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CABINET

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

THURSDAY 15 JUNE 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 Douglas Hurd MP  
Secretary of State for the Home Department

The Rt Hon Peter Walker MP  
Secretary of State for Wales

The Rt Hon George Younger MP  
Secretary of State for Defence

The Rt Hon Norman Fowler MP  
Secretary of State for Employment

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

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

The Rt Hon Lord Young of Graffham  
Secretary of State for Trade and Industry

The Rt Hon Kenneth Baker MP  
Secretary of State for Education  
and Science

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

The Rt Hon John MacGregor MP  
Minister of Agriculture, Fisheries and  
Food

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

The Rt Hon Paul Channon MP  
Secretary of State for Transport

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

The Rt Hon John Wakeham MP  
Lord President of the Council

The Rt Hon The Lord Belstead  
Lord Privy Seal

The Rt Hon Cecil Parkinson MP  
Secretary of State for Energy

The Rt Hon John Major MP  
Chief Secretary, Treasury

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

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THE FOLLOWING WERE ALSO PRESENT

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 W D Reeves (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  
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Unemployment

2. THE SECRETARY OF STATE FOR EMPLOYMENT said that the unemployment figures for May would be published later that day. These would show a fall in the seasonally adjusted total of 23,000 to 1.835 million. This was the lowest May figure for 8 years and the 34th month running in which there had been a fall in the total. There had been a reduction of 81,000 in the unadjusted total. The unemployment rate now stood at 6.4 per cent, which continued to compare very favourably with that in other Western European countries. Although there had been a reduction of 3,900 in the number of vacancies at Job Centres in the previous month, the number of vacancies was still very high, with 218,000 available through Job Centres alone. The increase in average earnings stood at 9.25 per cent, which was unchanged on the previous month. The number of working days lost through industrial action in April had been 87,000: apart from April 1988, this was the lowest April figure since 1954.

Abolition  
of the  
Dock  
Labour  
Scheme

THE SECRETARY OF STATE FOR EMPLOYMENT said that the Dock Work Bill had been given a Second Reading in the House of Lords the previous Friday. The Judicial Committee of the House of Lords was expected to begin hearing the following Monday an appeal by the Transport and General Workers Union (TGWU) against the Appeal Court's grant of an injunction to the three major port employers preventing the TGWU from calling a strike of its members in Dock Labour Scheme ports. Even if the TGWU won its appeal, it would have to re-ballot its members under the terms of the Employment Act 1980 in order to obtain a fresh mandate for industrial action. Official action could not therefore begin for some time yet. Unofficial industrial action was under way already at Bristol, Liverpool, Manchester and Tilbury, but such action had been called off at a number of other ports following the decision of dockers at Hull and Southampton not to strike unofficially. At present some 2,500 registered dock workers were estimated to be taking unofficial action. Contrary to some press reports, it was too early to say that resistance to the abolition of the Dock Labour Scheme was crumbling, but there were some hopeful signs, including preliminary talks between dock workers and employers at Southampton. The unofficial

Previous  
Reference  
CC(89) 20.2

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action was not having any marked impact on the movement of goods, as shippers appeared to have made effective arrangements to get round difficulties.

Industrial  
Action in the  
Transport  
Sector

Previous  
Reference  
CC(89) 20.2

THE SECRETARY OF STATE FOR TRANSPORT said that there were two disputes on British Rail, one involving pay and the other future pay negotiating arrangements. The three British Rail unions had adopted different positions: the National Union of Railwaymen (NUR) had secured its members' support for 24-hour stoppages and a ban on overtime and rest-day working and its members would be taking one-day strike action on the following Wednesday; the Transport Salaried Staffs Association was seeking arbitration; and the Associated Society of Locomotive Engineers and Firemen was still balloting its members. There were also two disputes on the London Underground, the most serious of which concerned the pay claim by drivers of one-person operated trains: there would be unofficial action on the following day and an official 24-hour stoppage on the following Wednesday. In addition, the NUR had secured support for indefinite action by station staff in protest against London Underground's proposal to base promotion for station staff on merit rather than on seniority, but further talks were due to be held between the two sides under the auspices of the Advisory, Conciliation and Arbitration Service. There was the prospect of extensive disruption to travel, especially in London, on the following Wednesday and he was making contingency plans to deal with this. He was also drawing up contingency plans against the possibility of wider disruption of the railways.

