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CABINET

CONCLUSIONS of a Meeting of the Cabinet  
held at 10 Downing Street on  
THURSDAY 5 MAY 1988  
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 QC MP  
Secretary of State for Foreign and  
Commonwealth Affairs

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer

The Rt Hon Lord Mackay of Clashfern  
Lord Chancellor

The Rt Hon Douglas Hurd MP  
Secretary of State for the Home Department

The Rt Hon Peter Walker MP  
Secretary of State for Wales

The Rt Hon George Younger MP  
Secretary of State for Defence

The Rt Hon Norman Fowler MP  
Secretary of State for Employment

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

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

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

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

The Rt Hon 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 Services

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 FOLLOWING WERE ALSO PRESENT

The Rt Hon David Waddington QC MP  
Parliamentary Secretary, Treasury

The Rt Hon Peter Brooke MP  
Paymaster General

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SECRETARIAT

Sir Robin Butler  
Mr R G Lavelle (Items 3 and 4)  
Mr P J Weston (Items 3 and 4)  
Mr A J Langdon (Items 1 and 2)  
Mr S S Mundy (Items 1 and 2)

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PARLIAMENTARY  
AFFAIRS

1. THE CABINET were informed of the business to be taken in the House of Commons in the following week.

Housing

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the debate on an Opposition motion on housing on the following Wednesday would probably be largely concerned with issues relating to homelessness. The Opposition might well allege that the Government's policies would encourage Racketmanism by private sector landlords, but any such charges could be very clearly refuted. On the other hand, the Government could bring attention to the abuse by some local authorities of their powers to deal with homelessness, including procurement of accommodation for people they accepted as homeless within the areas of neighbouring local authorities: he was bringing forward proposals on this matter to the Ministerial Committee on Economic Strategy, Sub-Committee on Local Government Finance. Another current issue in the housing field was Camden Council's very large arrears in processing applications from council tenants wishing to exercise their right to buy their homes. He believed that this reflected gross inefficiency in the Council's administration, rather than deliberate obstruction of the Government's policies, and he doubted whether it would be useful for him to use his statutory power to intervene. He was accordingly working up proposals for introducing private sector expertise to assist in resolving the problem.

The Cabinet -

1. Took note.

Education  
Reform Bill

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that he hoped that the decisive majorities which the Government had secured on the first day of the Committee Stage in the House of Lords on the Education Reform Bill would help to set the tone for the remaining proceedings on the Bill, and he congratulated the Lord Privy Seal and the Chief Whip, Lords on their handling of the matter. He was consulting church leaders about a form of words for inclusion on the face of the Bill which was designed to meet the concerns expressed in the House of Lords about the nature of religious education in maintained schools and the extent to which it should be based on Christianity. He hoped that agreement could be reached in time for an amendment, which he believed would command wide support, to be tabled at Report Stage in the House of Lords.

The Cabinet -

2. Took note.

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HOME  
AFFAIRS  
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Industrial  
action at  
P & O  
European  
ferries  
previous  
reference:  
C(88) 15.2

2. THE SECRETARY OF STATE FOR EMPLOYMENT, reporting on the strike action by employees of P & O European Ferries at Dover, said that on the previous Tuesday, in an action brought by Sealink, the High Court had ruled the National Union of Seamen (NUS) in contempt of an injunction banning secondary action and had imposed a fine of £150,000 and sequestered the union's assets. British manned ferry services had been substantially disrupted by secondary action, although foreign manned services were largely unaffected. Other unions had not so far lent the NUS any material support. However, the Opposition, in aligning themselves fully with the strike action, had served to polarise the dispute. Neither the NUS nor the Advisory, Conciliation and Arbitration Service (ACAS) seemed likely to be able to come forward with proposals which P & O would now find acceptable; the initiative by the Trades Union Congress earlier that week in seeking to reopen negotiations at ACAS had manifestly had no prospect of success.

Although more than 1,000 P & O employees had accepted the company's revised pay and conditions package, many of them were unwilling to return to work in the face of the current strike action. P & O were currently running two ferries between Dover and Zeebrugge, but were not running any to Calais or Boulogne. Their capacity to run additional services was hampered by a lack of trained staff, but that problem should gradually be overcome as existing staff returned to work and P & O took on new recruits. It appeared that P & O would seek to resume three freight services during the following week.

THE SECRETARY OF STATE FOR TRANSPORT said that P & O had sought fresh certificates for the two ferries which had resumed sailing even though there was no legal requirement on them to do so. Department of Transport surveyors had satisfactorily completed exhaustive inspections of the ships, their crew arrangements and emergency procedures. Seldom had any ships been inspected so thoroughly.

