CABINET

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MINUTES 21 - 30
## MINUTES

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   - Gibraltar Inquest
   - Chile

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   - EC/New Zealand: Butter and Sheepmeat
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on
THURSDAY 16 JUNE 1988
at 10.30 am

PRESENT

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 Lord Mackay of Clashfern
Lord Chancellor

The Rt Hon Peter Walker MP
Secretary of State for Wales

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 Paul Channon MP
Secretary of State for Transport

The Rt Hon John Wakeham MP
Lord President of the Council

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

The Rt Hon David Waddington QC MP
Parliamentary Secretary, Treasury

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 Norman Fowler MP
Secretary of State for Employment

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

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

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

The Rt Hon The Lord Belstead
Lord Privy Seal

The Rt Hon John Major MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

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)

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PARLIAMENTARY AFFAIRS

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.
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
offices 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.

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 what it intended to take forward the
matters concerned. The judgment was bound to be controversial and would
require sensitive handling.

THE SECRETARY OF STATE FOR ENVIRONMENT said that the Committee Stage of
the Local Government Financial 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.

The Cabinet -

2. Took note.
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, \( \frac{3}{4} \) 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.

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 £23/4 billion, £1/4 billion of which was attributable to a higher deficit on visible trade and the remaining £1/4 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 seen in 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 £21½ billion which had been earned between 1980-87 when the nation's currency reserves had been at record levels.
CONFIDENTIAL

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.

THE PRIME MINISTER said that the involvement of British football supporters in serious rioting at the European Football Championships in Germany earlier that year 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 initiate 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
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.
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 was, however, 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. Visa to regular access had been granted to another. After the Iranian attack on the Esso tanker "Demetria" 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 of a prisoner in an Iranian terrorist, Mr Nouri, from prison in this country had been mere 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.

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.
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
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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 but 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 guidelines. 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 28-29 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
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
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on THURSDAY 23 JUNE 1988 at 10.30 am

PRESENT

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 Douglas Hurd MP Secretary of State for the Home Department

The Rt Hon George Younger MP Secretary of State for Defence

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 John MacGregor MP Minister of Agriculture, Fisheries and Food

The Rt Hon Paul Channon MP Secretary of State for Transport

The Rt Hon John Wakeham MP Lord President of the Council

The Rt Hon Cecil Parkinson MP Secretary of State for Energy

The Rt Hon Nigel Lawson MP Chancellor of the Exchequer

The Rt Hon Peter Walker MP Secretary of State for Wales

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

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

The Rt Hon Kenneth Clarke QC MP Chancellor of the Duchy of Lancaster

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

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

The Rt Hon The Lord Melchett Lord Privy Seal

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)

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

Private Bills. THE LORD PRESIDENT OF THE COUNCIL said that he had every reason to believe that the North Killingholme Cargo Terminal Bill and the Associated British Ports (No 2) Bill would begin their Committee Stages before the Summer Adjournment.

White Paper on Official Secrets. The HOME SECRETARY said that he was hoping to make a statement in the following week on the publication of the White Paper on Official Secrets. There was a strong case for early publication in view of the inaccurate speculation in the press. In discussion, it was noted that, while the White Paper was concerned with the criminal law rather than the civil law, it would be necessary to take account of the date on which the House of Lords would have finished hearing the arguments in the Spycatcher case.

The Cabinet -

Took note.

HOME AFFAIRS

2. THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that an announcement was being made that day that Nestlé had increased their bid for Rowntree to £2.55 billion and the Directors of Rowntree were recommending acceptance. That represented a huge increase on the original offer.

The Cabinet -

Took note.

FOREIGN AFFAIRS

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Seven Power Economic Summit in Toronto from 19 to 21 June had been a successful and useful meeting. All participants including Japan had strongly reaffirmed the correctness of the macro-economic policies pursued over the last nine years and had set them on course for the future with emphasis on the need to be watchful against a resurgence of inflation. Good language had been achieved in the communiqué on trade and agriculture about the need to achieve progress in the negotiations under the General Agreement on Tariffs and Trade (GATT) and to strengthen the GATT itself. On agriculture there had been a firm commitment to both
short and long term measures to reduce agricultural support. There had also been a good outcome on the problems of international debt. On East-West relations, the communique represented a useful confirmation of a shared assessment of where matters now stood in the light of recent developments. There had been intensified co-operation against international drug trafficking including agreement to create a reciprocal network of bilateral agreements on the tracing, freezing and confiscation of assets associated with drug trafficking. On terrorism and aircraft hijacking there had been no dramatic progress but the
Summit had endorsed current efforts undertaken within the International Civil Aviation Organisation (ICAO) at British initiative including agreement not to allow hijacked aircraft to take off from airports at which they alighted except where there might be a direct and immediate threat to life. There had also been agreement that pressure should be maintained on countries which had not yet done so to subscribe to the ICAO anti-hijacking conventions.

THE CHANCELLOR OF THE EXCHEQUER said that the Toronto Summit had been a reminder of the degree to which sound economic policies combined with closer international co-operation had proved their value in the wake of the Stock Exchange crisis of October 1987, since the latter had had no impact on the world economy. He also welcomed the growing emphasis at such Summits on the need for structural adjustments and supply side policies. Japan had launched an initiative at Toronto to deal with the debt problem of middle income countries which had not been endorsed. The initiative betrayed signs of pressure from banks in the direction of off-loading the risk on to taxpayers of creditor nations. The United Kingdom, the United States and the Federal Republic of Germany had been very wary of this, regarding it as a potential slippery slope. In the end Japan had withdrawn the initiative which would now be reconsidered. By contrast, there had been a breakthrough on the debt problem of the poorest countries, following the flow of support for the proposals that he himself had launched in Washington in April 1987. The President of France, Monsieur Francois Mitterrand, had taken his own initiative just before the Summit and the United States had also made its own contribution. The broad outlines of agreement had thus been established to go ahead on a range of options providing for broad equivalence of burden-sharing. This had been a very satisfactory outcome. A follow-up meeting would take place within a few weeks in the Paris Club to fill in precise details.

In discussion, it was noted that the position reached at the Summit on agriculture had been particularly encouraging given the very different positions at the outset taken by the European Community (EC) and the United States respectively. The EC (with the exception of the United Kingdom) had initially wanted no further movement on reducing agricultural protection while paying lip service to the principle: whereas the United States had argued for an immediate commitment that agricultural support levels should be reduced to zero by the year 2000, threatening otherwise to increase her own levels of support. The Canadian Finance Minister, Mr Michael Wilson, and the European Commissioner for External Trade, Mr Willy de Clerc, had played a constructive role in the ensuing compromise. It was particularly
ENCOURAGING that the communique had recognised the value of producer subsidy equivalents. This index showed that the level of agricultural subsidy and protection had grown significantly during the years 1980 to 1986. The percentage of farmers' incomes dependent on subsidy and protection was 75 per cent in Japan, 48 per cent in the EC, 45 per cent in Canada and 35 per cent in the United States.

The Prime Minister, summing up a brief discussion, said that this Summit at Toronto had been the best she had attended, having been very well organised and well chaired by the Canadian Prime Minister, Mr Brian Mulroney. The Japanese Prime Minister, Mr Noboru Takeshita, had also been very businesslike in his approach, but all would miss in future the contributions of the President of the United States, Mr Ronald Reagan.

The Prime Minister said that while she had been in Canada for the Economic Summit, she had signed a bilateral agreement with the Canadian Government covering reciprocal arrangements for the pursuit of funds and the confiscation of assets of those convicted of drug trafficking. She had also taken the opportunity to explain the merits of the British Trafalgar class nuclear attack submarines and their suitability in meeting the Canadian requirement. The Canadians had told her that no sooner had the President of the United States, Mr Ronald Reagan, agreed to authorise the transfer of technology to Canada that a decision to buy British submarines would exceed than the Pentagon had begun to create obstacles by insisting that they could cover only present and not future technology. The Canadian Government had told her that they were currently engaged in an evaluation of both British and French submarines. This seemed to be no more than a delaying tactic. She had told the Canadian Government that the British Trafalgar class boat provided manifestly better technology of an operational and proven kind than could be offered by the French submarines, which were known to be very noisy. After her speech to the Canadian Parliament, a number of Canadians had approached her to say that they hoped the United Kingdom would get the contract.

The Case of Mr Ismail Sowan

The Foreign and Commonwealth Secretary said that a Palestinian, Mr Ismail Sowan, had been sentenced on 16 June to 14 years imprisonment in connection with arms caches discovered by police in his flat. There were connections in this case with another Palestinian who was wanted on firearms and explosives charges connected with the murder in London in 1987 of an Arab cartoonist, Mr Naji Salim Hussein. The case had revealed a mixed pattern of unacceptable activity by both the Palestinian organisation, Force 17, and Israel. A Force 17 officer in the London Office of the Palestinian Liberation Organisation (PLO) had been requested to leave the United Kingdom and an Israeli diplomat who was an identified but undeclared member of the Israeli intelligence.
organisation, MOSSAD, had also been expelled. The Israelis had been reminded that British guidelines for intelligence co-operation precluded undeclared MOSSAD operations in or based in the United Kingdom. The Israeli reaction had been muted; indeed they had reportedly expected a more severe penalty. Nor had there been any undue excitement on the part of Arab Governments about the action against the PLO. All Force 17 members identified in Britain had now been excluded from this country.

The government was pursuing with other European partners the question of Force 17's capability for terrorist action in Europe.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the press continued to seek grounds for criticising the Government's policy on Iran, either intimating the Government's policy or Iran, either intimating that the Government had changed it or that it should do so. In fact there had been no change at all in the basic position or in the hard information available about British hostages. It was possible that some hostages were being held in an area of southern Beirut controlled by the organisation, Hizbollah, but there were other reports of hostages being held outside Beirut. The four British members of Parliament returned from their visit to Iran on 22 June. The Archbishop of Canterbury, Dr Robert Runcie, would be arranging for the Foreign and Commonwealth Office to be briefed about the visit. Despite their reported recommendation for the restoration of normal diplomatic relations with Iran, there was no question of sending British diplomats back to Tehran in current circumstances.

THE FOREIGN AND COMMONWEALTH SECRETARY said that Haiti was back under military dictatorship following the overthrow of President Manigat by General Henri Namphy. United Kingdom interests in Haiti were minimal. There were 63 United Kingdom nationals living there. Arrangements were in hand with Canada and the United States to cover their evacuation in case of need.

The Cabinet -

Took note.

4. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Agriculture Council had met on 13-17 June to consider the 1982 price fixing. His major objectives were, first, that the cost of the final settlement should, in accordance with the European Council's conclusions, not exceed that of the Commission's initial proposals; and second, there should be a green pound devaluation acceptable to United Kingdom farmers while remaining within the limits agreed with colleagues. An overall...
settlement satisfactory in these terms had been reached, with 11 member countries voting in favour. The Greeks, however, had at the last moment insisted on a larger devaluation of the drachma and had invoked the Luxembourg compromise. No settlement had therefore been possible. He had made it clear that in the United Kingdom's view this delay should not be allowed to lead to any breaking up of the agreed package with the danger of its erosion. This had been agreed. As regards the Greek situation, it was important that any increased offer should not itself involve a breach of the cost limit. It should also only be modest since otherwise the tactics adopted by the Greeks in these circumstances would set a dangerous precedent. The Commission had subsequently formulated a further proposal but this had also been rejected by the Greek authorities. It was not yet clear whether a further meeting of the Council would be called at the weekend. There was a possibility that the matter would be raised at the Hanover European Council.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Foreign Affairs Council had met in Luxembourg on 20 June to finalise the legal texts implementing the Brussels European Council conclusions in the light of the opinions from the European Parliament. The meeting was successful and no changes of substance were made to the texts agreed by the Foreign Affairs Council on 14 June. Texts would now be adopted at the Industry Council meeting that day. This would leave the way clear for the Hanover European Council to focus on the single market as was now proposed in a letter from Chancellor Kohl to Heads of Governments.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that Lord Caithness had led the United Kingdom delegation at a successful meeting of the Environment Council on 16-17 June. Agreement had been reached on the main elements in the large plant directive. In particular, targets had been agreed for the reduction of emissions of sulphur dioxide of 20, 40 and 60 per cent in 1993, 1998, and 2003 respectively. These targets would involve no more than the three additional retrofits that had been authorised. The agreement brought to an end a protracted and difficult saga. It would earn us credit in Europe and with environmental interests in the United Kingdom. Agreement had also been reached on nitrogen oxide reduction targets. Finally, agreement had been reached on Community implementation of the Montreal protocol for the protection of the ozone layer. Lord Caithness was to be congratulated on these achievements.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that there had been a satisfactory meeting of the Internal Market Council on 22 June. In particular, this had reached agreement on the directive on mutual recognition of professional qualifications. The United Kingdom's...
position had been reserved on the issue of merger controls and much work remained to be done in this area. Over the period of their Presidency, the Germans would have achieved agreement or positive positions on over 50 Single Market items.

