity, would have a devastating effect on the ability of Europe to compete with overseas countries. It would amount to a massive protectionist barrier.

In further discussion it was argued that the United Kingdom should not overlook the benefits achieved by the operation of the Single European Act. A major illustration of the achievements possible through a positive approach, addressed to the problem of the Commission's role, was the United Kingdom's advocacy of a comprehensive single market programme. This had dominated the Community agenda in a way analogous to the statement of a legislative programme in The Queen's Speech. In considering how best to deal with current proposals for harmonisation it would be right to reassert the merit of voluntary arrangements. In particular, the United Kingdom should take every opportunity to make clear the positive policy objectives which lay behind the United Kingdom stance and the standards achieved in this country. For example, the record of the United Kingdom Government in such areas as employment,

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training and health and safety was second to none. The proposals being brought forward by Socialist members of the Commission under a succession of Socialist Presidencies were not dissimilar to those brought forward and rejected in the past. When the full implications of over regulation were brought out it had frequently been the experience that member countries had drawn back from them. More generally, however, it would be necessary to make every effort to take effective legal and political countervailing action in each of the areas discussed. It would be necessary to build alliances with like-minded member countries which would vary according to different policy areas. It was possible to make effective use of institutional arrangements such as informal Councils, assuming they could not be curtailed, to put forward policies of attraction to the United Kingdom, for example, to control fraud. On occasion the United Kingdom could also make use, as did other member countries, of the insertion of words in declarations. Consideration might need to be given to further guidance in these areas. In suitable cases, such as the Social Charter, it would be right to look for the active support of the CBI and of institutions representing small businesses. In particular situations the United Kingdom could contemplate recourse to the Luxembourg compromise.

THE PRIME MINISTER summing up the discussion, said that the issues raised in discussion were of far reaching importance and arrangements would be made for a full discussion of them at a future date. The Attorney General should arrange for a review of the extent to which developments since the Cassis de Dijon judgement had operated to limit its effect.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up and invited the Attorney General to proceed accordingly.

Cabinet Office

18 May 1989

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