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that, if sustained, the interruption of the Stranraer/Larne ferry, operated by Sealink, would pose increasing problems in Northern Ireland.

THE PRIME MINISTER, summing up the discussion, said that the important points for the Government to get across in any comments they made on the dispute were that ACAS had earlier proposed a deal on which P & O had been willing to settle but which the NUS had rejected; that the NUS had consistently refused to hold a secret ballot; and that the two ferries which had resumed sailing had been exhaustively inspected by Department of Transport surveyors.

The Cabinet -

Took note.

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FOREIGN  
AFFAIRS  
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Release of  
French  
hostages  
Lebanon

3. THE FOREIGN AND COMMONWEALTH SECRETARY, referring to the release on 4 May of three French citizens held in Lebanon for three years by Islamic extremists, said that the only means of achieving this outcome which the French Government had so far acknowledged were withholding the restoration of normal diplomatic relations with Iran and refusing to repay a loan obtained from Iran during the reign of the Shah. If true this position would not be discreditable. But there were grounds for suspecting that the deal struck had gone far beyond this, which would be very damaging to the wider efforts by the West to present a united and effective front against terrorism. Public opinion in France was nevertheless likely to be sympathetic to the release, whatever price had been paid. The United Kingdom's position on "no deals with terrorists" should nevertheless remain unchanged and there was no real pressure from British public opinion to proceed otherwise despite occasional expressions of distress, for example by one particularly active friend of the British hostage, Mr John McCarthy. The Government's public line should therefore be that British policy was unchanged, that we were asking the French Government for details about the circumstances of their hostages' release and that, on purely humanitarian grounds we naturally welcomed the hostages' release.

In discussion, it was argued that the British Government should be cautious about welcoming the release until more was known about the surrounding terms. It was noted that the French Government had already offered to make available to the British Government any information from the debriefing of their released citizens relevant to British hostages and also that events had demonstrated very plainly the direct link between Iran and the hostage takers. The timing of the release recalled the parallel of Iran's action in using the release of American hostages in 1980 to try to influence the United States Presidential election. No doubt Iran had acted now because it believed it had secured the best possible deal at the most timely moment. But it seemed on balance unlikely that the release, even taken together with the simultaneous release of French hostages in New Caledonia, would be enough to swing the second round of the French Presidential election in Monsieur Jacques Chirac's favour.

Poland  
Previous  
reference:  
OC(87) 36.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the underlying situation highlighted by recent unrest in Poland was the same as it had always been: Polish economic policy was a mess. Steps necessary to secure an agreement with the International Monetary Fund such as holding down wages and removing subsidies invariably led to strikes. Because of the absence of a proper political structure for coping with such conflicts of interest, strikers refused to give way and the circumstances were never right for putting a sensible economic policy in place. Nevertheless, there were some grounds for thinking that widespread violence might be avoided. The Polish Government was at least trying to avoid the worst economic folly.

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THE FOREIGN AND COMMONWEALTH SECRETARY said that there had recently been some hopeful developments in Southern Africa. Talks had taken place in London on 3 and 4 May between the United States as mediator, South Africa and Angola (with Cuban representatives as part of the Angolan delegation). There seemed at least to be a possibility of working towards an end to the conflict in Angola, which in turn could have implications for the future of Namibia. It was a good sign that these talks had taken place overtly and that both sides had been prepared to make some gestures of goodwill. There would no doubt be a further round of talks elsewhere in due course.

Meanwhile, there had been a good meeting between the South African President, Mr P W Botha, and the Mozambican Minister for Co-operation, Mr Jacinto Veloso on 26 April. There were signs of co-operation over revival of the Joint Security Commission and the Cabora Bassa power line rehabilitation. On the other hand, it still seemed as though some elements of the South African defence forces were acting in a different direction by supporting the Renamo rebels.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had that morning had a discussion with the visiting Prime Minister of Hungary, Mr Karoly Grosz, who might well succeed Mr Kadar as First Secretary of the Hungarian Communist Party. His discussion with Mr Grosz had been a refreshing experience. Mr Grosz had been the architect of the policy which had made possible an agreement with the International Monetary Fund: this policy had a number of novel features for Eastern Europe, including the introduction of income tax and other taxes, reduction of subsidies and other state intervention in the economy, legislation covering company bankruptcy and returning housing to the market.