THE SECRETARY OF STATE FOR TRANSPORT said that at its meeting on 20-21 June, the Transport Council had finally reached agreement on the abolition of quotas on road haulage throughout the Community from 1 January 1993. This was a matter for considerable satisfaction. However, the Germans had launched a major attack on the United Kingdom's derogation in respect of heavy lorries in this country. With the help of the Commission, this attack had been fended off but the problem would not go away and further thought would have to be given to ways of dealing with it.

The Cabinet

Took note.

Cabinet Office

23 June 1988
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on THURSDAY 30 JUNE 1988 at 10.00 am

PRESENT

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 Lord Mackay of Clashfern Lord Chancellor

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 Kenneth Baker MP Secretary of State for Education and Science

The Rt Hon Paul Channon MP Secretary of State for Transport

The Rt Hon John Wakeham MP Lord President of the Council

The Rt Hon Cecil Parkinson MP Secretary of State for Energy

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 George Younger MP Secretary of State for Defence

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

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

The Rt Hon Kenneth Clarke QC MP Chancellor of the Duchy of Lancaster

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

The Rt Hon The Lord Brittan Lord Privy Seal

The Rt Hon John Major MP Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Lord Cameron of Lochbroom QC Lord Advocate (Item 5)

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, 2 and 5)
Mr S S Mundy (Items 1, 2 and 5)

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

The Secretary of State for Social Services said that Lord Justice Butler-Sloss's report on the Cleveland child abuse inquiry was due to be published on the following Wednesday. The Minister of State, Department of Health and Social Security (Minister for Health) had circulated to members of the Home Affairs Committee copies of a short version of the report, which had been prepared by Lord Justice Butler-Sloss, together with a draft of an initial statement to be made in the House of Commons at the time of publication. He and the Secretary of State for Wales intended to publish on the same day a circular and guidance to Social Services and Health Authorities on the handling of child abuse cases, and he understood that the Home Secretary and the Secretary of State for Education and Science would be issuing guidance to the police and teaching professionals, respectively. The report was highly critical of the poor co-ordination between the various relevant agencies in Cleveland and the advice which was being issued would recommend changes designed to improve communications and co-operation between interested agencies. It would be publishing at the same time as the Cleveland report a report by the Social Services Inspectorate which indicated that co-ordination between different agencies in other parts of the country was generally good. The Cleveland report criticised the Social Services Department for being far too easily led by Dr Higgs and Dr Wyatt, the two paediatricians involved, and senior police officers came in for criticism for failing to press with sufficient vigour the senior police surgeon's grave reservations about the paediatricians' methods. While the report did not call into question the paediatricians' motives, it made clear that the reflex anal dilation test on which their assessments were based should not be relied on as sufficient evidence of child sexual abuse. That view was confirmed in a report of a Sub-Committee of the Standing Medical Advisory Committee which would also be published on the following Wednesday. It would be for the Health Authority to consider in the light of the report the reinstatement of the two paediatricians but he did not expect them to be reinstated. The report supported the proposals for reforming child care law in the White Paper on Child Care and Family Services. Although Lord Justice Butler-Sloss did not specifically address the question, he now proposed to give parents and guardians an earlier opportunity to challenge emergency protection orders than would have been possible under the White Paper proposals.

In discussion, the following main points were made:

a. There was a widespread feeling of outrage about the appalling treatment of innocent families in Cleveland and the apparent readiness to remove children from their parents on inadequate evidence and to inflict on them physical examinations which could have a profoundly adverse psychological impact. It would be vital to reassure parents that all possible steps were being taken.
to ensure that the mistakes which had been made in Cleveland would not recur. The public would not understand it if the two paediatricians were reinstated. While Mr Stuart Bell, the local Member of Parliament, had come in for some criticism in Lord Justice Butler-Sloss's report, there would be great public support for the robust way in which he had campaigned on behalf of his constituents.

b. Until fairly recently, the public perception was that the relevant agencies had been too lax in dealing with child abuse, but it was now felt that they were tending to go too far in the opposite direction. It was extremely difficult to steer an acceptable line on these sensitive issues.

c. The Lord Chancellor was preparing proposals for a Child Protection Office, along the lines recommended in the Cleveland report. The main purpose of such an office would be to improve the allocation and management of cases. He was also considering whether new arrangements might be established to bring together in a single court care proceedings in Magistrates' Court and wardship proceedings in the High Court.

THE PRIME MINISTER, summing up the discussion, said that there was an acute sense of public outrage about the way in which innocent parents and their children had been treated and the Government's comments on the report by Lord Justice Butler-Sloss should reflect that concern in plain language in a way which would be clearly understood. It was essential to reassure the public that safeguards against child abuse would be provided without parents and children being subjected to such treatment. The Secretary of State for Social Services should revise as necessary the proposed Government statement to take account of the points made in discussion and should circulate it to all members of the Cabinet before the weekend. The Cabinet noted that guidance would be issued to the agencies involved and that the Secretary of State for Social Services and the Lord Chancellor were working on a series of proposals to respond to recommendations in the report and to put into effect other improvements which might be required.

The Cabinet -

1. Invited the Secretary of State for Social Services to circulate to them the proposed Government response to the report of the inquiry into child abuse in Cleveland, as indicated in the Prime Minister's summing up.

THE SECRETARY OF STATE FOR DEFENCE said that the House of Lords were due to debate on 12 July the Statement on the Defence Estimates 1986 (Cmnd 344). The debate would probably focus on the report by the Defence Select Committee, which had been published earlier that week, on the size and role of the service fleet. That report contained a number of
misleading assertions, which had been further distorted by sections of the media, but there was not sufficient time before the proposed debate for the Government to respond formally. There was likely to be a two-day debate on defence in the House of Commons during the overspill, and it would be welcome if the House of Lords debate could be deferred until that time.

THE PRIME MINISTER, summing up a brief discussion, said that the business of the House of Lords had been carefully arranged to enable them to deal with the final stages of a number of important Bills over the following month and, against that background, it would not be wise for the Government to reschedule the defence debate. While not formally anticipating the Government's response to the Select Committee report the Government spokesman could draw on the arguments which would be advanced in it. The Cabinet noted that the Education Reform Bill and the Local Government Finance Bill, both of which had been handled with great skill, remained on course for Royal Assent before the Summer Adjournment.

The Cabinet -

2. Took note.

HOME AFFAIRS

2. THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the Social Services Select Committee would be publishing a report early the following week which was likely to call on the Government to allocate substantial additional resources to the National Health Service (NHS). The report, which was not based on an serious examination of the NHS or its needs, had been timed to coincide with the Labour Party's Health Day at Alexandra Palace the following Sunday and the debate on the NHS in Opposition time on the following Tuesday.

THE HOME SECRETARY said that a report by Her Majesty's Chief Inspector of Prisons on Risley Remand Centre would be published later that day. He had commissioned the report following six recent suicides at the centre. The report was highly critical of the state of the buildings and of the regime but the most disturbing feature was that it found that his Department's guidance on reducing the risks of suicide had not been followed. Since he had received the report, the Governor and Deputy Governor had been moved, the Fresh Start working arrangements had been introduced at the centre and a programme had been set in hand to refurbish it.

The Cabinet -

Took note.
3. The Foreign and Commonwealth Secretary said that the General Secretary of the Communist Party of the Soviet Union (CPSU), Mr Mikhail Gorbachev, had made a skilful and successful speech at the Special Party Conference of the CPSU which had opened in Moscow earlier that week. Mr Gorbachev had caused some surprise by his proposals for political reform, especially the creation of a new Congress of People's Deputies. This Congress would elect the President of the Supreme Soviet and the expectation that this would normally be the General Secretary of the CPSU implying that Mr Gorbachev himself would occupy the post. The proposals had been put together in such a way as to command broad consensus and would have the effect of strengthening the personal position of Mr Gorbachev in what might by analogy be described as "Gaulist" terms. Nevertheless, there was no evidence of fundamental change to the system. The KGB remained; and the Party leadership took care to maintain firm support from the Soviet military. Mr Gorbachev was evidently attempting to shape the political structures of the Soviet Union in such a way as to enhance the chances of success for his economic reform programme. At the end of his speech Mr Gorbachev had said that this programme was progressing too slowly; and, in a striking sentence, had complained of what he called "this ossified system of government" with its centralised systems of command and pressure. The process of reform was to be a very long haul, made more difficult by the expectations aroused by Mr Gorbachev of improvements in standards of living of Russian citizens.

The Foreign and Commonwealth Secretary said that the recent ships' visit to Malta led by HMS Ark Royal had taken place against a background of domestic political strife there following attempts by the Opposition of Mr Dom Mintoff to embarrass the Maltese Government. The Royal Naval ships had put into St Paul's Harbour rather than Valletta. They had received a warm welcome but the incident had been potentially very awkward. The Maltese Parliament had reaffirmed a non-nuclear policy on 23 June. The United Kingdom had therefore sought assurances, to be made public if necessary, that Malta recognised the British policy of neither confirming nor denying whether Royal Naval ships carried nuclear weapons. These assurances had been obtained and the visit had proceeded. But in the event the Maltese unilaterally added a paragraph to their letter referring to a basis of friendly and mutual trust that the resolution of their Parliament was being observed. The British High Commissioner in Malta had therefore had to take action to establish that there was no presumption one way or the other whether nuclear weapons were being carried. It was disturbing that the Government's policy of neither confirming nor denying should apparently be coming under increasing pressure from different quarters. He would ensure that Posts in countries hosting visits by Royal Naval ships under the "Outback 88" deployment were thoroughly briefed.

In discussion, it was noted that even those Mintoff supporters who demonstrated against nuclear weapons had expressed their positive feelings toward the Royal Navy; the restricted shore leave in Malta for
Naval personnel associated with this visit had passed off well. It was nevertheless a pity that this problem should have cropped up, particularly since the Government had spent so much money in the recent past in raising Second World War wrecks from Valletta Harbour.

THE FOREIGN AND COMMONWEALTH SECRETARY said that a further round of talks had taken place that week in Cairo between the United States, Cuba, Angola and South Africa. Although that process was continuing, the armed encounters on 27 July between Cuban/Angolan forces and the South Africans had not been helpful. South Africa was claiming 200 Cubans and Angolans killed and admitted having lost 12 members of its own defence forces. The original clash had been between ground forces close to the border between Angola and Namibia. This had led to a Cuban air strike on the South African held Caluque Dam. There was evidence that the Cubans may not have consulted the Angolan Government or even informed them in advance about this air raid. There was a risk of further trouble ahead.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the visit to Iran by a delegation of British members of Parliament had passed off uneventfully. The visitors had not succeeded in meeting anyone of great importance or learning anything significant. The press conference they had given on their return had been undramatic. As for the Gulf War, Iraq had made some headway with the recapture of previous week of the Majnoon Islands, thus effectively ending Iranian occupation of Iraqi territory in the southern sector. Iraq would now bend its efforts to repossessing occupied areas in the north. In Iran there were signs of internal upheaval and discontent. The Speaker of the Iranian Parliament, Mr Ali Akbar Rafsanjani, had taken over as acting Commander-in-Chief. There was heightened speculation about the health of the Iranian Leader, Ayatollah Khomeini, who was certainly very frail. But no fundamental change in Iranian policy was foreseen. British policy therefore remained unchanged. It was to press for implementation of United Nations Security Council Resolution 598 and to support the efforts of the United Nations' Secretary-General, Mr Perez de Cuellar, even though there was not yet enough solidarity among key members of the Security Council to make possible an arms embargo. In the meantime, the Government had agreed a Memorandum of Understanding with the Netherlands and Belgium by which, with effect from 1 July, the mine-sweeping forces in the Persian Gulf of the three countries would be integrated under British operational control. The Foreign Affairs Committee of the House of Commons had published a report that day which had helpfully endorsed all aspects of the Government's policy in the region, including that on hostages.
THE SECRETARY OF STATE FOR TRADE AND INDUSTRY referred to the economic effects of the current drought in the United States. He had heard on good authority that if there were no rain within the next few days the consequences would be that the price of grain on world markets would rise above the intervention level. He thought it desirable that some work be put in hand to analyse the economic implications of all this.

The Cabinet —

19th note.

4. THE FOREIGN AND COMMONWEALTH SECRETARY said that the conclusions reached at the Hanover European Council on 27-28 June were in line with United Kingdom objectives. The Prime Minister's earlier contacts with Chancellor Kohl and President Mitterand and those with Presidency officials in Bonn and with the Secretary General of the Commission had been helpful in achieving this result. The single market priorities identified for the future reflected our own major interests. We had headed off a renewal of French bids, already successfully resisted in the Council of Economic and Finance Ministers, to secure a link between harmonisation of tax rates on savings and the implementation of the capital movements directive. On social issues, we could expect increasing pressure under the next three Presidencies but any damaging conclusions involving regulatory commitments had been successfully avoided on this occasion. As regards monetary questions, Governors would lead in the agreed study. The Committee would be chaired by the President of the Commission, with three additional members, plus one additional Commissioner, it would report through the Council of Economic and Finance Ministers. The mandate for the study made no reference to a European Central Bank. Although this was not fully reflected in the final conclusions, there had been a helpful discussion of frontier issues following a call by the Dutch Prime Minister for a study of the problems of access to member states and the social integration of immigrants from third countries. Monsieur Delors had been reappointed as President of the Commission for a two-year term.

