

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

COPY NO

76

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 16 JUNE 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 Norman Fowler MP
Secretary of State for Employment

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 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

CONFIDENTIAL

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)

C O N T E N T S

| Item | Subject | Page |
|------|---------------------------------------|------|
| 1. | PARLIAMENTARY AFFAIRS | 1 |
| | Terrorist Incident at Lisburn | 1 |
| | The Housing Bill | 1 |
| | Value Added Tax | 2 |
| | Local Government Finance Bill | 2 |
| 2. | HOME AFFAIRS | |
| | Unemployment | 3 |
| | Trade Statistics | 3 |
| | Community Charge in Scotland | 4 |
| | Football Hooliganism | 4 |
| 3. | FOREIGN AFFAIRS | |
| | Anglo-Iranian Relations | 6 |
| | French Legislative Elections | 6 |
| | Relations between Greece and Turkey | 7 |
| 4. | COMMUNITY AFFAIRS | |
| | Foreign Affairs Council, 13-14 June | 7 |
| | Economic and Finance Council, 13 June | 7 |

CONFIDENTIAL

PARLIAMENTARY
AFFAIRS

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

Terrorist
Incident at
Lisburn

THE PRIME MINISTER said that the Cabinet would wish to record their horror at the killing of six soldiers in Lisburn, County Antrim, the previous day in a car-bomb attack for which the Provisional Irish Republican Army had claimed responsibility. The Secretary of State for Northern Ireland would make a statement to the House of Commons on the subject later that day.

The Housing
Bill

THE LORD PRESIDENT OF THE COUNCIL said that an arrangement had been made with the Opposition through the usual channels for the remaining stages of the Housing Bill in the House of Commons to be concluded on the previous day but that, in the event, the Opposition had not honoured this agreement. This was only the second time in the present Parliament that the Opposition had failed to observe such an understanding reached through the usual channels, and it was far more serious than the earlier occasion which had been attributable to an oversight by the Opposition Business Managers. The Deputy Leader of the Labour Party, Mr Roy Hattersley, had alleged to the press that it had been implied that the Government would not act to increase the financial assistance to Opposition Parties (Short money) unless the Labour Party honoured its undertaking on the Housing Bill. While the Opposition had never been left in doubt that an increase in Short money would be unpopular with Government supporters and that their sympathy would not be increased by what had happened on the Housing Bill Mr Hattersley's account was a gross misrepresentation, which he totally repudiated. The behaviour of the Opposition had, in fact, been largely due to groups of Members representing mining interests, who were opposed to the North Killingholme Cargo Terminal Bill, which had been on the Order Paper as Opposed Private Business on the previous day. The incident was, therefore, a further illustration of the inability of the Labour Party leadership to control its members. Despite these difficulties, it remained highly desirable to maintain good working relations with the Opposition, since a high proportion of essential business was taken, by agreement, off the floor of the House. If those arrangements broke down, Government business on the floor of the House would be much increased and frequent timetable motions would be necessary to secure it. While there was no doubt about the Government's ability to obtain its business at the end of the day, Opposition back-benchers had now sampled the disruption that they could cause and a difficult period might lie ahead. In these circumstances, he believed it would be best to allow a cooling-off period until 27 June before the House considered the timetable motion that would now be necessary for the Housing Bill. The North Killingholme Cargo Terminal Bill would again appear as Opposed Private Business in the following week, and the Business had been arranged so that the time allotted to it would not be in jeopardy.

CONFIDENTIAL

CONFIDENTIAL

THE PRIME MINISTER, summing up a short discussion, said that the Government would never use the level of financial assistance to Opposition Parties as a bargaining counter in the way that had been suggested in the press. A connection between the two subjects might nevertheless be mischievously inferred if they were considered by the House of Commons on the same day, and it might be better for the two pieces of business to be separated. The Lord President of the Council should consider, with this point in mind, whether the motion on financial assistance to Opposition Parties should be taken early in the following week.

The Cabinet -

1. Invited the Lord President of the Council to proceed as the Prime Minister had indicated.

Value Added
Tax

THE CHANCELLOR OF THE EXCHEQUER said that the European Court of Justice were expected to announce their judgment early the following Tuesday on a long-running Value Added Tax (VAT) zero-rate infraction case relating to the construction industry and a number of other matters. The Advocate General's opinion, which had been made public in the previous December, had accepted United Kingdom zero-rating for domestic construction but had held against the Government on non-domestic construction and certain other matters. The Government were legally obliged to give effect to the Court's judgment, although there would clearly not be sufficient time to introduce the necessary legislation in the present Session. The Court's decision was not yet known but, on past experience, it was likely to follow the Advocate General's opinion and, if so, he believed that, in order to remove uncertainty, it would be necessary for the Government to make a statement in the House of Commons on the following Tuesday announcing how it intended to take forward the matters concerned. The judgment was bound to be controversial and would require sensitive handling.