The Cabinet -

Took note.

FOREIGN  
AFFAIRS

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China and  
Hong Kong

Previous  
Reference  
CC(89) 20.3

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Chinese leadership centred on Deng Xiaoping was consolidating its position and dealing harshly with student leaders and other dissidents. A propaganda campaign was under way to portray the recent demonstrations in Peking as a counter-revolutionary rebellion. The direction of policy in the longer term was more difficult to foresee; however the leadership appeared to be trying to preserve China's economic links with the outside world while engaging in

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internal repression. At a meeting of the Foreign Affairs Council in Luxembourg on 12 June European Community Foreign Ministers were agreed in condemning the repression while stopping short of cutting off economic ties with China, which could be used as a lever to influence internal policy. In China itself, those British citizens who wished to leave had mostly done so, though a number had chosen to stay on. Only essential staff now remained in the British Embassy, though its visa section would shortly be resuming normal business. The United States had provoked Chinese anger by giving refuge in its Embassy in Peking to the dissident Professor Fang Lizhi. A Second Secretary at the Chinese Embassy in London had applied for asylum, and his case was being considered by the Home Secretary. Other similar applications were likely and would have to be considered, including those of students who feared persecution if they returned to China. To the extent that these included students on scholarships to which the British Government contributed funding there would be public expenditure implications.

Although recent events in China had severely shaken the confidence of Hong Kong, the Colony's financial system had borne up remarkably well; the fall on the Hong Kong Stock Exchange had been less than on Black Monday in October 1987. The House of Commons Foreign Affairs Committee had taken evidence from the Governor of Hong Kong, Sir David Wilson, and subsequently from himself earlier that week, and appeared to view the problems of Hong Kong with a fair degree of realism. Attention had focussed on the scope for strengthening democratic institutions in Hong Kong and also on rights of abode and full British citizenship for British passport holders. On the latter issue, the prevailing opinion in the Colony was that any selective approach would be inadequate and unacceptable. He had been asked by the Committee how the Government would respond to a worst case situation in which, after 1997, the inhabitants of the Colony fled en masse and sought asylum in this country as political refugees. He had replied that in that event the Government would have to take its obligations to Hong Kong refugees very seriously indeed, but would need to seek the widest possible help on an international basis. He would be visiting Hong Kong early in July with the aim of reassuring the Colony of the United Kingdom's continuing commitment and of examining how confidence could best be restored.

In a brief discussion, it was noted that in the worst case situation described by the Foreign and Commonwealth Secretary the number of refugees was potentially 5 million, the entire population of the Colony. British passport

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holders could not be denied initial entry to this country since their passports entitled them to make a short visit.

Vietnamese  
Boat People

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had attended the International Conference on Indo-Chinese Refugees which had taken place at Geneva on 13/14 June. In addressing the Conference, the Governor of Hong Kong, Sir David Wilson, and he had emphasised the very large scale of the problem facing Hong Kong as a result of the migration from Vietnam. Despite resistance by the United States to any proposal for compulsory repatriation of economic migrants, the conclusions reached by the Conference went a long way towards satisfying British objectives. A plan had been agreed for the settlement of all bona fide refugees, including an estimated 15,000 in Hong Kong and the Philippines had agreed to the establishment of a Regional Processing Centre on their territory, to be funded by a number of nations including the United Kingdom. Several countries, though not the United States, had supported a policy of repatriating economic migrants to Vietnam, and the Malaysian Conference President had made a strong statement to that effect. Although the United States could not drop its opposition to the principle of involuntary repatriation to North Vietnam, its opposition in practice might have been moderated to some extent. He himself had had bilateral talks with the Vietnamese Foreign Minister, Mr Nguyen Co Thach, who had agreed to joint discussions by officials about arrangements for the repatriation of non-refugees on an involuntary basis. The crucial question was how those repatriated would be received in Vietnam; it was nonetheless gratifying that the Government of Vietnam appeared to have moderated their stance significantly.

