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CABINET

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

THURSDAY 25 MAY 1989

at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP

The Rt Hon Sir Geoffrey Rose Secretary of State for Foreign Commonwealth Affairs

The Rt Hon Peter Walker MP Secretary of State for Wales

The Rt Hon Norman Fowler MP Secretary of State for Employment

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

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

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

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

The Rt Hon The Lord Belstead Lord Privy Seal

The Rt Hon John Major MP Chief Secretary, Treasury The Rt Hon Nigel Lawson MP Chancellor of the Exchequer

The Rt Hon George Younger MP Secretary of State for Defence

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

Newst Hon Kenneth Baker MP Secondary of State for Education and

The The Mon John MacGregor MP Minister of Agriculture, Fisheries and Found

The Rt Hon Paul Channon MP Secretary of State for Transport

The Rt Hon John Watcham MP Lord President of the Council

The Rt Hon Cecil Performan MP Secretary of State for thereby

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

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CONFIDENTIAL

## CONFIDENTIAL THE FOLLOWING WERE ALSO PRESENT Rt Hon David Waddington QC MP The Rt Hon Peter Brooke MP Paymaster General amentary Secretary, Treasury 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) CONTENTS Subject Page Item PARLIAMINTARY AFFAIRS 1 1. HOME AFFAIRS 1 2. Northern Tris Matters 1 Interest Rate 1 Reforms National Health 2 Abolition of the D abour Scheme 2 FOREIGN AFFAIRS 3. China 3 Anglo/Soviet Relations 3 North Atlantic Treaty Organisation Summit 5 Visit of Israeli Prime Minister to the United Kingdom 5 COMMUNITY AFFAIRS 4. Foreign Affairs Council 22 May 5 Informal Economic and Finance Council 20 6 Vehicle Emissions Education Council 22 May 8

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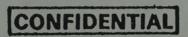
RL LAMENTARY

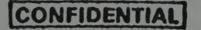
1. The Cabinet were informed of the business to be taken in the House of Commons in the following week.



2. THE SECRETARY OF STATE FOR NORTHERN IRELAND said that a meeting the previous day of the Anglo-Irish Inter-governmental Conference had completed a review of the working of the Conference under Article 11 of the Anglo-Irish Agreement. Wide consultations had been undertaken during the review, although the two Unionist parties had not participated. He had coulated separately to colleagues a copy of the Joint Report the Review and of a British Government paper on developments in the Review and of a British Government paper on developments the Review and of a British Government paper on developments in the Signing of the Agreement which had been issued at the conference. The Agreement had proved its worth. Cooperation between the Royal Ulster Constabulary and the Garda was now better than ever and this was particularly important given the very high threat of terrorist activity in the Province. The recent local government elections in the Province had seen where falls in the support for Sinn Fein, though not in West Biffatt which continued to be one of their strongholds. Each of the fast which continued to be one of their strongholds. Each of the fast which continued to be one of their strongholds. Each of the fast which continued to be one of their strongholds. Fach of the fast which development signalifying themselves. If any candidate who has fixed the declaration was subsequently found to be in breach of the hereby disgualifying themselves. If any candidate who has fixed the declaration was subsequently found to be in breach of the here allow are an Paisley's Democratic Unionist Party. As one of the Agreement was to reinforce moderate politics in the Province, these were hopeful signs.

Interest Rate Rise THE CHANCELLOR OF THE EXCHEQUER and that interest rates had been raised by 1 per cent the Apevious day. The rate had previously been fixed at 13 per cent at the end of the previous November, and this had been the longest period of interest rate stability since 1981. It had been necessary to tighten monetary policy in order to reduce borrowing and to combat inflation. Signs of the success of this policy were array apparent in a slackening of the housing market and in tetal, sales, while investment had continued to hold up well. The pound had moved in line with other major currencies, but latterly it had come under particular attack. Had decisive action for been taken quickly to raise interest rates, the Government' antiinflationary strategy would have been undermined. The rise had been to stabilise the sterling exchange rate. The financial markets were now awaiting the latest United Kindgen monthly trade figures, which were about to be published. These would show a current account deficit of some f1.65 billion.