In discussion, it was noted that at least two and perhaps all three of the additional members designated to serve in the monetary study were likely to have a helpful influence. There was however no assurance that the Committee's conclusions would be brought before the Council of Economic and Finance Ministers in adequate time for them to have the input that would be desirable into the recommendations that went forward. It would be necessary to find ways to get round this difficulty. On social questions, there would be continuing pressure to introduce additional regulations and standardised labour regulation. The battle here was by no means over. As regards frontier controls, it was essential that these should be maintained to deal effectively with entry of third country nationals and to combat terrorism, crime and drug traffic. We wished to make it easier for Community nationals to travel within the Community and the adoption of passports in common form...
together with computerisation, assist. But the Community faced major problems over immigrant control. The problem was illustrated by the fact that over the last four years, there had been some 600,000 asylum applications to Western European countries. Several European Community member states faced difficulties in relation to specific nationals. The additional studies proposed by the Dutch Prime Minister and the recognition in the Council's discussion of the importance of frontier controls represented a helpful background to the further practical planning which Interior Ministers had in train.

THE FOREIGN AND COMMONWEALTH SECRETARY said that after it had been thought agreement had been reached on green currency devaluations, the Greeks had challenged the Commission's interpretation of the Council texts. We had urged the Commission and other member states to stand firm against any further concession. The Greeks had used the threat of the Luxembourg compromise to hold out for their own interpretation. In discussion it was suggested that it might be necessary to review United Kingdom policy of support of the invocation of the Luxembourg compromise in all circumstances. On the other hand, it was argued that given the increased provision for qualified majority voting, use of the compromise might in some situations be the only recourse remaining open to the United Kingdom. The solution might not be to ban use of the compromise but find ways of preventing it being devalued, perhaps on the lines of a past precedent where the absence of agreement following a German invocation had led to use of Commission management powers.

THE PRIME MINISTER, summing up the discussion, said that Cabinet concluded that we should seek to ensure that the Greek interpretation of the Council texts did not prevail while not abandoning our view of the Luxembourg compromise, and invited the Foreign and Commonwealth Secretary and the Minister of Agriculture, Fisheries and Food to proceed accordingly.

THE CHANCELLOR OF THE DUCHY OF LANCASTER said that at the Industry Council on 24 June the Commission had confirmed that they were not proposing any prolongation of steel quotas beyond 30 June. The market would now determine the levels of production in each member state. The Commission had made clear that they would in addition wish to monitor very carefully any proposals for state aids for restructuring national industries which might distort competition. A major current issue was the extent of state aids which the Italian Government wished to offer to the Bagnoli plant at Naples. German steel production in the Ruhr was also likely to come under pressure, with the possibility of closure of some Krupp plants. The Commission's approach was welcome since potential buyers for the British Steel Corporation would feel more protected against subsidised competition.
THE SECRETARY OF STATE FOR THE ENVIRONMENT said that at its meeting on 28 June, the Environment Council had settled the final details of the agreement on acid rain. It had also reached agreement on the next stage for limiting emissions from small cars and on guidelines for a directive reducing discharges into water of titanium dioxide.

The Cabinet -

5. The Cabinet considered a memorandum by the Home Secretary (C(88) 9) on disorder in rural areas, prepared in response to the Cabinet's invitation at their meeting on 9 June.

THE HOME SECRETARY said that there had recently been a number of well-publicised disorders in rural areas, but that these needed to be seen against the fact that the levels of recorded crime in the Shires were about half those of metropolitan areas. On the other hand, the recorded crime figures for non-metropolitan areas were rising by about 3 per cent a year, while those in metropolitan areas were on a slightly downward trend. There was some feeling that the media were exaggerating the problem of rural disorder, and this would need to be watched. There was, in fact, nothing new about disorders in market towns, but it did seem that there was current a growing problem of youths who had been given no sense of social responsibility by their parents; who spent their substantial wages on drinking in clubs and public houses that were increasingly designed to attract a young age group; and who readily turned to violence against each other and against the police. He had therefore in the previous year set up a working group of officials and the Association of Chief Police Officers (ACPO) to examine the problem, and this group had recommended the operational improvements set out in the annex to C(88) 9. He proposed to encourage the chief police officers to put these recommendations into effect, and to commission research that would provide the police with operationally useful information about the kinds of people responsible for rural disorder and the circumstances that precipitated it. The police were, very understandably, using rural disorder as an argument to support their requests for more police manpower. It would require extraordinary increases in manpower to enable county and rural forces to tackle outbreaks of disorder as effectively as could the inner city forces but he believed that some additional manpower, together with operational improvements of the kind recommended by the ACPO working party, could make a helpful difference. This was reflected in the proposals for further increases in police manpower that he presented at the under discussion with colleagues. Adequate maximum sentences were already available for all the most relevant offences, but the effect of a successful prosecution was much diluted if it was delayed for several months after the event: he therefore proposed to discuss with the police, the magistrates' courts and the Crown Prosecution Service the possibilities for bringing on prosecutions for disorderly offences at the first possible moment. Most importantly, alcohol was clearly a very
major factor: it featured in no less than 90 per cent of the incidents of rural disorder in 1987 reported to the ACPO working party. At a meeting about football hooliganism under the Prime Minister's chairmanship the previous day he had agreed to consider whether the magistrates' existing power to order the temporary closure of licenced premises in areas where riot or tumult was predicted might require some revision. He had also agreed to consider what might be done to enforce the law against under-age drinking. More generally, he believed that licensing justices had become too lax and were not sufficiently using the sanction of removing the licences of public houses where disorders took place. He proposed to issue firm guidance on this matter both to licensing justices and to the police, since he had no doubt that the removal of licence from a disorderly public house had an immediate and salutary effect on all public houses in the area.

THE SECRETARY OF STATE FOR THE ENVIRONMENT reported that at the meeting on the previous day about football hooliganism it had been agreed that the football authorities should be urged to withdraw the England team from friendly matches abroad for the next year, and from the Rous Cup competition. It had also been agreed that the football authorities should be requested to establish a full national membership scheme, whereby only spectators with membership cards would be admitted to football matches in England and Wales. In the probable event that the football authorities were unable to deliver an acceptable scheme, the legislation would be needed to impose it. In addition to the licensing matters already mentioned the Home Secretary had also undertaken to review the adequacy of existing court powers to keep convicted football hooligans away from matches both at home and abroad, by enforcing their attendance at reporting centres when matches were on.

In discussion the following main points were made -

a. An effective attack on alcohol abuse required action in various quarters. The brewers should do more to ensure that their public houses were kept in an orderly fashion, and it was politically very desirable that they should be seen to take on this responsibility as the Licensing Act came into force. The police should adopt a far more sustained and positive attitude in opposing licenses for disorderly public houses. The licensing justices needed to be much more rigorous in performing their duties. The Lord President of the Council's Ministerial Group on Alcohol Misuse had heard of a number of areas where good practice and co-operation had been established, but standards in these matters varied greatly around the country. There would be advantage in making arrangements to share experience and good practice.

b. Members of local communities were not always the best people to be entrusted with responsibilities for the regulation of trade, and it was probable that licensing justices often felt inhibited from acting as firmly as the occasion warranted. There was therefore a case for using stipendiary magistrates to take licensing decisions, however much such an innovation might be resented.
c. On the other hand, there were other respects in which local decision-making was to be encouraged. The Coventry City Council, for example, had put forward bye-laws to prohibit the consumption of alcohol in public places and, while the Home Secretary had not taken a final decision on this, he was minded to enable an experiment to go ahead in Coventry despite the reservations of the police. The object would be to see if it was possible to use such a power to strike at objectionable, rowdy public drinking without precipitating uncontrollable protest from respectable people who enjoyed a picnic.

d. One possibility being canvassed in the fight against under-age drinking was a scheme for making service at a public house conditional on the production of an identity card displaying the bearer's photograph and age. The Home Secretary intended to pursue this possibility, which was consistent with the much wider acceptance of identity documents of various kinds in modern society.

e. Public houses were not necessarily the alcohol outlets that caused the most trouble. Supermarkets and, in particular, off-licences were probably more at fault in supplying drink to drunken or undrunk customers, and in certain areas there were severe problems with discos and clubs of various kinds that simultaneously decanted their clientele into the streets in the small hours. While a tougher approach to the conduct of such clubs was well justified, however, restrictions on the number of clubs that was allowed in an area could not sit easily with the Government's policies on competition and deregulation. It was also often argued that the declining real levels of taxation on alcohol had contributed to excessive consumption.

THE PRIME MINISTER, summing up the discussion, said that alcohol abuse was very obviously an important common factor between all the forms of youthful public disorder that were currently in the public eye. This was a major social concern on which the Government should take - and be seen to take - decisive and energetic action. It was clear that the operation of the licensing system required a vigorous shake-up and that, in particular, licensing justices were not prepared to contemplate the withdrawal of licences as often as they should. This was highly regrettable, as the Cabinet shared the Home Secretary's view that the withdrawal of a public house's licence was likely to have a most salutary effect on all the public houses in the neighbourhood. The Home Secretary should therefore proceed urgently with the tough new guidance to licensing justices and the police proposed in Clause 8. While that initiative should take full account of clubs, discos and off-licences and other alcohol outlets, it was also the case that the brewing companies had a special responsibility for ensuring the orderly running of their public houses and the Home Secretary should call on the brewers' representatives to discuss this. The Lord Chancellor should be involved in the guidance to licensing justices, and he and the Home Secretary should consider the possibility of giving licensing justices...
stipendiary magistrates. The Cabinet welcomed the Home Secretary's intention of urgently reviewing the enforcement of the law against under-age drinking and in that connection the discussion had revealed considerable support, which the Home Secretary would wish to bear in mind, for encouraging some form of identity card scheme. The Cabinet welcomed the Home Secretary's intention of discussing the possibility of very quick prosecutions and court hearings with the responsible agencies, and they trusted that those responsible for the next significant disorder that took place would be dealt with crisply and expeditiously. The Cabinet also approved the Home Secretary's remaining proposals in C(88) 9, namely the encouragement of chief police officers to implement the ACPO working party's recommendations annexed to C(88) 5 and the commissioning of research that would be operationally useful to the police. It would be helpful if the Home Secretary would make a further report on the progress of these measures in September.

The Cabinet -

Took note with approval of the Prime Minister's summing up of the discussion and invited the Home Secretary and the Lord Chancellor to proceed accordingly.

Cabinet Office

30 June 1988
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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 7 JULY 1988
at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

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 Norman Fowler MP
Secretary of State for Employment

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 John MacGregor MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Paul Channon MP
Secretary of State for Transport

The Rt Hon John Wakeham MP
Lord President of the Council

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

The Rt Hon Lord Mackay of Clashfern
Lord Chancellor

The Rt Hon George Younger MP
Secretary of State for Defence

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

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

The Rt Hon Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster

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

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

The Rt Hon The Lord Britstead
Lord Privy Seal

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 Lynda Chalker MP
Minister of State, Foreign and Commonwealth Office

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

The Secretary of State for the Environment said that a number of issues on the Local Government Finance Bill would need to be settled in the next few days. He had already proposed to his colleagues on the Ministerial Steering Committee on Economic Strategy, Sub-Committee on Local Government Finance (E(LF)) that the Government should accept an amendment which had been carried at Report Stage in the House of Lords against its advice, which sought to require student nurses, in common with other students, to pay only 20 per cent of the community charge, and that the Government should bring forward an amendment to exempt from the community charge those in short-stay hostel accommodation. On the other hand, he was convinced that the Government could not accept a further amendment which sought, on top of an 80 per cent rebate to all disabled people, to increase benefits by a sum equal to the average of the remaining 20 per cent and to require local authorities to give a further grant where the 20 per cent liability exceeded the average. The Government spokesman in the House of Lords had undertaken to consider the suggestion, which had attracted very strong support at Report Stage, that relief for charities should be increased from 50 per cent to 100 per cent, and he believed that it might be possible to achieve a compromise which the House of Lords could accept.

In discussion it was noted that there was widespread public concern about the exploitation of the present law by apparently bogus charities which were nevertheless able to retain charitable status. Legislation would be required in due course to implement the proposals in the report by Sir Philip Woodfield into the work of the Charity Commission, and consideration could be given to whether that Bill should be expanded to propose changes to the substantive law of charities. It might be that a more promising alternative would be to tighten the definition of charities for taxation and local government finance purposes but not for more general purposes. More immediately, the outstanding issues on the Local Government Finance Bill relating to the disabled and to charities brought together the two most effective lobbies in the House of Lords and it would be difficult if both were opposed to the Government's position.

