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Conclusions

CABINET

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

THURSDAY 25 MAY 1989

at 10.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon Sir Geoffrey Howe MP  
Secretary of State for Foreign and  
Commonwealth Affairs

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer

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

The Rt Hon David Waddington QC MP  
Parliamentary Secretary, Treasury

The Rt Hon Peter Brooke MP  
Paymaster General

SECRETARIAT

Sir Robin Butler  
Mr R G Lavelle (Items 3 and 4)  
Mr P J Weston (Items 3 and 4)  
Mr P J C Mawer (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.

HOME AFFAIRS

Northern  
Irish  
Matters

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 circulated separately to colleagues a copy of the Joint Report of the Review and of a British Government paper on developments since the signing of the Agreement which had been issued at the end of the Conference. The Agreement had proved its worth. Co-operation 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 welcome falls in the support for Sinn Fein, though not in West Belfast which continued to be one of their strongholds. Each of the Sinn Fein candidates in the election had signed a declaration not to support violence or proscribed organisations, although Republican Sinn Fein candidates had declined to do so, thereby disqualifying themselves. If any candidate who had signed the declaration was subsequently found to be in breach of it, he was liable to be disqualified also, following court proceedings. The number of seats held by the Social Democratic and Labour Party had conversely increased following the election, while there had been a sharp decline in support for the Reverend Ian Paisley's Democratic Unionist Party. As one of the aims of the Agreement was to reinforce moderate politics in the Province, these were hopeful signs.

Interest  
Rate Rise

THE CHANCELLOR OF THE EXCHEQUER said that interest rates had been raised by 1 per cent the previous 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 already apparent in a slackening of the housing market and in retail sales, while investment had continued to hold up well. Nevertheless, the rise in the United States dollar, which few had predicted in advance, had put pressure on sterling. Initially the pound had moved in line with other major currencies, but latterly it had come under particular attack. Had decisive action not been taken quickly to raise interest rates, the Government's anti-inflationary strategy would have been undermined. Other countries might well follow the United Kingdom lead in raising their interest rates. The immediate effect of the interest rate rise had been to stabilise the sterling exchange rate. The financial markets were now awaiting the latest United Kingdom monthly trade figures, which were about to be published. These would show a current account deficit of some £1.65 billion.

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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.

National  
Health Service  
Reforms

Previous  
Reference:  
CC(89) 18.2

THE SECRETARY OF STATE FOR HEALTH said that the House of Commons Social Services Committee would later that day be publishing an interim 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 final report would add anything of substance to their interim report. On the previous afternoon, he had for the third time given lengthy evidence to the Committee, and it was clear that they had taken very little time to reflect on what he had said before finalising their report. In calling for pilot schemes the Committee appeared to want the Government to mount a series of small academic studies which in practice would take several years to complete and would thus lead to a completely unacceptable delay in the implementation of the Government's proposals. In fact, the Government was already proposing, through its approach of inviting volunteers, to phase in the introduction of self-governing hospitals and general practitioners (GPs') practice budgets. Expressions of interest in self-governing hospital status would be firmed up in the following month, and this should help to advance the general debate on the Government's proposals. The resolution by the British Medical Association (BMA) advising their members not to cooperate with the Government's proposed reforms did not appear to be having any practical effect. There was some opposition among BMA members to the outcome of the negotiations on a new contract for GPs, but the BMA negotiators remained confident that the forthcoming conference of their members 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 Transport 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 their 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

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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

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China

Previous  
Reference:  
CC(89) 18.3

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that although the picture in Peking appeared to be changing hourly there was a distinct 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, Deng Xiaoping, was thought to have been out of Peking trying to rally support from the People's Liberation Army in the provinces. The General Secretary of the Communist Party of China, Zhao Ziyang, had been little seen of late. The Prime Minister, Li Peng, had been a principal target of the students' criticism. The Chairman of the National People's Congress, Wan Li, viewed as a moderate, had cut short his visit to the United States to return to China but was currently in Shanghai and thus not at the centre of things. The latest indications seemed to suggest that the hard liners might after all be reasserting themselves successfully but there was no certainty that this would prove to be the case. Meanwhile people in Hong Kong had been watching events in China with concern. Share prices on the Hong Kong Stock Exchange had gone down at the beginning of the week, had then temporarily recovered and had now dropped again. Even Chinese Government representatives abroad did not seem well informed about what was happening.