Soviet Union

Previous  
Reference  
CC(89) 15.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the recent meeting of the Congress of People's Deputies in Moscow, which had ended on 9 June, had provided a further illustration of President Gorbachev's political skill; he had been successful in achieving a further measure of liberalisation of the Soviet political system while remaining firmly in control. His current visit to the Federal Republic of Germany had had less adverse effect on Western interests than might have been feared. The Germans had handled the visit well, and it was noteworthy that the Federal Chancellor, Herr Helmut Kohl, had stressed

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the Federal Government's future as a member of the European Community and the North Atlantic Treaty Organisation and referred to "partial" reductions in short range nuclear forces in response to his visitor's rhetoric on this issue. Herr Kohl had also condemned the Berlin Wall as a "repulsive symbol". The two sides' Joint Declaration had been generally unexceptionable, with strong references to self-determination, human rights and the problem of terrorism, though it had also given some respectability to President Gorbachev's concept of a "common European home". Meanwhile the United Kingdom's relations with the Soviet Union appeared to be recovering somewhat following their decline at the time of the recent expulsions.

In a brief discussion, it was noted that neither President Gorbachev nor the German Democratic Republic had uttered any condemnation of the current repression in China.

Poland  
Previous  
Reference  
CC(89) 20.3

THE PRIME MINISTER said that the Polish leader, General Jaruzelski, had visited Britain the previous weekend and she had had a long discussion with him. He had reminded her of her statement during her visit to Poland the previous November that the Communist Party were to relax its central political control, recognise Solidarity and move towards establishment of democratic institutions, Poland would find a ready response from the West. He was now asking her to honour that undertaking. Solidarity had been recognised and had swept the board in the recent elections. He had accepted the popular verdict, wounding though it was for him personally. The General had added that the policies he was pursuing had President Gorbachev's full support. The Prime Minister's response, which had been carefully prepared, had given due recognition to the correctness of the General's reaction to the election results. Her response had five elements. First, Poland should seek an accommodation with the International Monetary Fund (IMF), where the United Kingdom would use its influence to ensure that the conditions imposed, though exacting, were not intolerable for Poland. Second, since time would be required to place the Polish economy on an upward trend, in order to help bridge the gap the United Kingdom would re-schedule Poland's payments of principal and interest on its debt to the United Kingdom due this year, over ten years with five years' grace, and would support general re-scheduling on these lines in the Paris Club. Third, the United Kingdom would seek its European Community partners' agreement to the liberalisation of Quantitative Restrictions to enable Poland to expand its

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trade. Fourth, £5 million a year for five years would be provided for a "know-how" Fund to provide Poland with training and advice to support progress towards democracy and a market economy. Finally, she had offered to send the Minister of Trade, Department of Trade and Industry, to Poland to identify opportunities for investment by British companies in joint ventures. Although agreement with the IMF was the key element of the package, the other measures taken together should bring valuable benefits in the interim.

Continuing, THE PRIME MINISTER said that General Jaruzelski had also raised the question of the return to Poland of the remains of the Polish war leader, General Sikorski; she had replied that the Polish Church, Solidarity and the Polish émigré community in Britain would need to assent to such a step. General Jaruzelski had made clear in discussion his wariness of the revival of nationalist feeling in East Germany. He had left Britain apparently well satisfied with the results of his visit.

In discussion, it was argued that Solidarity, which had behaved responsibly in the wake of their election success, could not indefinitely avoid taking some share of responsibility for decisions in Poland, and this would be the real test of their maturity. The IMF would certainly insist on major economic reforms, including the establishment of a proper pricing system, which could lead to a reduction in the standard of living in the short term; Solidarity would need to decide whether or not to support these hard but necessary measures, and had so far shown little sign of willingness to do so. Arguably the only real concern of the political opposition in Poland and its public support was to seize this first opportunity since the 1940s to dismantle the Communist regime. It would be important to be clear whether Western economic assistance to Poland was to be linked to continuing political progress, and should therefore be reversed in the event of backsliding by the regime. The current stance of the West should be to be tough but generous, and not to ask for the impossible; reform in Poland must be given a chance to succeed. The bureaucratic obstacles to economic progress, for example by small farmers, were much greater than appeared at first sight; on the other hand some senior figures in the regime took little trouble to conceal their disbelief in Communist ideology. General Jaruzelski deserved some credit for patriotism despite the excesses for which his regime was responsible when martial law was imposed in 1981. It was nevertheless unrealistic to expect the Polish émigré community in this country to moderate their hatred of the Communist regime.