The Prime Minister, summing up the discussion, said that the Secretary of State for the Environment should circulate urgently to E(LF) proposals for handling the issues outstanding from the consideration of the Bill in the House of Lords, taking account of the points made in discussion.

The Cabinet –

1. Invited the Secretary of State for the Environment to proceed as the Prime Minister had indicated in the summation of the discussion.
THE SECRETARY OF STATE FOR ENERGY said that he had the previous day presided at a meeting of the Ministerial Steering Committee on Economic Strategy, Sub-Committee on Local Authority Expenditure (E(LA)), which had reached important conclusions on the future of the present Rate Support Grant (RSG) machinery. These conclusions needed to be announced with the least possible delay. The problem arose because the 1989-90 RSG settlement would be the last in England and Wales before the introduction of the community charge. There was a real risk that local authorities would seek to exploit the opportunities for increasing Exchequer grant through creative accounting to the maximum possible extent in the period up to the end of 1989-90. Firms in the City were already advising local authorities how to set about this and many hundreds of millions of pounds might be at risk. To counter these dangers, the Secretary of State for the Environment had proposed to E(LA) that the existing RSG system should be closed down early, so that the grant paid to local authorities for 1989-90 would be directly fixed by the RSG settlement assumptions, and would not vary with authorities’ actual expenditure. Grant for all previous years would also be fixed on the basis of the expenditure returns that authorities had already made, and the scope for any further creative accounting would thus be removed after the announcement of the Government’s intentions. E(LA) had agreed to these proposals. Clossing down of the RSG system would mean that the full amount of grant awarded in the settlement would be paid out to local authorities, and that no grant would be forfeited to the Exchequer as under the present arrangements. With that in mind, E(LA) had agreed that Aggregate Exchequer grant for 1989-90 should be set at £3,575 million for England; this was an increase of £600 million over the figure for 1988-89, and was well above expected inflation. E(LA) had also agreed that provision for local authority current expenditure in England should be set at £29,187 million, which represented a call of nearly £1.4 billion on the Reserve that would allow non rate capped authorities to increase spending roughly in line with inflation. The criteria that E(LA) had agreed for rate capping in 1989-90 would lead to the selection of seven general purpose authorities and the Inner London Education Authority. A short Bill, which would be expected to be certified by the Speaker as a Money Bill, would be needed to close down the RSG system in the way proposed, and it was important that the Government’s intentions should be announced as soon as possible, since local authorities would have every incentive to evade the closedown proposals if they were to get wind of them. Accordingly sought the Cabinet’s endorsement of the conclusions reached by E(LA) and their agreement that the Secretary of State for the Environment should announce them that afternoon. A corresponding statement would be required in respect of Wales, and a statement of the provision and grant figures for Scotland would also be needed in due course, though the closedown proposals would not apply there.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that, whatever action the Government took, some local authorities might try to sustain their rates in 1989-90 and then increase the community charge they levied, in an attempt to embarrass the Government; but closing down the RSG system offered the prospect of controlling the worst excesses of such behaviour. The presentation of the level of Aggregate
Exchequer Grant would need to be kept in mind, in the light of the Government's commitments, as the introduction of the community charge drew nearer. In addition to the closedown proposals, Aggregate Exchequer Grant total, and rate capping criteria that the Secretary of State for Energy had reported, he proposed that his statement that afternoon should also encompass the publication of the Green Paper on the control of local authority capital expenditure which had now been agreed among the colleagues concerned.

In discussion the following main points were made—

a. The grant settlement approved by E(LA) was generous, especially when the ending of forfeiture of grant to the Exchequer was taken into account. It had been reached by E(LA) on the understanding that no more grant should be conceded, whatever the backbench pressures when the Bill was before Parliament, and that the legal machinery for blocking off claims from previous years should be absolutely watertight.

b. It was possible that the Government might be vulnerable to legal challenge if it made a Rate Support Grant settlement for 1989–90 in the way proposed before the authorising legislation was on the statute book. The argument would be that information about local authorities' expenditure that had reached the Government after the date of the announcement could not reasonably be ignored by the Government so long as the existing statutory framework for decision-making continued to exist. Further legal advice confirmed these doubts and if it appeared that local authorities were preparing to challenge the Government's position in this way, then it would be necessary for the legislation closing down the RSG system to be enacted before the announcement of the RSG settlement, which was customarily made in about December. If that date were to be honoured, the legislation would need to be passed in the overspill period of the present Session, or possibly in the opening weeks of the next Session.

c. The Bill to close down the RSG system should not be introduced until the responsible Ministers were absolutely satisfied with it, since substantial Government amendment to the measure during its passage would give an unfortunate impression. On the other hand, some progress would have to be made for the addition of this measure to the legislative programme, and it would be particularly difficult to secure its passage during the present Session unless it were introduced and published before the Summer Recess. It could not be assumed that such a highly technical measure could be perfected so quickly, although every effort would be made. It was also essential that the Bill should be accepted as a Money Bill, and the precedents suggested that it would be.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had endorsed E(LA)'s conclusion that legislation should be introduced to
close down the existing Rate Support Grant system and fix the grant that would be paid to local authorities in 1989-90. The Cabinet had also agreed E(LA)'s conclusions, reported by the Secretary of State for Energy, on Aggregate Exchequer Grant, provision for local authority current expenditure, and rate capping in 1989-90. The Secretary of State for the Environment should make a statement on all these matters in the House of Commons that afternoon. His statement should also encompass the publication of the Green Paper on the control of local authority capital expenditure. The Minister of State, Welsh Office, should make a corresponding statement in respect of Wales that afternoon. The timing of the legislation to close down the Rate Support Grant system would need to be carefully considered in the light of further legal advice.

The Cabinet -

2. Invited the Secretary of State for the Environment and the Minister of State, Welsh Office, to make statements in the House of Commons that afternoon on the lines indicated by the Prime Minister in her summing up of the discussion.

3. Invited the Secretary of State for the Environment to consult the Lord President of the Council, the Chief Secretary, Treasury, and the Attorney General about the necessary timing of legislation to close down the Rate Support Grant machinery.

2. THE SECRETARY OF STATE FOR ENERGY said that there had been a very serious explosion and fire the previous evening on the Piper Alpha oil platform operated by Occidental Petroleum which was situated about 120 miles north-east of Aberdeen in the North Sea. The latest information was that only 63 of the 227 people on board the rig had been rescued and the prospects of finding further survivors must be remote. The explosion, whose main impact appeared to have been felt in the crew’s living quarters, had virtually destroyed the platform. Full emergency procedures had been brought into effect and a substantial number of rescue vessels had been quickly mobilised. The survivors, many of whom had been injured, had been taken to Aberdeen. The flow of oil at the Piper Alpha rig and at all other rigs in the oilfield had been closed down and a pollution control vessel had been despatched to deal with the oil slick which had developed around the damaged platform. The Minister of State, Department of Energy, had flown to the emergency control room at Aberdeen and would visit the survivors as soon as possible. It would be very difficult to establish the cause of the explosion. There was no evidence that sabotage was to blame and there was no reason to link it with recent incidents at, or to close down, other rigs. He was considering the form of the inquiry which it would be necessary to establish into the explosion, but was inclined towards a
public inquiry rather than an internal one by his Department's safety inspectorate, who had completed their routine annual inspection of the rig as recently as 28 June.

The Prime Minister said that the Cabinet would wish to place on record their condolences for those bereaved and injured and their appreciation of the efforts of the rescue and emergency services. The Secretary of State for Energy should make a statement in the House of Commons that afternoon and should consider urgently, in consultation with the Lord Chancellor and the Lord Advocate, the form of the inquiry which would be needed into the causes of the explosion, taking account of the paramount need to reassure those who worked on rigs that all possible steps were being taken to ensure their safety.

The Cabinet -

1. Recorded their condolences for those bereaved and injured in the explosion on the Piper Alpha North Sea oil rig and their gratitude for the work of the rescue and emergency services.

2. Invited the Secretary of State for Energy, in consultation with the Lord Chancellor and the Lord Advocate, to consider the form of an inquiry into the disaster, as indicated in the Prime Minister's summing up.

The Prime Minister said that he and other colleagues had seen representatives of the football authorities the previous day to discuss with them the need to take action to curb football hooliganism. She had told the football authorities of the steps which the Government were taking, about which the Home Secretary and the Secretary of State for the Environment had informed the Cabinet at their previous meeting; and in particular of their decision to introduce legislation, if necessary, to establish a national membership scheme under which only spectators with membership cards would be admitted to Football League matches in England and Wales.

In discussion it was noted that the police advised to the Football League had indicated at the meeting that the police sometimes admitted into grounds groups of trouble-makers without tickets where this seemed the best way of containing any potential violence. It would be important, in the interests of discouraging those outside the membership scheme from travelling to matches, to ensure that those without membership cards were not admitted to Football League grounds and to encourage overseas police forces in countries where the England team was playing to take a similarly firm line. The Home Secretary would announce later that day that he would be working with Coventry City Council with a view to preparing a bye-law to ban the consumption of alcohol in public places.
The Cabinet -

3. Took note.

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE (Mr. Chalker) said that as a result of a tragic accident on 3 July, 298 lives had been lost when an Iranian Airbus on a scheduled flight from Bandar Abbas to Dubai had been shot down by the USS Vincennes. A full United States naval investigation was now under way as to how the accident had occurred. Meanwhile in public comment the United Kingdom, while declaring the tragedy, had stressed the right of self-defence for United States naval forces in the Persian Gulf under Article 51 of the United Nations Charter. It was important to continue this public line given the presence in the Gulf of the Royal Navy Armilla patrol. Unfortunately other European countries who also had naval forces there, such as France and Italy, had been less forthright. Iran had requested a meeting of the United Nations Security Council and was canvassing a draft resolution condemning the United States and demanding withdrawal of foreign forces from the Persian Gulf. Iran's initial response to the accident therefore seemed to be primarily political and rhetorical. But there was clearly an increased threat of attack on United States interests, as the designation of 7 July as "Death to the United States Day" in Iran showed. The additional risk to United Kingdom interests was not assessed to be high except by association with the United States. In particular, the threat to the Armilla patrol had not significantly increased beyond that associated with the general consequences of heightened tensions. The Government had signed on 6 July with Iran an agreement covering compensation for damage to diplomatic premises in London and Iran.

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that the preliminary hearing to decide certain procedural questions had taken place in Gibraltar on 4 and 5 July. The Foreign and Commonwealth Secretary would be meeting with colleagues concerned later that day to consider the implications of the Coroner's decisions. The substantive inquest would open in Gibraltar on 6 September. Meanwhile, public statements by the Government should not go beyond the line taken by the Secretary of State for Defence on 5 July, who had said that the Government hoped the members of the security forces that were potential witnesses would be able to attend the inquest since they had a good and straightforward story to tell, but that the final decision whether to go was for them.

In discussion, it was noted that the members of the security forces who had gone to Gibraltar to carry out the operation against the terrorists had been acting under orders from the Government and with specific rules of engagement. It was important to avoid conveying the impression...
publicly that the Government was placing on them the onus of deciding whether to attend the inquest and was not fully conscious of its responsibilities toward them. This could be brought out by stressing that the question of their possible attendance at the inquest was being considered by all the relevant authorities and that the members of the security forces concerned would have the benefit of official support and advice as well as advice from their own legal representatives. It was equally important not to give the impression that they were being put under pressure to attend the inquest against their judgment of their own best interests.

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that assessments of the recently concluded Special Party Conference in Moscow had confirmed that it was a landmark in Soviet political life. It had introduced a new vitality into the debate there and represented a victory for the concept of glasnost which would set a precedent for the conduct of dialogue throughout Soviet political life that would be difficult to erase. The break with the Stalinist past had been symbolised by the decision to build a memorial in Moscow to the victims of Stalinism. But it was also clear that the majority of delegates at the Special Conference had been what might accurately be described as diehards and reactionaries. Many references during the Conference to the excesses of glasnost had been applauded. The powerful critique by Politburo member Mr Yiger Ligachev directed against a fellow Politburo member Mr Boris Yeltsin and the former's rejection of the attacks on Party privilege had been well-received. There would be plenty of opportunities for procrastination over implementation of the reform programme. Nevertheless, the General Secretary of the Communist Party, Mr Mikhail Gorbachev, had emerged from the Conference with his own authority enhanced. His assumption of the new executive Presidency would if confirmed further increase his power and his ability to bypass the diehard elements of the Party structure. Equally the Conference had brought out clearly the extent of the opposition to Mr Gorbachev's proposed reforms and had confirmed Mr Ligachev as the leading "conservative" in Soviet party terms.

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that the Leader of the Opposition, Mr Neil Kinnock, would be setting off that day for a ten day tour of Africa, visiting Zambia, Botswana, Zimbabwe and Mozambique. A very large press contingent would be accompanying him. It was fair to assume that Mr Kinnock would be seeking publicity during these visits, for example by going to the sites of cross-border raids. He would no doubt also criticise the Government's policy toward South Africa. The Foreign and Commonwealth Secretary had informed Mr Kinnock on Privy Counsellor terms. It would be important that any rebuttal of public statements by the Leader of the Opposition should be made by Ministers, and diplomatic posts in the area had been briefed.
accordingly. The press party included some journalists who were very well informed and who would be quick to criticise any naivities on the part of Mr Kinnock.

