



*Prime Ministers
To note. Agree to take action
as in para 7?*

*AT
18/6*

Ref.A090/1421

MR TURNBULL

Yes Mr

EMU: Press Stories

You drew my attention to the Financial Times story by Philip Stephens this morning, and I have discussed this with Sir Peter Middleton. There have also been two other stories over the weekend which show more knowledge than ought to be available to the Press about Ministerial discussions. One was in the Independent on Friday - "Cabinet Battle over EMU" - and the second was in The Observer on Sunday - "Walters gives PM a way out on EMS". I attach copies of all three articles.

2. All three articles contain clues to their provenance, although there is no conclusive evidence and what follows is speculation. The story in the Independent is written from a DTI standpoint and quotes a Ministerial source: there is a temptation to identify the Ministerial source with John Redwood.

He wasn't

3. The story in the Observer focuses on Sir Alan Walters as the source of the idea of a North Atlantic free trade area. It also quotes "Sir Alan's close colleagues". It is tempting to think that this is a confidant of Sir Alan, perhaps in the area of the Centre for Policy Studies. It could just possibly be Sir Alan himself, though I doubt it.

4. The article by Philip Stephens in the Financial Times this morning has a Foreign Office slant. The source appears to know about discussions between the Foreign Secretary and The Chancellor (although not about the details of the latest ideas being discussed) and the reference to John Kerr by name, as well as the general line of the article, suggest that it comes from

PERSONAL AND CONFIDENTIAL



someone who sees things from an FCO angle, but not from the Foreign Secretary himself who is (I gather from Sir Patrick Wright) furious about the story.

5. All three articles are written by political correspondents.

6. What seems to me evident about these three articles is that they all contain some information which should not be known and are written from the angle of different players. We are therefore close to having the very important and sensitive debate on EMU again being conducted in the columns of the Press. This is bound to make all the participants suspicious of each other and to risk provoking even further talk, as well as the strains which ended so disastrously last autumn.

7. In these circumstances, what seems to me necessary is for the Prime Minister to say at her meeting with her Ministerial colleagues tomorrow that she has seen these articles and that they are bad for the Government and for relations with colleagues, as well as potentially disruptive to the financial markets. Her Ministerial colleagues should give firm instructions to (a) their junior ministers, (b) their special advisers and (c) their departments that absolutely nothing further is to be said to the Press about these discussions.

8. I suggest that it would also be wise for you to speak to Sir Alan Walters on the same lines and ask him, on the Prime Minister's behalf, to avoid being provoked himself and to ask any friends to refrain from commenting.

N Davidson

PP ROBIN BUTLER

(Approved by Sir Robin and signed in his absence)

18th June 1990

PERSONAL AND CONFIDENTIAL

unexpected resistance from the US and were restricted to a 1-0 win..... Page 32

'Independent' sales

The average daily sale of *The Independent* in May was 417,000, up by 3,000 on April.

INSIDE

ROCK



Giant pigs and inflatable women 15

LAW

Kremlin at bay 17

PETER KELLNER

Poll tax will not go away 19

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Miners terrorise Bucharest

From Marc Champion in Bucharest

MINERS armed with wooden clubs and coshes swarmed into central Bucharest in the early hours of yesterday morning, savagely beating anyone suspected of opposing the government, in a ruthless attempt to teach the capital a lesson after its long night of senseless destruction.

The death toll from the mob violence rose to at least 11. The government newspaper, *Adevarul*, and a communiqué from the army said the riots were caused by "fascists in uniform" and had amounted to an attempted coup.

The opportunity was taken to close down the city's only mass circulation newspaper to have openly challenged the government, *Romania Libera*. The headquarters of the two main opposition parties, the National Peasants and the National Liberals, were

ransacked and their contents piled up and burnt outside.

When plainclothes policemen appeared in force to help to clear University Square of *golani* demonstrators at 4am on Wednesday, it was the first time since December's revolution that Securitate officers had been seen openly performing their duties. That was the first of two post-revolutionary taboos broken; the second was to fire live ammunition at protesters.

Invited by President Iliescu, the miners began to arrive in the square at 5am yesterday, barely an hour after the last rioters had left. As they swirled around the square like enraged warrior ants searching for prey, the most suspect were

young men resembling students, but women and the elderly were also thought suitable for beating.

The streets yesterday morning were more frightening to walk than the barricades the night before, under sporadic fire from automatic rifles. The miners worked in tandem with the police and army.

They seized whomever they pleased and then frog-marched them the length of the square to waiting jeeps or, in most cases, ambulances. The victims were punched, kicked and lashed with clubs as they ran the gauntlet.