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The Cabinet -

Took note.

COMMUNITY  
AFFAIRS

Foreign  
Affairs  
Council  
12 June

THE FOREIGN AND COMMONWEALTH SECRETARY said that the main item for the meeting of the Foreign Affairs Council on 12 June had been preparation for the European Council. He had explained the United Kingdom views about the Delors Report and the objections the United Kingdom saw to a Social Charter. He had also noted that the United Kingdom might wish to raise the question of fraud. There was however no substantial discussion of these questions. The Presidency indicated that they did not expect discussion of further items on the Madrid agenda, such as the frontiers exercise and fiscal questions, to be contentious. On other issues the Council had agreed a mandate for negotiations of a Trade and Cooperation Agreement with the USSR. It would be necessary to proceed cautiously in that negotiation and to maintain the position that the Russians were demandeur. In the political cooperation discussions the main topic had been the situation in China.

Social  
Affairs Council  
12 June

THE SECRETARY OF STATE FOR EMPLOYMENT said that the main item discussed at the meeting of the Social Affairs Council on 12 June had been the proposals for a Social Charter put forward by the Commission. This document covered a wide spectrum of policy areas including wage rates, minimum holidays, the position of young people, and provision for retirement and disability. The proposal for such a Charter would be put to the European Council. Although expressed in general terms such a document could undoubtedly be expected to provide the basis for a series of specific directives. He had made clear that the United Kingdom's view of the social dimension was an approach that involved the creation of jobs, and fostering enterprise. It was however apparent that ten Member States welcomed some form of Charter. Denmark had not given the proposal formal support but this reflected procedural requirements for national consultations.

In discussion it was suggested that it would be valuable for material to be prepared setting out the social benefits available in the United Kingdom which could be drawn upon in discussion at the European Council. The proposals in

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the Social Charter amounted to a bid for protectionism on a major scale. For example the intention was that if a Portuguese contractor tendered for work in Germany, his workers should be paid German rates, thus denying him any comparative advantage. The Portuguese authorities might acquiesce in these provisions on the basis that they would look for compensation for such provision through structural assistance. For their part Germany might feel able to go along with the Commission proposal because of the major benefits they in practice enjoyed through access to East Germany for cheap components and intermediate processes. Within Germany on-costs related to social security and others benefits amounted to some 98 per cent. A number of proposals now being put forward by the Commission, such as paternity leave and treatment of part-time workers, had been canvassed in the past. In resisting such Commission proposals it had been found helpful in the past to seek to change the area of debate and give emphasis to the training and employment issues. It would also be helpful to engage representatives of employers' organisations, and to secure fuller understanding of the issues involved through bilateral contacts. More generally, however, a substantial public relations exercise was required. This should encompass the ways in which the social benefits appropriate to a market economy were provided in the United Kingdom together with a critique of the Commission's approach and its implications for free trade, and the distinction between action that was appropriately left to the Community and to national administrations. The Department of Employment had already begun to assemble examples of British practice in the area of employee share ownership. This material should be extended to cover a comprehensive account of the social benefits provided in the United Kingdom.

Summing up the discussion, THE PRIME MINISTER invited the Cabinet Office to arrange for the preparation by the Department of Employment and other Departments concerned of material for use at the Madrid European Council, illustrating the full range of social benefits available in the United Kingdom, having regard in particular to the areas covered in the draft Social Charter.

The Cabinet -

1. Took note with approval of the Prime Minister's summing up and invited the Secretary to the Cabinet to proceed accordingly.

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THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the discussions of agreement on emission limits for small cars at the Environment Council on 8-9 June had begun in an unsatisfactory fashion with little regard being paid by Member States to economic realities and evident preoccupation with public relations considerations. Against this background Lord Caithness had done well to secure an outcome acceptable to the United Kingdom. Although the dates for implementation for the new standards had been brought forward to 1 July 1992 for newly registered cars it had been accepted that there should be no interim standard. The Commission had also undertaken to come forward with measures to limit carbon dioxide emissions. Separately proposals had been agreed for the banning of imports of ivory.

The Cabinet -

2. Took note

Cabinet Office

15 June 1989

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