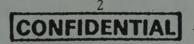
Exports had fallen and imports of investment goods had risen, perhaps because some importers were stocking up in anticipation of a possible dock strike. Imports of consumer goods were down. Although the current account figures were not good, they were broadly in line with market expectations and he did not therefore expect a marked reaction to them. The Building Societies had indicated that they would not be raising their interest rates: this was a sign of the damping down which had already occurred in the housing market.

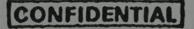
Mational Health Service Reforms

Previous Reference: CC(89) 18.2 The SECRETARY OF STATE FOR HEALTH said that the House of Commons scial Services Committee would later that day be publishing an any start in report on the Government's proposed reforms of the National Health Service. The report, which the Committee had approved by a majority of 7-2 on the previous day, would be critical of the Government's proposals and would in particular call for the Government to introduce pilot studies and experimental schemes before the full implementation of its proposals. The report would not cause any surprise since the Committee had a history of publishing reports which were critical of the Government. It seemed most unlikely that the Committee's intervent, on the previous afternoon, he had for the their interim part. On the previous afternoon, he had for the third time giver the truth evidence to the Committee, and it was clear that they had then very little time to reflect on what he had said before find their proof. In calling for pilot schemes the Committee the and would thus lead to a completely unacceptable delay in the implementation of the Government's proposals. In fact, the evernment was already proposing, through its approach of intervent yound estimate and general practitioners (GPs') practice brogets. Expressions of interest in self-governing hospital stear would be firmed up in the following month, and this should help to advance the general debate on the Government's proposed reforms did not appear to be having any practical effect. There was some opposition among BM members to the outcome of the gotiations on a new contract for GPs, but the BM negotiations would endorse the proposed new contract.

Abolition of the Dock Labour Scheme

Previous Reference: CC(89) 18.2 THE SECRETARY OF STATE FOR EMPLOYMENT said that the the provious and General Workers Union (TGWU) had announced on the previous Friday that their members in the Dock Labour Scheme ports had voted by a 3-1 majority in favour of strike action. The General and Municipal Workers Union would be balloting the members in the docks later that week. The High Court hearing of the action challenging the legality of the TGWU ballot which had been brought by the three main port employers was expected to be completed before the Whitsun Bank Holiday. The two unions





had undertaken not to take strike action until after the hearing had taken place but, depending on the outcome of the case, there could well be industrial action, of either an official or unofficial nature, during the following week. Meanwhile, the Dock Work Bill had the previous day completed its passage through the House of Commons and was now awaiting consideration in the House of Lords.

The Cabinet -

Took note.

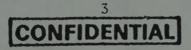
FOREIGN AFFAIRS China

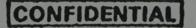
Previous Reference: CC(89) 18.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that although picture in Peking appeared to be changing hourly there was a distanct possibility that all the top leadership in China would prove to be victims of the political crisis which the mass student demonstrations in Peking had provoked. The Chinese leader, Data isoping, was thought to have been out of Peking trying to all support from the People's Liberation Army in the provinces. We there all Secretary of the Communist Party of China, Zhao tive, had been little seen of late. The Prime Minister, Li Pere had been a principal target of the students' criticism. The Common of the National People's Congress, Wan Li, viewed as a more are, had cut short his visit to the United States to return to core but was currently in Shanghai and thus not at the centre of primes. The latest indications seemed to suggest that the hard tirgen might after all be reasserting themselves successfully but there was no certainty that this would prove to be the case. The anwhile people in Hong Kong had been watching events in Core with concern. Share prices on the Hong Kong Stock Exchange had gote down at the beginning of the week, had then temporarily reported and had now dropped again. Even Chinese Government representatives abroad did not seem well informed about what was happening. student demonstrations in Peking had provoked. The Chinese well informed about what was hapening.