Local
Government
Finance
Bill

THE SECRETARY OF STATE FOR ENVIRONMENT said that the Committee Stage of the Local Government Finance Bill was due to be completed later that day. He congratulated the Lord Privy Seal and the Minister of State, Department of the Environment (Lord Caithness) on the successful way in which they had handled it.

Previous
Reference:
CC(88) 19.1

The Cabinet -

2. Took note.

CONFIDENTIAL

CONFIDENTIAL

OME
FFAIRS

nemployment
revious
eference:
C(88) 18.2

2. THE SECRETARY OF STATE FOR EMPLOYMENT said that the unemployment figures for May would be published that day. The seasonally adjusted totals had fallen by 38,000 to 2.416 million. This was the 22nd consecutive month in which unemployment had declined, which was the longest continuous period of falling unemployment since the Second World War. The unadjusted total for May had fallen by 109,000 and unemployment had now fallen by a little over 500,000 since the General Election, contrary to predictions which the Labour Party had made that unemployment would rise after the Election. All regions had benefitted, with the largest reductions occurring in the West Midlands, the North West, the North and Wales. A particularly encouraging feature was that unemployment among school leavers had fallen by 53,000 since the previous May and now stood at the lowest level since May 1980. The number of unfilled vacancies had risen slightly in May and it was estimated that there were 700,000 vacancies in the economy as a whole. Figures would also be published that day on the number of working days lost to industrial disputes in the 12 months up to April 1988. It was provisionally estimated that 2.3 million days had been lost during that period compared with 3.5 million in the previous 12 months and an average of 11 million over the previous 10 years. The only unwelcome development was that there had been a further increase of $\frac{1}{4}$ per cent in average earnings, to $3\frac{3}{4}$ per cent. This partly reflected higher bonuses and, in the case of the public sector, the generous pay awards for nurses and for local authority manual workers.

Trade
Statistics

THE CHANCELLOR OF THE EXCHEQUER said that revised trade statistics for the first quarter of 1988 would be published that day. The estimated overall deficit for that period had been revised from £2 billion to £2 $\frac{3}{4}$ billion, £ $\frac{1}{4}$ billion of which was attributable to a higher deficit on visible trade and the remaining £ $\frac{1}{2}$ billion to a lower than projected surplus on invisible trade. These estimates would be subject to further revisions, but it was already clear that the overall deficit for that year would be higher than the forecast of £4 billion which he had made at the time of the Budget. The economy was moving ahead faster than he had forecast at the time of the Budget, with a boom in investment by business and industry and a continuing increase in consumption. Economic policy needed to be set by reference to a broad view of monetary and fiscal policy and movements in exchange rates, and it would be wrong to react precipitately to trade figures as they became available, especially since they were subject to considerable adjustments. Nevertheless, bearing in mind both the scale of the corrections that proved necessary and the size of the balancing item, which reflected the discrepancy between estimated income flows and estimated capital flows, it was necessary to re-examine the way in which these and other economic statistics were collected. A review of this matter was therefore already in hand. The latest trade figures had to be seen in the context of the cumulative current account surplus of £21 $\frac{1}{2}$ billion which had been earned between 1980-87 when the nation's currency reserves had been at record levels.

CONFIDENTIAL

CONFIDENTIAL

Community
Charge in
Scotland

THE SECRETARY OF STATE FOR SCOTLAND said that the Community Charge Registration Officer for Strathclyde had announced the previous day that 85 per cent of persons canvassed had submitted completed returns for the community charge register, out of 830,000 households, only 5,000 people had refused outright to provide the information requested and in due course many of those would doubtless agree to co-operate. These figures, which were typical of experience elsewhere in Scotland, and which would improve further before the end of the canvass period, were especially encouraging since the Labour Party had mounted a campaign concentrating on Strathclyde promoting obstruction of the registration process. It could now be confidently predicted that the registration process in Scotland would be completed satisfactorily.