The Cabinet -

Took note.

4. THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE (Mrs Thatcher) said that in response to the suggestion of the Secretary of State for Trade and Industry, arrangements were being made for circulation of a short note on the current drought in the United States. This would cover its possible implications for the United States Presidential election, the European Community (EC) budget and the Uruguay Round. In discussion it was noted that it was still too early to reach a final view on the effect of the drought: much would depend on whether there was rain over the coming fortnight. The effects on United States wheat production should not be exaggerated since winter wheat accounted for 75 per cent of the harvest and had not been affected. The effects on soya beans and maize could however be serious. There had also been secondary effects on livestock prices. There was danger of development of a belief that because of the drought it would no longer be necessary to be concerned about surpluses. Such an approach would be misconceived. There would still be surpluses and the drought should not affect long term agricultural strategy. The impact of the drought on world prices would lead to savings on the EC budget. But we should also not play up this effect. It is important to distinguish between the effects of weather on estimates of expenditure and the impact of policy changes. We should not relax policy.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY drew attention to press reports of a speech by the President of the Commission, Monsieur Delors, in which he had apparently expressed the view that the existing system of national parliaments would within seven years have to give way to the embryo of a European government and that within ten years 80 per cent of economic legislation would be of European rather than national origin. In a brief discussion it was noted that subject to confirmation of the accuracy of the press reports, opportunity might need to be taken to take the President of the Commission to task. It was however not unusual for him to express sentiments on these lines when addressing the European Parliament.
The Minister of Agriculture, Fisheries and Food said that it was still not clear how the Greek Presidency would take forward the unresolved question of devaluation of the green drachma. The next Agriculture Council would take place on 18-19 July. He had continued to take the line with Community colleagues that there should be no further concession to the Greeks as agreed at the Cabinet's discussion in the previous week.

The Cabinet -

Task note.

Cabinet Office
7 July 1988
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 14 JULY 1988
at 10.00 am

PRESENT

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 Lord Mackay of Clashfern
Lord Chancellor

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 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 Paul Channon MP
Secretary of State for Transport

The Rt Hon John Wakeham MP
Lord President of the Council

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

The Rt Hon Douglas Hurd MP
Chancellor of the Exchequer

The Rt Hon Nigel Lawson MP
Secretary of State for the Home Department

The Rt Hon George Younger MP
Secretary of State for Defence

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

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

The Rt Hon Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster

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

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

The Rt Hon The Lord Belstead
Lord Privy Seal

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
SECRETARIAT

Sir Robin Butler (Item 4)
Mr K T J Wilson (Item 3)
Mr K G Lavelle (Item 3)
Mr P J Weston (Items 1 and 2)
Mr A J Langdon (Item 4)
Mr G Monger (Items 1 and 2)
Mr S S Mundy

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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 and that, subject to the progress of business, the House would rise for the Summer Adjournment on Friday 29 July until Wednesday 19 October.

2. THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that the European Commission had on the previous morning agreed the terms on which they would be prepared to approve the sale of the Government's shareholding in Rover Group to British Aerospace plc (BAe), but at the last minute BAe had asked for more time to consider the implications of the conditions attached to the Commission's decision. In particular, BAe had expressed concern that, in the event of any significant departure from the expenditure programme forecast in the Rover Group corporate plan (whichBAe had already endorsed), the Commission would have the legal right to demand repayment of the entire sum which the Government was proposing to inject into the Rover Group. BAe directors had said that they would not be prepared to recommend to their shareholders that the company should carry that risk. While the Commission were unlikely to challenge any changes to the corporate plan unless they amounted to a significant departure and, in that event, could be expected to react sympathetically if there were convincing reasons, it was clear that neither the Commission nor the Government could possibly accept a situation under which BAe effectively had carte blanche to depart from the corporate plan. It was not clear whether BAe were simply being naive in putting forward this proposal or whether they were instead seeking a means of salving from a deal which they no longer regarded as advantageous, but should have been aware of the position from the outset and it was extraordinary that they should wait until the very last moment before raising these doubts. The United Kingdom Permanent Representative to the European Community was having a meeting with Commissioner Sutherland to establish what assurances could be given to the directors, and he himself would be meeting BAe directors later that day when it was likely to become clear whether there remained a prospect of reaching an agreement within the terms of the Commission's decision. If it became apparent that there was no prospect of reaching a settlement, it would be important for the Government to make a statement in Parliament as soon as possible in order to seize the initiative from BAe who would no doubt seek to blame the Government for any breakdown. In the event of such a breakdown it would be essential to ensure that confidence in Rover was preserved, and to seek to discourage any unwelcome bids for the Rover Group from rival car-makers, especially since August was the peak month for sales of new cars. He proposed accordingly that the Government should make clear that their objective remained to return the Rover Group to the private sector within the lifetime of the present Parliament and that he would be exploring the options for securing this with the management of the Group. The performance of the Rover Group had recently much improved and the Group was likely to remain attractive to prospective purchasers.
In discussion, it was noted that it would be wrong to cut short any negotiations which could preserve the sale to BAE simply in order to make a firm statement to Parliament. If the directors required assurances that the Commission would behave reasonably in monitoring the observance of the Corporate plan, such assurances could probably be obtained. But if BAE were insisting that they should be free to depart from fundamental aspects of the Corporate plan or were seeking a pretext for steering from an agreement which they no longer wanted to pursue, it would be preferable to conclude discussions as soon as possible and retain the initiative in presenting the Government's view.

THE PRIME MINISTER, summing up the discussion, said that the further negotiations which the Secretary of State for Trade and Industry would be holding with BAE should not be foreclosed while there remained any realistic prospect of success, but if it became clear that there was no prospect of reaching a settlement he should make a statement on the matter in the House of Lords at the earliest opportunity. In the event of a breakdown of discussions with BAE, it would be crucially important to ensure that confidence in the Rover Group was maintained. The Cabinet agreed that in that event the Government should make clear that its objective remained to return the Rover Group to the private sector within the lifetime of this Parliament and that it would be discussing with the Group the options for securing this.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of the discussion and invited the Secretary of State for Trade and Industry to be guided accordingly.

THE SECRETARY OF STATE FOR ENERGY said that progress continued with securing the remaining structure of the damaged Piper Alpha platform but that the work had been hampered by bad weather. At least three of the six oil wells on the site were not under control, and the priority task was to cut the flow of oil and gas from them. Oil pollution was being carefully monitored and was very slight. A few further bodies had been recovered during the previous week, but the bodies of most of the victims were probably trapped in the remains of the platform's living accommodation which had sunk. He had set up a public inquiry into the incident and, having consulted the Lord Advocate and the Lord Chancellor, had appointed Lord Cullen as its chairman. This appointment, in which he had complete confidence, had been well received publicly. In order to ensure that the application of technical lessons from the disaster did not have to wait until the public inquiry was completed, he had also established an immediate technical investigation, the results of which would be made available to the public inquiry. He presently estimated that the Piper Alpha disaster would result in a production loss of about 4.2 million tonnes of oil in each of the years 1988 and 1989, together with an insignificant loss of gas production. He also estimated that the adverse effect on the balance of payments
exceeding insurance claims, would be of the order of £250 million in 1988 and £230 million in 1989, with the loss to the Exchequer being of the order of £170 million in 1988-89 and £160 million in 1989-90. He would keep these estimates under review, and see that his colleagues were kept informed. The trade unions were endeavouring to use the incident to establish a special position for themselves on safety issues in North Sea oil production with the objective of promoting union membership. Although the Department of Energy acted as the Health and Safety Commission's agent under the Health and Safety at Work Act, a number of other Departments and organisations were also involved in the safety arrangements in the North Sea, and Mr Roger Lyons, the deputy general secretary of the Manufacturing, Science and Finance Union, had acted briskly in blaming the Department for a helicopter accident that was within the responsibility of the Civil Aviation Authority. Mr Lyons was in a singularly poor position to offer any criticism since he had been one of the members of the Burygome Committee on Offshore Safety who had dissented from that Committee's recommendations, which had been implemented by the present Government. Nor was the forthcoming visit by Norwegian trade unionists likely to assist the trade unions' attempts to secure a greater role in safety issues: the British public was sceptical of such aspirations by trade unions, and it was a fact that the worst North Sea accident prior to the Piper Alpha disaster had taken place in the Norwegian sector. It would continue to resist pressure from the trade unions for publication of his Department's reports on an incident on the Piper Alpha platform in 1984 and on the routine inspection of the platform that had been concluded just before the disaster, though these reports would naturally be available to the public inquiry and in fact the recommendation of the 1988 inquiry had been implemented. It was most important that the trade unions' attempts to make capital out of the disaster, and to jeopardise North Sea oil production, should be firmly opposed.

Inquiry into an Apparent Discovery of Plutonium at Drigg

THE SECRETARY OF STATE FOR ENERGY said that he would announce by way of a Written Answer later that day that he and the Secretary of State for the Environment were jointly establishing an inquiry by the Health and Safety Executive and HM Inspectorate of Pollution into the presence at Drigg low level radioactive waste disposal site of a canister apparently containing plutonium. The canister, which should certainly never have been at Drigg, had been discovered under several feet of earth, and it seemed likely that it had been there for up to 15 years.

Unemployment

Previous Reference: CC(88) 21.2

THE SECRETARY OF STATE FOR EMPLOYMENT said that the unemployment figures for June would be published that day. The seasonally adjusted total had fallen by 39,000 to 2,375 million. This was the 23rd consecutive monthly reduction, which was the longest continuous period of falling unemployment since the Second World War. The overall total had fallen by 86,000 in the previous month and now stood at the lowest figure for
nearly seven years. The rate of unemployment had fallen to 8.4 per cent. Unemployment had fallen by 550,000 in the 12 months since the General Election, with the largest reductions having occurred in the West Midlands, the North West and the North. Unemployment among school leavers had fallen by 32 per cent over the previous 12 months and by more than 50 per cent over the previous five years. The position on unfilled vacancies continued to be very healthy: there were 255,000 unfilled vacancies at job centres and it was estimated that there were over 700,000 vacancies in the economy as a whole.

The Cabinet -
2. Took note.

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the terrorist attack on the Greek cruise ship "City of Poros" on 11 July had resulted in 47 injured and 11 dead according to latest casualty figures. There were no reports of any British missing or injured. Photographs had been released of four Arabs believed to have been involved in the attack but the woman associated with them in press photographs had turned out to be a French tourist. It was now less certain that the terrorists had escaped from the cruise ship by boat. There was speculation that the attack had been carried out by the terrorist organisation Abu Nidal, but there was no evidence to support this. The attack would help to make the Greek Prime Minister, Andreas Papandreou, realise how seriously terrorism had to be taken and might in the longer run lead to some improvement in Greek attitudes towards international co-operation.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the results of the United States investigation into the accidental shooting down of an Iranian Airbus on 3 July were not yet complete. Meanwhile, the United States had agreed to pay compensation to the families of the victims. A technical investigation was also to be undertaken by the International Civil Aviation Organisation. Discussions to end the Iran/Iraq war continued in the United Nations Security Council where the United Kingdom's aim remained the need for full implementation of Security Council Resolution 598, of which the first anniversary of its adoption would be marked in a few days. It was important that the Airbus incident should not distract international attention from this objective. The Iraqis continued to obtain military success in the conflict, which made them less amenable to pressure within the United Nations.

THE SECRETARY OF STATE FOR DEFENCE said that he had paid a visit to Kuwait earlier that week where he had found great appreciation of the role being played in the Gulf by the Royal Navy. The Armilla patrol was now escorting some 80 ships in and out of the Gulf every month, which
was more than all other Western Navies put together. His interlocutors in Kuwait were convinced that the shooting down of the Airbus had been the consequence of an Iranian conspiracy. They had pointed to the fact that some of the bodies of the passengers had been recovered wearing life jackets, which argued against an attack which had taken the aircraft entirely by surprise. The Kuwaitis were also convinced that there had been an Iranian military aircraft flying in the shadow of the Airbus. The Kuwaitis perception was of increasing war weariness in Iran. Iranian prisoners of war seemed glad and relieved to be captured. There were reports of Iranian women hiding their children to avoid military conscription.

THE FOREIGN AND COMMONWEALTH SECRETARY said that there had been no easing of the tension between Armenia and Azerbaidjan over the status of the Nagorno-Karabakh enclave. There was no obvious way out of the dilemma confronting the Soviet leadership in Moscow. There was still no date set for the promised plenum on the nationalities question.

THE SECRETARY OF STATE FOR WALES said he had visited the Soviet Union the preceding week and had been able to see for himself the remarkable change of attitudes brought about by the way the Special Party Conference had been conducted. The impact had been particularly marked in individual republics such as Georgia where public opinion was delighted by the changes: They saw these as implying a much greater devolution of decision-taking from the centre.