Anglo/Soviet Relations

THE FOREIGN AND COMMONWEALTH SECRETARY said that after very The FOREIGN AND control what in Secretary said that after very careful consideration with the Prime Minister and the Home Secretary, he had decided on 19 May that eleven Soviet intelligence officers should be expelled and make others from the Soviet official community in London declared personae non gratae. This had been done initially without particity in order to provide an opportunity for the Soviet Union to respond in a rational way, however unlikely it had been that they would do so. In practice there was no real possibility of keeping matters from becoming public since three of those experied were Soviet journalists. It had taken the Soviet Union twenty four hours to announce a mirror-image retaliation against the Afed Kingdom involving the expulsion of eleven British Embass personnel (five from the defence side and six diplomats) three British journalists. The Russians had also sought to impose a ceiling on the numbers of British citizens resident professionally in Moscow to match the ceiling of 205 that the AN ANA Government set for Soviet Embassy and other official Soviet

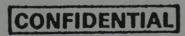




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personnel in London. But the Russians had tried to insist that this figure in Moscow should also include Soviet citizens who were locally employed by the British Embassy and other British enterprises there. This was not equating like with like, since on that principle one would have to count in London 400 British citizens who were locally employed by official Soviet bodies here. The Government had made clear to the Soviet authorities that their response was unacceptable. There was some evidence that the Russians had not initially thought matters through properly. Nor was Britain alone in taking such action. Six representation in their capitals. In the last five years some to Soviet officials had been expelled from more than twelve countries for espionage, including a significant number in the other Western countries maintained ceilings on official Soviet contries for espionage, including a significant number in the past twelve months. The Government's objective was to try to approach to these matters both in style and substance. The Russians were aware of British concern at the highest level. It was yust possible that after due reflection the Soviet authorities would back away from their initial very hard-line response, though a change of substance in the behaviour of the response, though a change of substance in the behaviour of the KGB operating under diplomatic cover was uncertain. The British media, after one initial oscillation in their reactions to these events in now settled down to broad support for the Government's Line The expulsion of Mr Ian Glover James of Independent Television News and of the British Broadcasting Corporation's ratio correspondent, Mr Jeremy Harris, was a real loss since the standard of their reporting, for example on events in Armenia, has even very good and widely relayed elsewhere in the worke of other broadcasting networks. It needed to be brought the to the Russians that the expulsion of such bona fide journal late was not compatible with glasnost or conducive to wider Soviet interests.

In a brief discussion, it was speculated that the initial Soviet response might have been a purely reflex reaction by the entrenched bureaucracy rather than a considered decision from the top. The Soviet official sectoman, Mr Gennady Gerasimov, had seemed embarrassed in his hand in of it. Nevertheless for the Government not to have acted then there was clear evidence against the offending Soviet officials was simply not an option and usual have been wintered as a sign of unabover. It use Ains. d would ha. fficult to public een clear but incomplete. To urveillance round the clock, thus is an alternative to expelling them, was not massive increase in surveillance resources of incompatible with an open and democratic society. The pointed out in an interview with the Daily Telegraph by the former British Ambassador to Moscow, Sir Bryan Cartler interview interview with the Daily Telegraph by the former British Ambassador to Moscow, Sir Bryan Cartler interview intervie and would have been viewed as a sign of weakness. It was



Visit of Israeli Prime Minister to the United Kingdom

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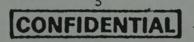
THE FOREIGN AND COMMONWEALITH SECRETARY said that the debate within the Alliance on short range nuclear forces (SNF) in Europe would continue right up to the Summit of the North Atlantic Treaty Organisation (NATO) on 29 and 30 May. The Federal German Defence Minister, Dr Gerhard Stoltenberg, had taken a new German position to Washington the previous week. The Americans had presented an alternative which was strong on most of the key points, but went further on conceding the principle of negotiations and less far toward insisting on modernisation of the relevant NATO forces than the United Kingdom would have wished. Serious gaps remained in the German essition including particularly their unwillingness to reject with the Warsaw Pact and NATO holdings of the relevant SNF would underlying strategic principles at stake. He himself had been in rouch with the United States Secretary of State, Mr James Bake. The latter had said that there was very little flexibility in the American position. He would be seeing the Federal German Foreign Minister, Herr Hans Dietrich Genscher, again later that day following a reception in London to mark the 40th Anniversary of the Basic Law of the Federal Republic of Germany. He woodd repeat to him firmly the British position on this question