The Cabinet -

1. Took note.

THE PRIME MINISTER said that she had taken the opportunity of her meeting on 4 May with the Japanese Prime Minister, Mr Takeshita, to pursue two outstanding bilateral issues: the problem of seats on the Tokyo Stock Exchange and the tax on whisky. On the first point she had expressed disappointment that it had not yet been possible to allocate seats to two further British firms. Mr Takeshita had claimed that on the Tokyo Stock Exchange business was still conducted by floor traders and there was therefore a space constraint on additional members. In response she had said that it would be impossible for the British people to understand that a highly technological nation like Japan would be unable to resolve this problem because of a space constraint. While this remained the position Mr Takeshita must expect the British Government to be reluctant to approve applications by Japanese financial

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organisations in this country. Mr Takeshita had undertaken to take a close personal interest in finding a solution to this issue. As regards the second point, a General Agreement on Trade and Tariffs (GATT) Panel report had found that Japanese taxes discriminated against imported whisky. It had recommended that the current grading system for whisky tax be abolished and that all whisky and competing spirits should be taxed in a non-discriminatory way. She had made clear to Mr Takeshita that it would be unthinkable for Japan to fail to implement the conclusions of the GATT Panel report in full. The main outstanding problem was the differential between whisky and shochu. She had proposed to Mr Takeshita that in the first instance the tax on whisky be set at 1,000 yen per litre and the tax on shochu doubled, so reducing the existing differential to 10:1. Mr Takeshita had commented that shochu was a regional drink with many small producers. He had appeared to accept that Japan should narrow the existing differential to 10:1 but had suggested that this objective could be achieved by a greater reduction in the tax on whisky and a smaller increase in the tax on shochu. He had again given a personal undertaking to find a solution to the problem. GATT procedures seemed unsatisfactory in that acceptance of the requirement for compensation in other sectors, in the event of non-compliance with a panel ruling, might suit a country in some cases.

In a brief discussion it was noted that on the whisky issue Mr Takeshita had indicated an intention to bring forward an acceptable solution at the time of the Economic Summit in June. As regards Stock Exchange seats, one complication was the interest of other countries, notably the United States, in securing access.

Summing up, the PRIME MINISTER said that she had judged it right to take up these two issues at the outset of her discussions. More generally the Japanese attached considerable importance to good relations with this country, which they regarded as a springboard to Europe. English was their second language. The atmosphere of the remainder of the talks and the subsequent dinner had been extremely cordial.

The Cabinet -

2. Took note.

NORTHERN  
IRELAND  
AFFAIRS

Previous  
Reference:  
CC(88) 12.2

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that he had met the Taoiseach, Mr Charles Haughey, at the session in Dublin on 4 May of the Anglo-Irish Conference. He had conveyed to Mr Haughey the Government's great concern over the functioning of the Anglo-Irish Agreement and the failures in security co-operation, as well as over the speeches that Mr Haughey had made recently in the United States. Mr Haughey had conveyed through him a personal message to the Prime Minister about which he would be writing to her. It was however clear that the disruption of the smooth operation of the Anglo-Irish Agreement because of a whole catalogue of incidents and difficulties in security matters over recent months was something that both sides wished to see ended, so

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that the full context provided for by the Agreement could be resumed. He had tabled some tough requirements during the meeting on measures to improve security co-operation and some of these if accepted could be extremely helpful. For this reason, he had deliberately sounded a slightly more optimistic note publicly after the meeting. There remained a real problem about Mr Haughey's underlying philosophical approach, parts of which had surfaced in his recent speeches, and this would have to be the subject of further discussion in due course. In the meantime, because of the illness of the Tanaiste, Mr Brian Lenihan, Mr Haughey had also assumed the responsibilities of Foreign Minister, which would provide welcome scope for further direct talks between himself and Mr Haughey.

In discussion it was pointed out that there had been assurances before from the Irish side which had led to nothing in practice. The real problem was the safe haven south of the border between the Republic of Ireland and Northern Ireland, where British security forces could not follow but Irish security forces were not competent enough to act effectively.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had on 4 May approached the British Broadcasting Corporation (BBC) over the "Spotlight" programme that was reportedly to be shown on BBC television in Northern Ireland later that evening. Like the Thames Television programme "Death on the Rock", it had been expected to carry interviews with alleged witnesses of the shooting of three Irish terrorists in Gibraltar by members of the security forces. He had therefore repeated the arguments, based on the 1968 Salmon Report, against contamination of the evidence if this programme were to be shown before the inquest in Gibraltar, and had also set out the Government's case on this point in writing to the Chairman of the BBC Board of Governors. The BBC's response was awaited: it was possible they would allow the programme to go ahead in a modified form.

In discussion, it was pointed out that in the case of the Thames Television programme "Death on the Rock", it seemed that the Independent Broadcasting Authority, whom the Foreign and Commonwealth Secretary had approached, was not really functioning properly, since members of the Authority had not been meeting collectively to consider the issue but had simply been briefed afterwards by the Chairman. Back-sliding of this kind appeared to be endemic with such supervisory bodies.

The Cabinet -

Took note.

Cabinet Office

5 May 1988

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