One miner with a megaphone marched around the square giving instructions. Workers from factories around the country also came to give moral support. They marched through University Square and on to Victory Square

in columns of 100 or 200, a placard with the name of their factory at the head of each. As they passed they waved and sang.

The witch-hunt continued all day long. By evening there were 277 casualties in the emergency hospital. The leader of the Students' League, Marian Munteanu, was in intensive care after a half-hour beating. "The miners were not guilty for this, they were just tools," he said. His comment reflected a growing feeling that the government may have planned the whole riot.

Mr Iliescu's statement put the blame for the disorder on the Interior Minister, Mihai Citsac, and then ordered his replacement. The government spokesman said yesterday morning that the miners would be asked to go home and the police would regain control.



But by last night there was no sign of either happening.

Further report, page 10
Leading article, page 18
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Cabinet battle over EMU

By Colin Brown
Political Correspondent

NICHOLAS RIDLEY, the Secretary of State for Trade and Industry, is fighting an increasingly bitter battle within the Cabinet against accelerating moves towards European economic and monetary union (EMU), being pressed forward by John Major, the Chancellor of the Exchequer, and Douglas Hurd, the Foreign Secretary.

The Prime Minister's view will be decisive, and *The Independent* has learned that she wrote passages of a recent speech to the Bruges Group by Mr Ridley which was intended as a warning shot against EMU. One minister said: "We've all been told that anything we say on the subject has to be cleared first by Downing Street.

Nick's speech was cleared, but the Foreign Office want us to go quiet on the issue."

Mr Ridley's supporters within the Government fear Margaret Thatcher will be persuaded by the Chancellor and the Foreign Secretary to drop her gut objections to EMU for electoral advantage. Mr Ridley fears that the arguments within a Cabinet committee about stage two of the Delors plan proposing closer alignment between European currencies have gone by default.

"Nick is fighting a rearguard action. The Prime Minister's view is

going to be crucial, but he is very worried that the debate seems to have skipped stage two of Delors and is now concentrating on stage three [full monetary union]. He is saying, 'Hold on a minute - we haven't completed stage one yet,' " a ministerial source said.

"Nick is very disappointed with Major. He thinks Major is doing it either because it could create an electoral window to reduce interest rates next year, or to shoot Labour's fox so that we can say, 'OK, we've joined the ERM [Exchange Rate Mechanism] - what have you got left?' That's the sort of argument that might just convince the Prime Minister; but it's no way to run an economy."

Background, page 21

'Is Melvyn Bragg vain? Is the Pope Catholic?'



"THE NEXT thing that strikes me is that Melvyn Bragg is quite peculiarly, unexpectedly nervous; he keeps writhing in his chair and squeezing his arms down between his legs - not at all the bland, sunny soul he appears on television.

"But this real-life twitchy, neurotic Melvyn is in my view infinitely more interesting than the smug bit of thinking woman's crumpet that fronts *The South Bank Show*. Is he vain? As soon as I mention his looks, he becomes defensive: 'First of all - I know this is hopeless to say - I have got no opinion of the way I look at all and that's the truth. I

actually think that people who are plain have a better time on television, because more people sympathise with them, and identification is everything. But there you are... that's the truth, and I think you'll find that everyone who knows me will agree... ' But I did ask someone who knew him and he laughed, 'Is Melvyn vain? Is the Pope Catholic?' " Lynn Barber talks to Melvyn Bragg in *The Independent* on Sunday this weekend

Virgin's honour at stake in World Cup drama

HER NAME is Isabella, her purity has been impugned, and she is said to have a

From Jonathan Foster in Cagliari

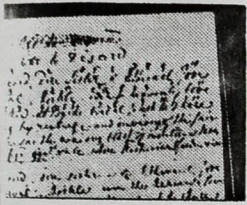
story. At least three newspapers pursued her across daunting language barriers and by the hotel manager, brought the police to the hotel. One reporter had his passport confiscated and was threatened with

...to overcome his writing
blems by composing hun-
ds of poems. These verses,
ch have been deciphered for
first time and will be pub-
ed to coincide with a Tate
lery exhibition opening on
June, provide a new insight
his paintings.

Turner's poetry emphasises
love for the landscape along
Thames. For him the
mes had a powerful sym-
importance,' according to
rew Wilton, keeper of the
s British Collection.

Although Turner jotted
n poetry in many of his
chbooks, the most impor-
collection of his writings is
is Verse Book. This note-
c, which still belongs to the
ner family, has seldom been
bited. Rosalind Mallord
ner, whose great-grandfa-
inherited the verses book,
at last transcribed it. 'Al-
gh it has been in our family
generations, it was ex-
ely difficult to decipher,'
aid.