THE FOREIGN AND COMPARENTIAL SECRETARY said that the visit to London earlier that the of the Israeli Prime Minister, Mr Yitzhak Shamir, had colocided with a Summit meeting of the Arab League in Casablanca at which the re-admittance of Egypt had been a welcome sign of to be are of moderate opinion; and with a speech by the United States becketary of State, Mr James Baker, to the American-Israeli Public invairs Committee in which he had underlined American concern at Leageli policy in the occupied territories. Mr Shamir could therefore have been left in no doubt that the latest Israeli proviseds on the Arab/Israeli question remained deficient in many of the essentials, in particular the principle that a neostiated solution had to be based on an exchange of territory for peace, as required by the United Nations Security Council Resolution 242. Mr Shamir's visit to the United Kingdom had provided ar aportunity to convey this message in a friendly atmosphere.

The Cabinet -

Took note.

COMMUNITY AFFAIRS Foreign Affairs Council 22 May 4. THE FOREIGN AND COMMONWEALTH SECRETARY said that the meeting of the Foreign Affairs Council on 22 May had been sensible and objective occasion. The main area of discussion had been commercial relations with the United States. Past tensions in this area seemed to have receded. Italy and France were taking a less confrontational stance. The present indications were that the Community might well escape mention is

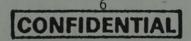




the list of target countries under the Super 301 provision of the United States Trade Act, due to be issued this week: this was likely to target only Japan, India and Brazil. These developments provided a positive background to discussion of Trade issues with President Bush in the coming week. There had also been a constructive discussion of the negotiations with Poland for a trade and co-operation agreement. The United Kingdom had put forward specific ideas on an accelerated timetable for liberalisation of quantative restrictions and management training arrangements.

Informal Economic and Finance Council 20-21 May

THE CHANCELLOR OF THE EXCHEQUER said that the meeting of the entrymal Economic and Finance Council which he attended on 20-21. May been mainly concerned with discussion of the report of http://docs.committee on economic and monetary union (EMU) together with two tax issues. As regards the Delors Report, it is already clear that the United Kingdom was virtually alone in was already clear that the onleta kingdom was virtually alone in its unwillingness to go all the way down the route charted in the Report in Juding an eventual Central Bank and single currency. For the present Denmark had adopted a similar position, but is a small country with close trade links with Germany, the first income the trade links with denmark had adopted a similar position, but is a small country with close trade links with Germany, the first income the trade links with denmark had adopted a similar position, but is a small country with close trade links with Germany, the first income the trade links with denmark had coverse out only issues raised in the Delors Report but those not constructed in it, namely the political implications of the broceals made in it. There were two main interlinked issues of the kind. First, the Report in effect looked for an irrevocable transfer of sovereignty for monetary and economic policy from the liaments, although it was not clear to whom the transfer would made. Secondly, there was a total absence of democratic accountability in the institutional proposals made in the Report. The activities of the Federal Reserve Bank in the United States and the German Bundesbank took place within a consistent framework of constitutional responsibility. In Germany for everyle there was provision for co-operation between the Finance While there was provision for co-operation between the Finance While there was provision for co-operation between the Finance While there was provision for co-operation between the Finance While there was provision for co-operation between the Finance While there was provision for co-operation between the Finance While there was provision for co-operation between the Finance While there was provision for co-operation between the Finance While there was provision for co-operation between the Finance While there was provision for co-operation between the Finance While there was provision for co-operation between the Finance While there was provision for c its unwillingness to go all the way down the route charted in Under the proposals of the Delors Report, the Central Bank would have no democratic accountability to anyone. Such have no democratic accountability to anyone. Such accountability would require a European Partament and a European Government: in effect a political union. In the ensuing discussion he had made clear that he saw no need for the convening of an Inter-governmental Conference looking to arrangements for economic and monetary co-operation that would be outside the framework of the existing Treaty. Each a conference could be called by a simple majority and consistently with their views about economic and monetary union, it appeared that most member states would be prepared to go along with such a proposal. However, a number of member countries had recognised that there were major issues here hich required further discussion, and were also unwilling to United Kingdom isolated on the issue, opening up the pros a two-speed Europe. Those countries, which included Germany Denmark, the Netherlands and Luxembourg would not therefore an early decision on this issue to be made. At the other end of the spectrum the French were wishing to force the pace against