THE FOREIGN AND COMMONWEALTH SECRETARY said that discussions between the United States, Cuba, South Africa and Angola were continuing. The United States Assistant Secretary for African Affairs in the State Department, Mr Chester Crocker, had taken a very positive line that morning in his comments about South African agreement in principle over withdrawal from Namibia in return for Cuban troop withdrawal from Angola. There had been an indefinite postponement of the execution of six Africans convicted of complicity in murder (the Sharpville Six), to allow due legal process to be exhausted. It was too early to say whether this postponement signified a more fundamental change by the South African Government on the fate of the prisoners concerned.

Meanwhile, the Leader of the Opposition, Mr Neil Kinnock, was continuing his tour of Southern Africa. British diplomatic posts had avoided comment. Reactions in the British press had been no more than lukewarm.

The Cabinet -

Took note.
4. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(88) 10) on economic prospects and a memorandum by the Chief Secretary, Treasury (C(88) 11) on the 1988 Public Expenditure Survey.

THE CHANCELLOR OF THE EXCHEQUER said that his paper set out the prospects for the economy. In many ways performance and prospects were very good. Output, investment and employment were all growing rapidly. Confidence in the economy was high, both in this country and abroad. There was however some cause for concern over the prospects for inflation and the balance of payments. As to inflation, his current forecast (which would not be published) for a year on year increase in the Retail Price Index in the last quarter of the year of 5½ per cent, some 1½ per cent more than the forecast made in the Budget. Of the increase of 1½ per cent, about half resulted from the expected increase in mortgage interest rates, and half from a rise in underlying inflation caused mainly by the monetary relaxation which all countries had felt it wise to make after the Stock Exchange crash. The rate of inflation must be brought down. Interest rates had therefore already risen and if necessary would be raised further. As to the balance of payments, he was now forecasting a current account deficit in 1988 of £9 billion. The size of the deficit need not cause alarm as long as external confidence was maintained. Government finances were in surplus. The deficit reflected private sector demand and would reduce as growth in the economy fell back to a sustainable level. Nevertheless, the deficit had to be financed and it was therefore essential to retain the confidence of the markets. This required the Government to continue to follow prudent policies, and especially to maintain firm control of public expenditure. The recommendations in the Chief Secretary's paper were crucial in this respect.

THE CHIEF SECRETARY, TREASURY said that the Government had consistently followed a policy of reducing the ratio of public expenditure to Gross Domestic Product (GDP). This policy should be continued. He had therefore proposed that the objective for this year's Survey should be that public expenditure should be held at least as possible to the existing planning totals and that, after excluding privatisation proceeds, the ratio of total public expenditure to GDP should continue to decline steadily over the next three Survey years.

Decisions had already been made which would lead to an unusually large addition to public expenditure the following year, especially the settlement on local authority expenditure and the nurses' pay award. Very substantial bids had been received in addition from Departments. They were well beyond what could be afforded and difficult decisions would need to be taken to ensure that the objective was achieved. The bids for Education, Transport and Home Office programmes were for big increases above the baseline and would need to be scaled down considerably. Most of the big Social Security bid reflected estimating changes, but policy changes to offset it would have to be considered. On Health, he would need to scrutinise in particular the bid for higher capital spending, which would have revenue consequences for later years. Difficult decisions would be needed also on the programmes for Defence, Trade and Industry, and Agriculture, and also on Employment where...
account must be taken of the fall in unemployment. Among other bids, territorial expenditure would have to be scrutinised, especially in areas where spending was at a higher rate than in England. Finally, he would need to consider very carefully the bids for more spending on construction, in view of the evidence of excessive pressure on the construction industry.

Bids for increases in running costs were also very high. They implied a rise of 9 per cent in money terms and 5 per cent in real terms, and an increase in Civil Service numbers back above 600,000 within two years. He proposed repeating the previous year's objective of holding the share of running costs in planned expenditure roughly constant. This would mean a settlement well below the level of the bids, and continuing efforts to improve efficiency through effective management plans. Some of the plans produced by Departments were very good, but others required more work. Finally, as to nationalised industries, he proposed that the aim, so long as they remained within the public sector, should be to keep overall provision to baseline or less.

In discussion the following main points were made -

a. The Government's success in managing the economy resulted from its steady pursuit of prudent policies, including effective control of public expenditure. Its reputation for sound management of the economy was a major political asset. It must continue to pursue these policies.

b. The country's economic success had also raised its standing abroad. It was important to retain international confidence in the British economy, especially in view of the need to finance the current account deficit.

c. The long-term consequences of expenditure decisions had to be borne in mind. Expenditure once started could be hard to stop, even if economic conditions generally changed. It would be unwise to take action now which might have to be reversed towards the end of the Parliament.

d. The current upturn in inflation was worrying. It carried the risk of a return of inflationary expectations. The high level of pay settlements was one of the most disturbing features of the economy and had a direct influence on the size of bids. It might be however that it was a result of the very high rate of company profitability and that employers' resistance to higher pay would become stronger as profitability returned to more normal levels with a decline in the rate of growth.

e. The high rate of increase in earnings in the economy as a whole also produced problems for public sector management. Some groups in the public sector had fallen behind the private sector, and indeed more favoured public sector groups, in their pay.
f. The high rate of pay increases in the economy generally had made the recruitment and retention of civil servants more difficult, in some cases to the detriment of the efficient running of Departments. There might indeed be a choice to be made between holding down running costs to the minimum and maintaining departmental efficiency and services to the public at the level which had come to be expected.

g. One way of containing running costs while also contributing to a more even spread of economic activity throughout the country would be further relocation of the Civil Service outside London and the South-East.

h. Decisions about expenditure on capital investment should take account of its effect on long-term economic growth, and also of its political attractions. Higher inflation and the current account deficit were the result of conditions in the private sector, not of excessive spending in the public sector.

THE PRIME MINISTER summing up the discussion, said that the Cabinet were agreed on the need for continued firm control of public spending. They endorsed all the recommendations by the Chief Secretary, Tresury. He should now, as proposed, conduct bilateral discussions with spending Ministers in the usual way against the objectives which had been agreed. She hoped that Ministers would in these discussions bear in mind the points made at this meeting, and that the bilateral would result in agreement. If they did not, she would at the appropriate time establish a small group under the chairmanship of the Secretary of State for Eenergy, which would consider outstanding issues and make recommendations to the Cabinet. Ministers who were unable to reach agreement with the Chief Secretary would not be able to count on getting such good terms as a result of discussion in this group.

Meanwhile, in reply to questions she would explain that the Cabinet had held its usual July discussion of public expenditure, that they had agreed that public spending should be held as close as possible to the existing planning totals so that the share of public spending in national income should continue to decline steadily over the three Survey years, that with this objective the Chief Secretary would hold bilateral discussions in the autumn and that in the light of these the Government would take decisions on individual programmes and the planning totals, which would be announced, as usual, in the Autumn Statement in November. Other members of the Cabinet should adhere to this line in any outside contacts. The bilateral discussions should be carried on in confidence and the press should be given no ground on which to base speculative stories of Ministerial disagreement.

The Cabinet -

1. Took note, with approval of the Prime Minister's summing up of their discussion.
2. Approved the proposals in C(88) 11 and invited the Chief Secretary, Treasury to proceed accordingly.

3. Noted that the Prime Minister would, if necessary, establish a small group under the chairmanship of the Secretary of State for Energy to consider outstanding issues in the autumn and make recommendations to the Cabinet.

Cabinet Office

14 July 1988
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 21 JULY 1988
at 10.30 am

PRESENT
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 Lord Mackay of Clashfern
Lord Chancellor

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 Kenneth Baker MP
Secretary of State for Education

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

The Rt Hon Paul Channon MP
Secretary of State for Transport

The Rt Hon John Wakeham MP
Lord President of the Council

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

The Rt Hon David Waddington QC MP
Parliamentary Secretary, Treasury

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 George Younger MP
Secretary of State for Defence

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

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

The Rt Hon Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster

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

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

The Rt Hon The Lord Brittan
Lord Privy Seal

The Rt Hon John Major MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT
The Rt Hon Peter Brooke MP
Paymaster General
CONFIDENTIAL

SECRETARIAT

Sir Robin Butler
Mr R T J Wilson
Mr R G Lavelle
Mr P J Weston
Mr A J Langdon
Mr S S Mundy

(Items 2)
(Items 3 and 4)
(Items 3 and 4)
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1. The Cabinet were informed of the business to be taken in the House of Commons in the following week.

The Cabinet had a discussion about the Health and Medicines bill. The discussion is recorded separately.

2. THE SECRETARY OF STATE FOR ENERGY said that the fire at the largest of the oil wells at the Piper Alpha platform had now been extinguished and efforts were continuing to put out the fires at the remaining four wells. A further survivor of the explosion had died, bringing the toll of those dead and missing to 167. 131 bodies had yet to be recovered and it appeared that most of them were contained in the accommodation section, which rested overturned on the sea-bed. Both the righting and the lifting of that section would be difficult operations. Seven survivors remained in hospital and 55 had already been discharged.

Preliminary work on the inquiries he had established was proceeding well and there was good co-operation between the Procurator Fiscal and his inspectorate. The material for the technical inquiry would need to examine was for the most part lodged within the frame of the platform and it would not be possible to recover it until the platform had been made secure. While that was happening progress, he had been promised an interim report within 6 weeks and hoped to have the final report within a further month. The preliminary hearings of the public inquiry to be chaired by Lord Cullen might take place in October. On the previous Tuesday he had met the trade unions and had been astonished to find that they had not realised that the Health and Safety at Work Act had been extended over ten years previously so as to apply to offshore installations, such as the Piper Alpha rig. That totally undermined the position which the unions had been taking which had been based on the misconception that the Health and Safety at Work Act did not so apply. The unions had pressed him very hard to make available to them copies of reports on safety issues, in particular his Department’s report on an incident on the Piper Alpha platform in 1984. He had explained to them that all such reports would be made available to the public inquiry, which would release any material which Lord Cullen believed that other witnesses might require in order to present their cases. The prospect of the trade unions taking industrial action has now receded and he believed that industrial relations should enter a calmer period. He knew that the companies responsible for other oil platforms were redoubling their efforts to promote safety, and any lessons which emerged from the inquiries would certainly be made known to them without
delay. However, until progress had been made with establishing what had happened on the Piper Alpha platform, it would be premature to offer guidance or encourage speculation about the causes.

The Cabinet

1. Took note.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that Mr Nicholas Winterton MP and "The Times" newspaper were leading a campaign for the Government to compensate the 11,000 or so mainly retired investors who had lost money as a result of the collapse of the Barlow Clowes companies in the United Kingdom and Gibraltar. Even if the inquiry which he had established into his Department's handling of Barlow Clowes disclosed shortcomings these could only relate to the United Kingdom company and it was the Gibraltar company in which the great bulk of the losses had occurred. In any case, many other organisations and institutions had been more directly involved than the Government as intermediaries or advisers. It was for consideration whether it might be in the interests of both the Government and investors in Barlow Clowes for the Government to inspire guidance designed to damp down any unrealistic expectations that the Government should be looked to as the primary source of compensation.

In discussion, it was noted that it could be highly damaging for the Government to offer guidance which was capable of being misinterpreted as anticipating the outcome of the inquiry. More generally, the Barlow Clowes affair raised the question whether some financial advisers might be influenced more by the size of the commissions available to them than by their clients' best interests. It would be important for the future to ensure that the statutory requirements on the disclosure of commissions and arrangements for investors to have the protection of insurance against such losses were fully adequate.

THE PRIME MINISTER, summing up the discussion, said that nothing should be said in advance of the completion of the inquiry into the Department of Trade and Industry's handling of Barlow Clowes which was capable of being misrepresented as anticipating its outcome. When the report of the inquiry had been received, consideration might need to be given to the adequacy of existing legislative requirements governing the disclosure to potential investors of the commissions associated with schemes recommended by their financial advisers and other measures to increase the protection of investors.

The Cabinet -

2. Took note, with approval, of the Prime Minister's summing up of the discussion and invited the Secretary of State for Trade and Industry to be guided accordingly.
THE SECRETARY OF STATE FOR ENERGY said that, at its meeting earlier in the day, the Ministerial Steering Committee on Economic Strategy, Sub-Committee on Economic Affairs, had considered his proposals for the future of the fast reactor programme. The Sub-Committee had agreed that the programme should be scaled down substantially. The Prototype Fast Reactor at Dounreay would be closed down in 1993-94 and the reprocessing plant there would be closed down three years later. Work on the fast reactor at other establishments of the United Kingdom Atomic Energy Authority would be reduced from some £54 million per annum to £20 million per annum over the next eighteen months. He would be reporting these decisions to the House of Commons later that day.

In discussion it was noted that the delay in closure of the Dounreay plant would provide time for consideration to be given to alternative employment in the area, either in the nuclear field or in other activities.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the Secretary of State's proposals and agreed that he should report them to Parliament later that day. This was an important strategic decision which would in time permit the release of significant resources for scientific work of higher priority.