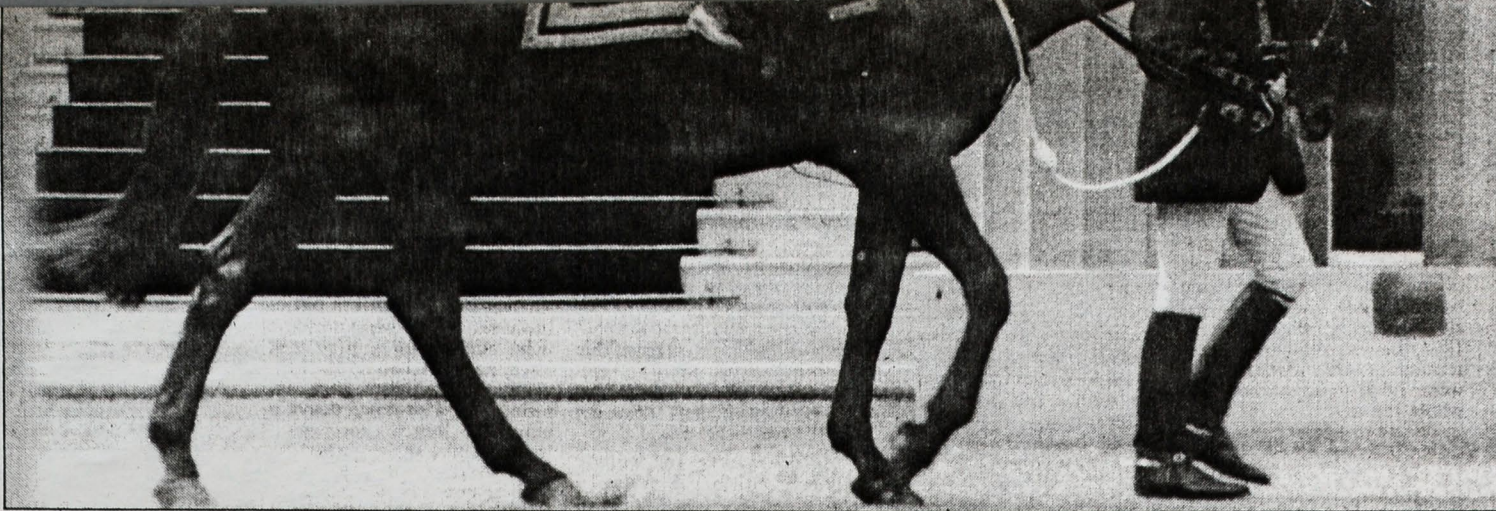
ne problems of reading
er's poetry explain why it
never been systematically
ed. For the most part writ-
a barely legible scrawl for
artist's own satisfaction,
isolated verses have been
shed.



File of the Verse Book.

Turner normally wrote in
l, which has now faded,
in some cases the writing
been damaged by flooding.
he most difficult problem
result of his dyslexia,' ac-
g to Wilton.

dyslexia, a disorder which
rs the ability to read and
, was only recognised as a
cal condition in the late
eenth century. Turner,
died in 1851, was therefore
are of the reason he found



Prince Harry mounts his own parade after the Topping of the Colour in London yesterday to mark the Queen's birthday. After the formal ceremony the Queen laughed as Harry, his brother William and their cousins played 'trooping' in her Ivory Phaeton./Photograph by Tony Ward.

Walters gives PM a way out on EMS

Nicholas Wapshott
Political Editor

MRS THATCHER is planning to counter moves towards European monetary union at the EC Summit in Dublin next week.

She remains unconvinced by the Delors plan for monetary union and will arrive at the inter-governmental conference in Rome in December with a British alternative based upon an idea of Sir Alan Walters, her former economic adviser.

In Rome she will put forward a detailed proposal rejecting monetary union, a common European currency and a combined central bank in favour of a

much wider and looser currency regime which would embrace the dollar.

Sir Alan's plan is related to an idea suggested by the US Secretary of State, Jim Baker, to convert Nato from a purely defence organisation into a broader political and economic forum.

Sir Alan proposes that the EC, the United States and Canada should form a common free trade area with a currency regime similar to the ERM.

A Nato-based free trade area would allow other countries, such as the European Free Trade Area (Efta) members and Hungary, to join quickly.

Most importantly to Mrs Thatcher, such a free-trade area

would involve no loss of economic or political sovereignty for the nations involved.