The Cabinet -

1. Took note.

Football
Hooliganism

THE PRIME MINISTER said that the involvement of British football supporters in serious rioting at the European Football Championships in Germany earlier that week was merely the most recent episode to demonstrate the growing social evil of football hooliganism. Further action was undoubtedly called for on a number of fronts. While British club teams remained prohibited from participation in European events, overseas matches between national teams were becoming a battleground, with widespread disturbances in the streets. Since it did not appear practicable in the short term to use the issue of passports to prevent disorderly British football supporters from travelling abroad, it would be necessary to consider whether the English football team ought to cease taking part in international competition for a period. At home, the preservation of order inside football grounds had been much improved since the Popplewell Reports in 1985 and 1986, though limiting entry to registered club members, and the accommodation of all spectators in numbered seats were matters that would need to be reconsidered. Alcohol was very clearly a major factor in disturbances in the areas surrounding football grounds, and it would be necessary to review the use that magistrates had made of the powers they had been given to control the sale of alcohol in these areas. On the basis of previous experience, the football authorities would only tackle these problems with energy if strong pressure were applied to them. The Government should therefore draw up a clear plan of action and be prepared to invite Parliament to endorse it.

In discussion the following main points were made -

- a. The certainty of conviction and adequate punishment must be the greatest deterrent to hooliganism, but there were problems in securing evidence that was sufficient to justify conviction for the graver offences that were likely to be in question. The police had put much effort into undercover work aimed at conspiracies to organise disturbances, but the collapse of three recent

CONFIDENTIAL

CONFIDENTIAL

Metropolitan Police cases had been a setback in this. The Home Secretary proposed to take steps to improve police intelligence on this aspect. Once a violent disturbance developed, it was notoriously difficult for the police on the ground simultaneously to maintain order and to equip themselves with evidence against particular individuals.

b. Police forces in other countries faced the same difficulties as our own in securing evidence to support convictions for the graver public order offences. Instead of being in real fear of foreign courts imposing substantial prison terms, which might then be served in British prisons, football hooligans going to matches abroad did not, in practice, risk more than a night in the cells, which they regarded as a battle honour.

c. The initiative by Luton Football Club to restrict spectatorship at their home matches to their own members had succeeded in preserving order, so that these matches were enjoyed as family occasions in the neighbourhood. Such a solution would, however, be vehemently opposed by most other clubs.

d. The perception by many Europeans of British visitors as drunken and disorderly louts had too much substance for comfort, and was a growing problem in our international relations.

e. Although attempts might be made to take the debate into broader social issues, it was important to deal with the specific problems of football disorder, since this was reasonably well defined and had a particular importance of its own.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed that the Government should take a further initiative against football hooliganism in the light of recent disturbances in connection with matches both home and abroad. Matters requiring further consideration included the sale of alcohol, the conditions for admission to football grounds, and foreign travel by both teams and supporters. The effectiveness of police intelligence arrangements against football hooliganism also needed to be improved. The Cabinet had had a useful discussion of these matters. She would now proceed to consider them in more detail with the Ministers most closely concerned, and would bear in mind the points that Cabinet colleagues had made.

The Cabinet -

2. Took note, with approval of the Prime Minister's summing up of the discussion.

CONFIDENTIAL

CONFIDENTIAL

FOREIGN
AFFAIRS

Anglo-Iranian
relations
Previous
reference:
C(88) 20.3

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that it remained necessary to counter suspicions, fostered by the press, that the Government was seeking to negotiate with Iran a deal leading to release of hostages. Negotiations on compensation for damage to diplomatic premises in Iran and London ended on 10 June with Iranian acceptance that the Government's proposals offered a good basis for settlement. It would however be important to obtain adequate guarantees that the Iranians would indeed use the money paid to them to rebuild their Embassy at 16 Princes Gate, London. There had been various signs recently that Iran wished to improve the atmosphere bilaterally. A visa had been issued to the brother of one British subject imprisoned in Iran. Consular access had been granted to another. After the Iranian attack on the Esso tanker "Demetia" the Iranian Charge d'Affaires, in response to a strong British protest on 13 June, had not attempted to deny Iranian responsibility but had said that the attack was unauthorised and an inquiry was being undertaken. These indications had fuelled press speculation about improvement in United Kingdom/Iranian relations. But the press did probably now understand that the release in May of an Iranian terrorist, Mr Nouripoor, from prison in this country had been pure coincidence, since the man had completed his sentence with minimum remission.

Lambeth Palace, in response to an approach from Iran, had persuaded four Members of Parliament, Mr Cyril Townsend, Mr Robert Hicks, Lord Tordoff and Mr Tom Clarke, to go to Iran from 19 to 22 June to see the Speaker of the Iranian Parliament, Mr Ali Akbar Rafsanjani. The Government had delivered the strongest caution to Lambeth Palace about the risks involved in such a visit. It was not possible to prevent these Members of Parliament going to Iran, but they were aware that they would be doing so without the Government's encouragement or approval.