The Cabinet

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

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that Iraq had greeted with understandable suspicion the announcement by Iran on 17 July that she accepted United Nations Security Council Resolution 598 and the call for a ceasefire contained therein. Iraq believed that Iran might merely be playing for time and was therefore unwilling to relax military pressure until Iranian intentions were clear. For that reason it was important that the United Nations and the Secretary General, Mr Perez de Cuellar, in particular should move rapidly to make the most of this opportunity and to settle the technical arrangements for a ceasefire. With Security Council Resolution 598 now accepted by all parties, the aim was the full and rapid implementation of all its provisions. The Iranian Airbus incident could also be closed if Iran were prepared to co-operate with the United States in enabling the International Civil Aviation Organisation's investigation to be completed. The acceptance by Iran of Resolution 598 was certainly good news as far as it went and the United Kingdom deserved credit for the prominent diplomatic role played from the outset in getting the Resolution passed and followed up. One could not assume that progress would be straightforward from now on. But a genuine peace in the Gulf would have major implications in relation to the oil market, the
position of the Organisation of Petroleum Exporting Countries and trading prospects, as well as for relations with Iran more generally. It would be worth considering these implications on a contingency basis.

The Foreign and Commonwealth Secretary said that the agreement in principle which had been announced on 21 July between South Africa, Angola and Cuba promoted and assisted by the United States, was a welcome and encouraging step. It provided for the way forward toward Namibian independence together with the withdrawal from the region of all foreign troops, including the Cubans. There had been parallel contacts in New York between military delegations which offered some grounds to hope that the military situation on the ground would remain calm. But there was a very long way to go before all the details were worked out to make the agreement firm. There were grounds for caution about whether the Cubans were really ready to leave Angola, but there were some signs that the Soviet Union did want that.

The 70th birthday earlier that week of the imprisoned leader of the African National Congress, Mr Nelson Mandela, had passed without serious disorder in South Africa. The Government would continue to urge the South Africans to release Mr Mandela. There had been hints from the South African Minister for Information that Mr Mandela might indeed be released at some stage, but too much weight could not be put on these. The South African Government did not yet seem to realise that keeping Mr Mandela in prison did them more harm than good.

The Foreign and Commonwealth Secretary said that the Convention of the United States Democratic Party in Atlanta, Georgia, that week had confirmed Mr Michael Dukakis as the Democratic candidate for the United States Presidential Election in November, with Senator Lloyd Bentsen as the Democratic Vice-Presidential nominee and with the active support of the Reverend Jesse Jackson. Mr Dukakis would thus be approaching the Election with a well-balanced team of right wing and left wing support respectively. Not much could be inferred from the party platform adopted at the Convention about the future policies of a Dukakis Administration, since such documents had no lasting status.

The Cabinet -

Took note.
4. THE FOREIGN AND COMMONWEALTH SECRETARY said that a revised Trade Bill was now being debated in Congress. The President was very unlikely to veto it. In its revised form, the Bill still contained some objectionable provisions. But the alternative of a new Bill in 1989 might well be worse. In the circumstances, he did not believe that we or the Commission should lobby against the Bill. We could continue to make known objections to individual elements in it.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that at its meeting on 18/19 July, the Agricultural Council had finally reached agreement on the 1988 agricultural price package. Agreement had been virtually reached some weeks previously but had been held up by the problem of devaluation of the green drachma on which issue the Greeks had invoked the Luxembourg Compromise. Subsequently it had been thought that an agreement had been reached on a solution to this issue. However, the Greeks had disputed the agreement reached and had sought to re-open it. A number of member countries had appeared prepared to contemplate some further concessions. He had however resisted this, on the basis that an adequate offer had already been made and that successive invocations of the Luxembourg Compromise in this area created a damaging precedent. The Commission had also remained firm and a satisfactory outcome had now been reached.

The Cabinet -

Took note.

Cabinet Office
21 July 1988
THE SECRETARY OF STATE FOR SOCIAL SERVICES said that on 10 September 1987 the Cabinet, after very careful consideration of all the arguments, had agreed that the Health and Medicines Bill should include provisions to enable the imposition of charges for dental examinations under the National Health Service (NHS) and to end the free NHS sight test for those who could afford to pay. On the previous Tuesday, during the Bill’s Committee Stage, the House of Lords had passed amendments to remove both provisions from the Bill. The yield from the new charges, taken together, was estimated at £134 million a year, and the bulk of that money was needed to offset other improvements in primary health care to which the Government was committed. Those improvements and the changes in charging arrangements were, therefore, a carefully considered package, and he did not believe that the House of Lords’ rejection of the charging provisions could be accepted. A number of Government supporters in the House of Commons had, however, indicated their approval of the action taken in the House of Lords, and many of those who disagreed with the Government on the charging issue were not susceptible to reasoned argument, since they saw free medical examination as a matter of inviolable principle. He would shortly consider with the Business Managers in both Houses how best to proceed in order to secure a favourable outcome during the overspill part of the Session.

In discussion the following main points were made -

a. The proposed charges would only be required from those who could afford to pay them, as were other dental and optical charges to which the public was well accustomed. That increases in dental charges had not deterred people generally from seeking treatment, and there was no reason to suppose that modest charges for examination would have that effect. In the case of optical charges it was likely that if the NHS were to withdraw from financing eye tests the opticians would provide that service free in order to attract custom. The Government’s proposals were a manifestly fair and reasonable way of raising some of the money that the NHS required.
b. Although the amendments in question were within the constitutional competence of the House of Lords, it was unreasonable for that Chamber to seek to undo such carefully calculated public expenditure decisions. The critics of the charges had no valid alternative proposals for providing a similar amount of funds within the NHS. On the other hand, much heavy legislation remained to be taken through the House of Lords in both the present and future sessions, and it was not the right time to stimulate a debate on the proper extent of the Lords' powers. So far as immediate handling of the matter was concerned, there was a convention in the House of Lords that the Government did not seek to lose the Report stage of a Bill to reverse defeats in Committee. Although this convention might not be binding, it would be very damaging if the Government sought to reverse the amendment and suffered a further defeat.

c. While a bald statement that it was proposed to reverse the defeats in the House of Commons would not be the best way of handling the matter, the Government needed to give an immediate indication of its views. Unless that was done, the Government's critics on this issue might seize the initiative and work up a degree of public feeling that severely restricted the Government's room for manoeuvre.

d. The Government's critics believed, albeit misguided, that free examinations should continue to be provided because of their importance in terms of preventive medicine. The Government's response should recognize the strength of feeling on that issue and should seek to defuse it in a way of doing that might be to offer assurances on the way in which this aspect would be monitored, or to see if other ways could be found of making minor adjustments to the proposals without damaging their main substance.

THE PRIME MINISTER, summing up the discussion, said that, in order to retain the initiative, the Government should indicate that no new arguments had been introduced in the House of Lords and that the Government continued to believe, and would argue vigorously, that the linked proposals on primary health care improvements and on charges for dental and optical tests were a balanced and justifiable package. The Social Services Secretary should consider with the Lord Privy Seal and other Ministers concerned what steps might be taken to make the proposals more palatable to Parliament, and thus improve the prospects of reversing the House of Lords amendments, without jeopardising the substance of the proposals.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of the discussion and invited the Secretary of State for Social Services to proceed accordingly.

Cabinet Office

22 July 1988
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on THURSDAY 28 JULY 1988 at 10.30 am

PRESENT

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 Lord Mackay of Clashfern
Lord Chancellor

The Rt Hon Peter Walker MP
Secretary of State for Wales

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

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

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

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

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

The Rt Hon The Lord Belstead
Lord Privy Seal

The Rt Hon John Major MP
Chief Secretary, Treasury

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 Norman Fowler MP
Secretary of State for Employment

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 John MacGregor MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Paul Channon MP
Secretary of State for Transport

The Rt Hon John Wakeham MP
Lord President of the Council

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

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

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 5 and 6)
Mr P J Weston (Items 5 and 6)
Mr A J Langdon (Items 1 - 4)
Mr S S Mundy (Items 1 - 4)

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1. THE PRIME MINISTER said that the Cabinet welcomed the Chancellor of the Duchy of Lancaster as a new member following the recent Ministerial changes.

The Cabinet -

Warmly endorsed the Prime Minister's comments.

PARLIAMENTARY AFFAIRS

2. The Cabinet were informed of the business to be taken in the House of Commons in the first week after the Summer Adjournment.

HOME AFFAIRS
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Police Pay

Previous Reference: ECC(88) 17.2

3. THE HOME SECRETARY said that on the previous day agreement had been reached at a meeting of the Police Negotiating Board (PNB) to a pay increase of 8.5 per cent with effect from 1 September 1988 for police officers in England and Wales. This was in line with the recommendation of the 1978 Edmund Douglas report that police pay should be increased annually in line with movements in the index of average earnings over the previous 12 months. It had also been agreed that there should be a one-year freeze on starting salaries for new recruits. Contrary to the impression which the media had given, the pay agreement did not represent a full settlement on police pay and allowances issues and there would now need to be a full round of further negotiations on allowances, on which there had so far been no real progress. As had been agreed in exhaustive discussions in the Ministerial Steering Committee on Economic Strategy, Sub-Committee on Public Sector Pay (E(PSP)) it would be necessary to stand firm on those issues and it seemed likely that the staff side of the PNB would in due course take the matter to arbitration. At the end of the day, we had the power to impose a settlement if the importance of the circumstances justified it.

The Cabinet -

Took note.

NORTHERN IRELAND AFFAIRS

4. THE SECRETARY OF STATE FOR NORTHERN IRELAND said that there had been a meeting the previous day of the Anglo-Irish Inter-Governmental Conference. As he had indicated publicly, the meeting had been the most encouraging which had taken place since the signing of the Anglo-Irish Agreement in terms of the atmosphere of co-operation over security which had developed both between Ministers and between the Chief Constable of the Royal Ulster Constabulary (RUC) and the Commissioner of the Garda Siochana. Despite poor health, the presence of the Tanaiste, Mr. Brian Lenihan, had been a helpful factor in contributing towards the improved relations. The RUC and the Garda Siochana had agreed a number of
operational improvements, including the establishment of a secure telephone link between their two chief officers, which were useful steps forward, though it was perhaps surprising that they had not been put in place earlier. The Garda Siochana had recently made a number of discoveries of weapons, including a heavy machine gun and eight mortar bombs, which were welcome in themselves and might also shed light on the Provisional Irish Republican Army's arrangements for obtaining weapons, and they were exchanging any information on these discoveries with the RUC. Progress remained slow, however, on reaching agreement on extradition matters. It was clear that a good deal more work would be required on that issue, though this would now take place in the improved atmosphere which had been generated by the Prime Minister's exchange with the Taoiseach at the Hanover European Council and by the previous day's meeting.

The Cabinet took note.

5. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Secretary General of the United Nations, Mr Perez de Cuellar, had begun talks separately in New York with the Foreign Minister of Iran, Mr Ali Akbar Velayati, and the Foreign Minister of Iraq, Mr Tariq Aziz, with a view to securing a ceasefire. A direct meeting between the two Foreign Ministers might be possible if things went well. The Secretary General had also sent a technical team to the region to prepare the ground for United Nations observers to monitor a ceasefire. But Iraq was proving difficult and seemed determined to press home her tactical advantage. Iran was being more flexible. The Secretary General had said that he was discouraged but not despairing that an early ceasefire could be achieved. Both Foreign Ministers would stay on in New York for the time being. The United Kingdom would sustain pressure on Iraq and hoped that other members of the United Nations Security Council would do likewise. The outcome was not assured. It seemed sensible on a contingency basis to look at the prospects in the Gulf and surrounding countries if a ceasefire should be realised. There would, for example, be implications for oil prices and for British trade with both Iran and Iraq. He was sending an official from the Foreign and Commonwealth Office to Tehran for a short visit during the second half of August, thus filling temporarily the vacancy in British diplomatic representation since May 1987. The objectives were to obtain better advice on the spot of what was going on in Iran, to press for the release of the two British citizens in prison there, to assess the prospects for re-establishing a permanent British diplomatic presence and to maintain pressure over British hostages in Lebanon, about whom there was no fresh information.
THE FOREIGN AND COMMONWEALTH SECRETARY said that in Thailand, which the Prime Minister would be visiting during August, the outgoing Thai Prime Minister, Mr Prem Tinsulanonda, had declined to accept renomination. Instead, Mr Chatichai Choonhavan, the leader of the Thai Nation Party which had emerged with the most votes from the general election on 25 July, had accepted nomination as Prime Minister by the coalition parties but the President of the National Assembly had not yet put his name to the King. It was not clear to what extent the apparent withdrawal of Mr Prem Tinsulanonda was tactical and whether he would continue to exert real political influence.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the continuing troubles in Soviet Armenia had met with tough response from the General Secretary of the Communist Party of the Soviet Union, Mr Mikhail Gorbachev, who appeared to be signalling that the limits of the political possibilities had been reached. It remained to be seen whether the idea of upgrading the enclave of Nagorno-Karabakh to the status of autonomous republic would be pursued. While the strikes in cities such as Erevan and Stepankert now appeared to be over, there was still much Armenian frustration below the surface.