Mrs Thatcher confirmed the direction of her thinking in Moscow last week when, in a little reported interview on TV-am, she said:

'I think that Nato should be the forum for our main transatlantic relationship between the United States, Canada and Europe and we should enlarge that forum from a defence forum to a political forum. And there is no reason why we should not have much closer associations with the United States, maybe a free trade area between the United States, Canada and the Community.'

The return of Sir Alan as an instigator of economic policy is bound to cause acute political embarrassment to the Government.

Mr Nigel Lawson, the former Chancellor, resigned from the Government last year because he thought Sir Alan's influence upon Mrs Thatcher was sending contradictory signals about Britain's economic policy to the markets. Sir Alan resigned from his unpaid post at the same time.

It was confirmed by Mrs Thatcher in the Commons last week that Sir Alan is once again advising her on economic matters. Mr Neil Kinnock, the Opposition Leader, caused the

Prime Minister to complain that she was entitled to see which 'family friends' she liked.

Far from embarrassing the Prime Minister, however, Sir Alan's close colleagues think that Mrs Thatcher is grateful to Mr Kinnock for making their meetings public.

As one put it: 'What was awkward before was the suspicion that he was giving advice in private. Now that it has been brought out into the open and there has been no complaint from Mr Major [the Chancellor of the Exchequer], the relationship can continue without embarrassment.'

EMS euphoria, page 33

East and West join the fight against pollution

Polly Ghazi

AN HISTORIC agreement was

safety and air and water pollution affecting the region.

The EC Environment Com-

rousek said life expectancy in his country was seven years lower than in Western Europe,

pollution monitoring and control with Western assistance and a code of environmental con-

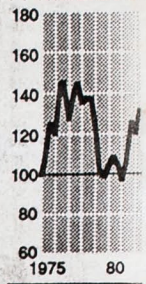
further £144m has been agreed for East Germany, Czechoslovakia, Yugoslavia, Bulgaria and

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Scarcely a day goes by without the City's short-termism being blamed for some evil or other. Last week a Department of Trade and Industry report pointed the finger at Britain's under-investment in research and development. This subject is bedevilled by assertions with little evidence to back them. British industry has a much lower R & D spend than many of its rivals and British companies pay out a higher proportion of their earnings in dividends than those in other countries. Showing a causal link is another matter.

The DTI report points out that there is a vast difference between the R & D spending rates of the pharmaceuticals sector and the rest of British industry. But if the City were such a constricting factor on R & D spending, one would expect the sector to be at a discount to the market. In fact, it stands at a premium of more than 50 per cent. Nor has the City proved unwilling to back long term projects such as Eurotunnel. Perhaps it is easier for companies to sell "high concept" projects such as wonder drugs and cellular phones to the City than the more mundane business of widget-making. But previous studies suggest that, rather than lacking the means or opportunity to invest, industry lacks the confidence in being able to bring investments to a profitable conclusion. That raises issues not about the markets, but about the standard of British management, the education system and its links with industry.

The difficulty in tackling those long-term problems may explain the search for short-term solutions such as changes to the Takeover Code. But comparison with takeover-proof continental companies like Philips, which spends hugely on basic research to little apparent purpose, suggests

ings. Even with Willis Faber's sh news of its plans Corroon & Blac nearly 14. Rath assume more t nent upturn in erty/casualty in For the long ha that brokers are tures, with the c potential of a GI ness. Given Sed of no dividend 1986, this is not whatever one th lis/Corroon short-term imp deal's underlying that the golden ioned broking i their need to m months of wha been difficult t Willis and its partner, Johnson decade ago, the c a weak pound, rates, cowboy ta margin Lloyd's reinsurance bro keep the UK-be earnings moving down-cycles. Mos tors no longer a market still rat though they do. The best way t is to stop pricin kers by refer

Choosing lanes in a two-speed Europe

Philip Stephens on a clash of advice to Mrs Thatcher on moves towards monetary union

As Mrs Margaret Thatcher prepares for the European Community heads of government summit in Dublin next week, the tense debate which led to last year's political upheavals over her approach to the EC is being rehearsed again in Whitehall.

Mr John Major, Chancellor of the Exchequer, and Mr Douglas Hurd, Foreign Secretary, have been preparing a set of proposals designed to ensure that Mrs Thatcher's ingrained antipathy towards European integration does not leave Britain isolated in Dublin.

A year ago, Mr Nigel Lawson, then Chancellor, and Sir Geoffrey Howe, then Foreign Secretary, entered 10 Downing Street with a warning and an ultimatum.

The Prime Minister was told then that Britain faced a grave risk of being left behind in a two-speed Europe. If it wished to be taken seriously in the debate over economic and monetary union (EMU), it had to give a firm commitment to take up full membership of the European Monetary System. The implicit ultimatum was that if Mrs Thatcher refused to budge, she risked not only isolation in Europe but the loss of her two most senior ministers.