In discussion, it was noted that the visit might well be misinterpreted by the media as evidence that the United Kingdom was ready to negotiate over hostages. The Government's public line should therefore bring out clearly that it had warned against the visit which it regarded as most unwise.

French
Legislative
Elections
Previous
Reference:
CC(88) 18.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the second round of legislative elections in France on 12 June had produced a hung Parliament. The Socialists were slightly ahead of the Right Wing parties. The Communists had retained 27 seats and the National Front one. Monsieur Michel Rocard was remaining as Prime Minister and his strategy would be to look for additional support from the centre of the political spectrum. This would not make France easier to deal with in the immediate future. The French Government was likely to become more tense and less predictable.

CONFIDENTIAL

CONFIDENTIAL

relations
between
Greece and
Turkey

THE FOREIGN AND COMMONWEALTH SECRETARY said that the overall situation between Greece and Turkey remained broadly unchanged following the summit meeting earlier that week in Athens between the Turkish Prime Minister, Mr Turgut Ozal, and the Greek Prime Minister, Dr Andreas Papandreou. He himself had seen the President of Cyprus, Mr George Vassiliou, the preceding week who was ready to co-operate with the Secretary General of the United Nations, Mr Perez de Cuellar, over the latter's proposals, including a meeting with the leader of the Turkish Cypriot community, Mr Rauf Denktash. He remained sceptical however about whether progress would be made.

The Cabinet -

Took note.-

COMMUNITY
AFFAIRS

Foreign
Affairs
Council
13-14 June

4. THE FOREIGN AND COMMONWEALTH SECRETARY reporting on the meeting of the Foreign Affairs Council on 13-14 June said that agreement had now been reached on all the follow-up to the Brussels European Council. This meant in particular, that we would now have watertight arrangements for the abatement and an agreed budget discipline text covering the agricultural guideline. The next step was conciliation with the European Parliament on 20 June. The several texts could then be adopted. The Foreign Affairs Council had also agreed that the next European Parliament elections would be held between 15 and 18 June 1989. Further progress had been made on the EC/Hungary trade and co-operation agreement. The last major obstacle had been removed with acceptance of the British proposal for abolition of all quantitative restrictions by end-1995, an initiative taken following the Hungarian Prime Minister, Mr Grosz's, visit to London in May. The Hungarians were appreciative of our role. He hoped that agreement could be finalised by the Hanover European Council. He added that there now seemed a prospect of agreement at the Transport Council on 20-21 June on an acceptable proposal for road haulage market access. Taking these points and those on which the Chancellor of the Exchequer was to report, the German Presidency could claim to have made some solid achievements.

Economic and
Finance
Council
13 June

THE CHANCELLOR OF THE EXCHEQUER said that there had been a useful meeting of the Economic and Finance Council. The text had been agreed of the Inter-Institutional Agreement on budget discipline negotiated between the Presidency, the Commission and the European Parliament. In a number of areas this had been reinforced by unanimous Council statements confirming our interpretation of the European Council conclusions. The Agreement was conditional on the European Parliament accepting the Own Resources sub-ceilings and the text of the budget discipline decision. He said that the major achievement of the meeting had been agreement on the directive on liberalisation of capital movements. This required abolition of exchange controls throughout the

CONFIDENTIAL

CONFIDENTIAL

Community by 1990 subject to a derogation for Spain and Ireland permitting implementation in 1992 and a similar provision for Greece and Portugal delaying implementation if necessary until 1995. The French had been extremely difficult in the discussions, seeking to stipulate as a pre-condition for exchange control abolition that there should be harmonisation of taxation of savings. They believed that in the absence of such arrangements there would be a massive flight of capital and loss of tax revenue to the French authorities. He had resisted any such pre-condition. But a face-saving agreement had been reached on studies covering such matters as possible measures to reduce risks of tax evasion. Proposals would be put to the Council, but the Council was only required to take a position on them and any action would require unanimity. A particular cause for satisfaction in the agreement was that the 1972 directive, which in principle required the existence of exchange control powers, and in which the United Kingdom had been in breach, had been swept away. Agreement on the directive would cement progress to the single market. It underlined that European development should take the form of liberalisation and deregulation rather than harmonisation and regulation. The agreement might be expected to put pressure on the French authorities to reduce their taxation of savings, and might also carry implications for President Mitterrand's proposals for introduction of a wealth tax.

The Cabinet -

Took note.

Cabinet Office

16 June 1988

CONFIDENTIAL