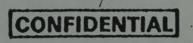
the background of the French Presidency in the second half of the year and President Mitterrand's wish to make a historic gesture. While he had made clear that the United Kingdom was unwilling to sign up to economic and monetary union, and was also not willing to accept the stipulation in the Report that to embark on the first stage was inseparable from a decision to embark upon the entire process, he saw some merit in ventilation of the problems presented by the Report through further discussion. He had accordingly expressed readiness for there to be discussion of the measures set out in Stage 1 of the Report, which were concerned with improvement of the financial arrangements relating to completion of the single market. The uestion of membership of the exchange rate mechanism arose in the context of Stage 1 but without any timetable being set. The Spanish Presidency's summary of the discussion, put forward of the measures in Stage 1, which were to be given priority, from further consideration of Stages 2 and 3. It had to be recognised, however, that the Economic and Finance Council was a forum more likely to be sympathetic to United Kingdom views than either the Foreign Affairs Council or the European Council.

THE CHANCELLOR of the EXCHEQUER, continuing, said that revised proposals on independent taxation had been put foward by Madame Scrivener. While there remained in some respects undefined, they reflected a description accommodate the problems made clear by member states. In and ish dogmatist had been replaced as Commissioner by a Frace programitist. In particular the new proposals implied a reachest to contemplate a permanent derogation for a limited moder of zero rates. Technical discussion would now continuer. The second tax issue was the proposal for a withholding tax. This was now effectively dead. An important element in final acceptance of this situation had been the position taken by the comman Finance Minister, Herr Waigel, who as the successor to ensues as party leader carried considerable political weight and the french in some difficulty. A face saving formula involving the Mutual Assistance Directive might be found. It seemed possible that proposals might come forward of an acceptor with fuller details in cases of evidence of fraudulent behaviour.

Vehicle Emissions

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THE SECRETARY OF STATE FOR THE ENVIRONMENT said that it the House of Commons Scrutiny debate on the previous day are Government had indicated acceptance of the introduction of 3-way catalyst standards in 1993, provided there was no requirement for introduction of interim standards in 1991. It was not crear that lean burn technology would be ready in time to meet a 1993 deadline, but the door was being kept open for introduction of controls based on that technology if it later became practicable to do so. This approach accorded both with scientific advice and the views of the motor car industry.



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THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that there had been a satisfactory meeting of the Education Council on 22 May. The main purpose of the meeting had been to consider the Lingua Programme. The arrangements agreed would cover exchange of teachers, promotion of language learning in industry and exchanges for young people undergoing vocational education in such areas as hotels and catering. The United Kingdom would benefit in all these areas. He had had German support in the Community to primary and secondary schooling. It had also resisting in this context any extension of the competence of been necessary to resist proposals for a commitment to teaching two Community languages. In the United Kingdom, 40 per cent single foreign language and a more far reaching requirement would have been unrealistic. Pressure for it came largely from the Mrench, who judged that if the commitment was to a single language, this was likely to be English which their Minister had characterised as becoming the reserve language of the world. He had also form it necessary to resist a foreign language qualification or entrance to University. Although the outcome of these discussions had been satisfactory, the United Kingdom would no double remain under pressure for extended Community competence in these areas from Commissioner Papandreou and some member states. member states.

The Cabinet -

Took note.

Cabinet Office

25 May 1989