From that meeting, which was preceded by a lengthy official minute signed by both ministers, came the conditions Britain set out at the Madrid summit for participating in the EMS exchange rate mechanism. From it too stemmed Sir Geoffrey's enforced departure from the Foreign Office in July and Mr Lawson's angry resignation from the Cabinet in October.

Over the past few weeks the senior officials they left behind must have been experiencing a sense of déjà vu.

Mr Hurd and Mr Major have had private breakfasts at the Foreign Secretary's London residence at No 1 Carlton House Gardens, and lengthy meetings at No 10 Downing Street.

The aim has been to nudge Mrs Thatcher sufficiently far in the direction of a commitment to Emu to prevent Britain from being consigned, from the start, to the slow lane in Europe.

In the background, Mr Nicholas Ridley - this year as last - has been trying to pull her in the opposite direction. The Trade and Industry Secretary opposes membership of the ERM as well



John Major (left) and Douglas Hurd: In a stronger political position than Nigel Lawson and Sir Geoffrey Howe, yet temperamentally much less inclined to seek a showdown with Mrs Thatcher

as any move beyond that towards monetary union.

The circumstances, of course, are different from those of last year. The confrontation with Mr Lawson and Sir Geoffrey came at the end of a series of increasingly bitter rows; the last throw of the dice for two ministers whose relationship with Mrs Thatcher was close to breakdown.

Mr Hurd and Mr Major are both in stronger positions and yet temperamentally much less inclined to seek a showdown with Mrs Thatcher. The conventional wisdom at Westminster is that she could not sack either without seriously jeopardising her own position, but equally neither will force her hand.

Nor are they entirely at one on how far they should seek to nudge her in the direction of her European partners. Mr Major is said to be more cautious than Mr Hurd about just how far she should and can be pushed.

Coincidentally, Mr John Kerr, the same Foreign Office mandarin who drafted the fateful Lawson-Howe minute before Madrid, has been co-ordinat-

ing the preparations for Dublin. There has been tension this year, but not the same air of intrigue and conspiracy generated last year.

Mrs Thatcher too has changed, albeit reluctantly. The original suggestion last year was that she should give a firm pledge at the summit to take sterling into the ERM within six months. That was watered down to the commitment enshrined in the famous Madrid conditions embracing closer convergence of British and European inflation rates and completion of the single market.

The Prime Minister has accepted the inevitability of ERM membership within a much tighter timescale, though her colleagues are constantly fearful that she might change her mind. In spite of the demands, officials have been scanning Whitehall diaries for a suitable date during the autumn.

She is said also to have been impressed by Mr Hurd's success in bringing talks within the Community on political union down to earth.

A positive tone and a few, distinctly modest, proposals of its own have

allowed the Government to throw at least a temporary bridge between the ambitious rhetoric of its partners and its own innate scepticism.

The substance of Mr Hurd's careful negotiations with Mr Major, however, are focused on what they both regard as the most serious challenge to Britain's place in Europe.

Their starting point is a deep concern that their partners will use the Dublin Summit and the subsequent intergovernmental conference on Emu in December to accelerate further their timetable for the creation of a single European currency and central bank.

Whitehall's nightmare, according to one senior insider, is that President François Mitterrand might pass around a piece of paper committing each leader to the eventual replacement of national currencies with a single EC currency; the other 11 heads of state might sign with Mrs Thatcher refusing to do so.

This year has led Mr Major to develop proposals to signal that if Mrs Thatcher is not ready to commit herself to the final goal then she will allow constructive steps in that direction.

So far he has suggested that Government, hitherto committed to only the first phase of the three-stage process outlined in the Delors report, is prepared to move on to the second stage.

Britain will suggest the creation of institutions to manage monetary policy in the ERM countries and, perhaps, to oversee the development of the European Currency Unit into a widely-used parallel currency.

But the Foreign Office is getting the message from Paris and Bonn that full union must be seen from the outset as a certainty rather than a possibility.

One suggestion in Whitehall is that the Government signs up for that final goal but reserves the option of withdrawing later. Mrs Thatcher is being told that similar commitments have been made by Britain in the past.

The Prime Minister has so far described such a strategy as "dishonest," citing clear, bi-partisan, majorities in the House of Commons against full monetary union. Mr Hurd and Mr Major will have to work overtime if they are to square the circle before she flies to Dublin next Sunday.

Reports urge monetary union, Page 8

EC may act after Romanian crackdown | Construction

By Judy Dempsey in Bucharest and David...