Anglo/Soviet  
Relations

THE FOREIGN AND COMMONWEALTH 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 three others from the Soviet official community in London declared persona non gratae. This had been done initially without publicity 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 expelled were Soviet journalists. It had taken the Soviet Union twenty-four hours to announce a mirror-image retaliation against the United Kingdom involving the expulsion of eleven British Embassy personnel (five from the defence side and six diplomats) and 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 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 other Western countries maintained ceilings on official Soviet representation in their capitals. In the last five years some 240 Soviet officials had been expelled from more than twelve countries for espionage, including a significant number in the past twelve months. The Government's objective was to try to induce the Soviet Union to change for the better its whole approach to these matters both in style and substance. The Russians were aware of British concern at the highest level. It was just 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 KGB operating under diplomatic cover was uncertain. The British media, after some initial oscillation in their reactions to these events, had 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 radio correspondent, Mr Jeremy Harris, was a real loss since the standard of their reporting, for example on events in Armenia, had been very good and widely relayed elsewhere in the world by other broadcasting networks. It needed to be brought home to the Russians that the expulsion of such bona fide journalists 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 spokesman, Mr Gennady Gerasimov, had seemed embarrassed in his handling of it. Nevertheless for the Government not to have acted when there was clear evidence against the offending Soviet officials was simply not an option and would have been viewed as a sign of weakness. It was difficult to publish the evidence against the Soviet intelligence officers because, as was often the case, it had been clear but incomplete. To keep such people under permanent surveillance round the clock, thus neutralising their effect as an alternative to expelling them, was not an option without a massive increase in surveillance resources of a kind incompatible with an open and democratic society. This had been pointed out in an interview with the Daily Telegraph by the former British Ambassador to Moscow, Sir Bryan Cartledge.

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North Atlantic  
Treaty  
Organisation  
Summit

Previous  
Reference  
CC(89) 17

THE FOREIGN AND COMMONWEALTH 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 position including particularly their unwillingness to reject explicitly the possibility of the so-called third zero, whereby both the Warsaw Pact and NATO holdings of the relevant SNF would be completely abolished. This remained very worrying given the underlying strategic principles at stake. He himself had been in touch with the United States Secretary of State, Mr James Baker. 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 would repeat to him firmly the British position on this question.

Visit of  
Israeli  
Prime Minister  
to the United  
Kingdom

THE FOREIGN AND COMMONWEALTH SECRETARY said that the visit to London earlier that week of the Israeli Prime Minister, Mr Yitzhak Shamir, had coincided with a Summit meeting of the Arab League in Casablanca at which the re-admittance of Egypt had been a welcome sign of tolerance of moderate opinion; and with a speech by the United States Secretary of State, Mr James Baker, to the American-Israeli Public Affairs Committee in which he had underlined American concern at Israeli policy in the occupied territories. Mr Shamir could therefore have been left in no doubt that the latest Israeli proposals on the Arab/Israeli question remained deficient in many of the essentials, in particular the principle that a negotiated 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 an opportunity to convey this message in a friendly atmosphere.

The Cabinet -

Took note.

COMMUNITY  
AFFAIRS

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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 a 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 in

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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 quantitative restrictions and management training arrangements.

Informal  
Economic  
and Finance  
Council  
20-21 May

THE CHANCELLOR OF THE EXCHEQUER said that the meeting of the Informal Economic and Finance Council which he attended on 20-21 May had been mainly concerned with discussion of the report of the Delors Committee on economic and monetary union (EMU) together with two tax issues. As regards the Delors Report, it was already clear that the United Kingdom was virtually alone in its unwillingness to go all the way down the route charted in the Report including an eventual Central Bank and single currency. For the present Denmark had adopted a similar position, but as a small country with close trade links with Germany, the likelihood must be that in due course they would follow a German lead. The discussion had been a useful one since it had covered not only issues raised in the Delors Report but those not considered in it, namely the political implications of the proposals made in it. There were two main interlinked issues of that kind. First, the Report in effect looked for an irrevocable transfer of sovereignty for monetary and economic policy from Parliaments, although it was not clear to whom the transfer would be 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 example there was provision for co-operation between the Finance Ministry and the Central Bank and the possibility of changes in the law within which the Bundesbank operated. There were also reporting requirements. Under the proposals of the Delors Report, the Central Bank would have no democratic accountability to anyone. Such accountability would require a European Parliament 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. Such 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 which required further discussion, and were also unwilling to see the United Kingdom isolated on the issue, opening up the prospect of a two-speed Europe. Those countries, which included Germany, Denmark, the Netherlands and Luxembourg would not therefore wish 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

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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 question 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 on its own responsibility, had usefully detached consideration 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.

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THE CHANCELLOR OF THE EXCHEQUER, continuing, said that revised proposals on indirect taxation had been put forward by Madame Scrivener. While these remained in some respects undefined, they reflected a desire to accommodate the problems made clear by member states. An English dogmatist had been replaced as Commissioner by a French pragmatist. In particular the new proposals implied a readiness to contemplate a permanent derogation for a limited number of zero rates. Technical discussion would now continue. 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 German Finance Minister, Herr Waigel, who as the successor to Strauss as party leader carried considerable political weight and had made German abandonment of their own withholding tax a condition of his appointment as Finance Minister. This outcome left 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 acceptable kind for revenue authorities to provide each other 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 in the House of Commons Scrutiny debate on the previous day the 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 clear 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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Education  
Council  
22 May

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 resisting in this context any extension of the competence of the Community to primary and secondary schooling. It had also been necessary to resist proposals for a commitment to teaching of two Community languages. In the United Kingdom, 40 per cent of students did not at present possess language skills in a single foreign language and a more far reaching requirement would have been unrealistic. Pressure for it came largely from the French, 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 found it necessary to resist a foreign language qualification for entrance to University. Although the outcome of these discussions had been satisfactory, the United Kingdom would no doubt remain under pressure for extended Community competence in these areas from Commissioner Papandreu and some member states.

The Cabinet -

Took note.

Cabinet Office

25 May 1989

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