THE FOREIGN AND COMMONWEALTH SECRETARY said that following disturbances in Rangoon on 21 July, the Chairman of the Burmese Socialist Programme Party, U Ne Win, had resigned. He had been replaced by a hard-liner, U Sein Lwin, who had previously ranked fourth in the Party hierarchy. It was not clear whether U Ne Win had definitely relinquished power. But the underlying prospect was the familiar pattern of pressure for economic change and reform away from the socialist model; the reconfiguration of political forces was a reflection of this.

THE FOREIGN AND COMMONWEALTH SECRETARY said that it would be prudent if Ministers in charge of Departments would review plans for British Ministerial visits to the United States during the period before the United States Presidential Election in November and in the period between the Election and the Inauguration and limit them to what was strictly necessary for the pursuit of pressing Government business. The Prime Minister would of course be visiting Washington in mid-November but there would then be a period during which the Reagan Administration was phased out and changes in Government posts would be made by the incoming Administration.

The Cabinet –

Took note.
6. THE FOREIGN AND COMMONWEALTH SECRETARY said that the meeting of the Foreign Affairs Council on 25 July had had a light agenda. The Greek Presidency had given some publicity to what in reality had been an uncontentious discussion of relations between the Community and CMEA (COMECON) member states. It had been agreed that priority should be given to development of links with individual member states in cases where the progress of economic reform justified it and a closer relationship would be mutually beneficial. Agreement had also been reached on the jurisdiction of the Court of First Instance which would be handling second order business such as staff issues.

THE CHANCELLOR OF THE EXCHEQUER said that at its meeting on 26 July the Budget Council had had a first reading of the 1989 budget. A satisfactory agreement had been reached on a basis consistent with the conclusions of the Brussels European Council.

The Cabinet took note.

Cabinet Office
28 July 1988
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 15 SEPTEMBER 1988
at 10.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

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 George Younger MP
Secretary of State for Defence

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

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

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

The Rt Hon Paul Channon MP
Secretary of State for Transport

The Rt Hon John Wakeham MP
Lord President of the Council

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

The Rt Hon Lord Mackay of Clashfern
Lord Chancellor

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 and Science

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 John Moore MP
Secretary of State for Social Security

The Rt Hon The Lord Brittan of Spennithorne
Lord Privy Seal

The Rt Hon John Major MP
Chief Secretary, Treasury

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

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 2 and 3)
Mr P J Weston (Items 2 and 3)
Mr A J Langdon (Item 1)
Mr S S Mundy (Item 1)

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3. COMMUNITY AFFAIRS
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1. THE SECRETARY OF STATE FOR EMPLOYMENT said that, although the Employment Training programme was being established on the basis of a unanimous recommendation, which the Government had accepted in full, by the Training Commission, on which the Trades Union Congress (TUC) was represented by 3 Commissioners, the TUC had the previous week voted to withdraw support from Employment Training and to institute a policy of non-cooperation. The Training Commission were due to oversee Employment Training, but it would now clearly be intolerable for the TUC to be represented on the body with responsibility for the programme. Moreover, there were 58 local area manpower boards, with 5 trades unions members on each, of whom one third were Chairmen of the Boards. While he had no powers to remove the TUC Commissioners in response to the decision which the TUC had taken the previous week, he was empowered to take back functions of the Commission into his Department. Colleagues most closely concerned had therefore agreed that the powers of the Training Commission should be transferred to his Department and that a new agency within his Department should be established to oversee Employment Training. It seemed likely that, if those steps were not taken, the TUC would leave their Commissioners in place for the present but would withdraw them at a time advantageous to them. The steps he proposed would enable the Government to concentrate its efforts on better local training, which was a development favoured both by the Confederation of British Industry and by the Association of British Chambers of Commerce. There were deeply divided over their attitude to Employment Training: there was a risk that some trade unions would withdraw support from the programme, but he believed that a number of unions would continue to co-operate at national level and that more would do so at local level. He accordingly proposed to announce later that day that the functions of the Training Commission, including Employment Training, would be taken back within his Department and that legislation would be introduced in due course to abolish the Commission. In announcing those steps, he would look forward to the proposals on training which would be set out in the White Paper which he proposed to publish later in the year and would ask for the co-operation of individual trades unions and trade unionists in making Employment Training a success.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed that the functions of the Training Commission should be exercised by the Department of Employment, that an early legislative opportunity should be taken to abolish the Commission and that the Secretary of State for Employment should announce those measures later that day.

The Cabinet -

1. Agreed that the functions of the Training Commission should be exercised instead by the Department of Employment, with the Commission being abolished as soon as possible, and that the Secretary of State for Employment should make an announcement to that effect later that day.
THE SECRETARY OF STATE FOR EMPLOYMENT said that the unemployment figures for August would be published that day. The seasonally adjusted total had fallen by 45,400 to 2.267 million. This was the 25th consecutive monthly reduction, which was by far the longest continuous period of falling unemployment since records had been kept. Unemployment had fallen by 655,000 since the General Election. All areas had benefitted, with the largest reductions having occurred in the West Midlands, the North West, Wales and the North. The rate of unemployment had fallen to 8 per cent which was below the average for the European Community as a whole, but in particular, below the rates in France, Belgium, the Netherlands, Spain and the Republic of Ireland. There were 240,000 unfilled vacancies at job centres and it was estimated that there were about 700,000 vacancies in the economy as a whole. A cause of concern was that average earnings had risen again and now stood at 9 per cent. The increase partly reflected higher overtime payments and bonuses, together with the full effect of the nurses' settlement, but some of the settlements which had been reached over the previous 12 months had clearly been excessive. Recent settlements of 5.6 per cent for local authority manual workers and 5.4 per cent for Health Service ancillary workers gave some cause for optimism about future settlements in other parts of the public sector.

The Economy

The CHANCELLOR OF THE EXCHEQUER said that the economy was essentially very strong with high rates of growth and of productivity and with non-oil exports at record levels. Business confidence was very high, and this had helped to create a boom in investment. However, there had been a massive increase in imports and a slight but significant acceleration in domestic consumption. Interest rates had accordingly been raised with the aim of damping down domestic demand. Interest rate adjustments, far from being the crude mechanism that some critics have alleged, were in fact a particularly appropriate instrument since the building and construction sector, which was the part of the economy that was most severely overheated, was highly responsive to changes in interest rates and there were indeed already some signs that demand in the housing market had been successfully damped down. The recent increases in interest rates could also be expected to have a fairly rapid impact on savings, which had fallen markedly in recent months as a proportion of national income, and on consumer demand. However, it was bound to take some time for interest rate adjustments to make an impact on the balance of trade deficit and it was important to avoid giving the impression that an early reduction in the deficit could be expected. There was no difficulty about financing the trade deficit provided that the markets remained confident that the Government was pursuing the correct policies. The present situation, which was characterised by a high level of confidence, both at home and abroad, in the economy and by a low propensity to save, was quite unlike that during the periods of current account deficits in the 1960s and 1970s. He had warned publicly the previous day that inflation was gradually edging up. He expected that it would fall again some time in the
following year. The Retail Price Index (RPI) for August would greatly exaggerate the increase in the underlying rate of inflation as a result of the inclusion in the RPIU of mortgage interest payments. The mortgage rate had risen by 1 3/4 percentage points in the previous month and that increase alone would raise the RPI by 0.7 per cent. No other major country except Canada included mortgage interest payments in their retail price indices. Pensioners were among those who would benefit from the recent increases in interest rates both because increases in the old age pension were linked to increases in the RPI and because old age pensioners had a high propensity to save than the population as a whole.

In discussion, the following main points were made:

a. Although productivity was increasing strongly, unit labour costs continued to rise, albeit slowly, whereas those in our major competitors, including the United States, Japan and France, were in some periods falling.

b. The growth in the economy had greatly strengthened the negotiating positions of trades unions and some employers had been willing to concede excessive wage increases rather than to risk the disruption to production which would result from industrial action. However, at a time of rising costs and increased competition, companies could not afford to meet excessive wage demands and those companies which followed prudent policies would be best placed to stand up to competition.

c. The present high interest rates were attracting substantial investment from overseas. Some of our main competitors, notably Japan, had banking mechanisms which assisted the Government to control the total credit position and there might be advantage in seeking to introduce similar arrangements in this country. Against that, the Japanese authorities operated in a totally different culture in which they were able to influence by informal means the activities of major financial institutions and it was clear that such a system could not be made effective here.

THE PRIME MINISTER, summing up the discussion, said that the important point to get across was that the Government would take whatever steps were necessary to ensure that the economy was kept on a balanced course. As the Cabinet had agreed at their meeting on 14 July (CC(88) 25.4), it would be vital to maintain a firm control of public expenditure.

THE HOME SECRETARY said that the figures for notifiable offences recorded by the police in England and Wales for the second quarter of 1988, published the previous day, underlined the trend that he had reported to Cabinet in his memorandum on disorder in rural areas (C(88) 9). The large fall in offences of burglary, and car theft which
was most manifest in the cities with the highest number of these offences, had resulted in a reduction of the total number of recorded offences in the 12 months to June 1988 in comparison with the previous 12 months. That reduction in crimes against property, however, was largely offset by a continuing sharp increase in crimes of violence, to which the press had predictably drawn particular attention. Many of the assaults that made up the bulk of violent crimes took place in the home and as we had indicated in his earlier report to the Cabinet, there was a clear link between violence and drunkenness. An efficient and adequate prison system was one of the main components of the Government's response to crime. The prison population had increased so as to take up most of the space created by the increase in remission for short sentence prisoners in July 1987, but the expanded prison building programme remained on course. The immediate preoccupation was with industrial disputes in the prison service. These reflected the continuing ability of the Prison Officers' Association to frustrate, at very little cost to themselves, the long overdue efficiency savings and management improvements that were embodied in the Fresh Start arrangements. He was discussing the implications of this with his colleagues most closely concerned.

The Cabinet -

2. Took note.

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that the long expected major campaign of violence by the Provisional Irish Republican Army (PIRA) was now under way. This had been planned at least since 1985, and probably for longer than that, and it had to be acknowledged that the PIRA had been successful in organizing the reception of large amounts of weapons and explosives, mainly from Libya, and the distribution of this material into a network of hiding places. The quantity and sophistication of the weapons that had been found in the Irish Republic had astounded the police authorities there. It seemed likely that the PIRA had originally intended the campaign to begin in the previous year, but that had been prevented by a series of successes by the security forces. It was probable that the PIRA had then intended to signal the start of the campaign with their planned bomb outrage in Gibraltar, which had also been frustrated. The killing of 8 soldiers near Omagh on 20 August should now be seen as the demonstration of the campaign, and it was clear that the attack on Sir Kenesington Bloomfield, the head of the Northern Ireland Civil Service, on the previous Monday should be seen as indicating a new dimension to the PIRA's activities. They were now prepared to attack virtually any target whenever in an attempt either to weaken the resolve of the people and the Government or to provoke from them an over-reaction that would aid the PIRA's cause.

While the situation was extremely tense, however, there were some positive features in the situation. The security forces had recently achieved very important successes against the PIRA, apart from the Gibraltar operation. In particular, a highly dangerous active service
unit of the PIRA had been killed at Drummakilly on 30 August while they were engaged in an attempt to kill a member of the Ulster Defence Regiment, and two PIRA men picked up on the border between the Netherlands and Germany appeared, from weapons found in their possession, to have been involved in recent outrages against British armed forces personnel on the continent, including the killing of a Sergeant Major in Ostend. There had also been a number of major arms finds involving both communities; a loyalist store of 45 light machine guns had been discovered in the previous week. He believed that the morale and determination of the security forces was totally solid and that, despite the present flare-up of terrorist activity, support for the PIRA was waning over the longer term.

THE PRIME MINISTER, summing up a short discussion, said that the Ministers concerned had agreed that it would be counterproductive to announce a package of measures against the PIRA, and a series of measures would therefore be taken or announced as they were finalised. It was most important that no information that could be of possible use to the PIRA should leak out of the Government machine; even the implied confirmation of arrangements that were little more than common-sense measures could assist the PIRA. Insofar as the PIRA claimed to be at war with the Government, there was a respectable argument for introducing against them those measures such as selective detention, to which a State had recourse in time of war and which could be terminated when the emergency was over. The Government had no present intention of introducing selective detention, however, and it could be made clear that there were many other measures that the Government could take before that idea would even be considered. The arrest of two terrorists on the border between the Netherlands and Germany was the result of a random check, and this was a timely illustration of the need to maintain such border controls between member states of the European Community after 1992.

The Cabinet would wish to express their appreciation of the way in which the Northern Ireland Secretary was carrying out his heavy responsibilities and presenting the Government's policies to the public. The Cabinet would also wish to instruct the Secretary of the Cabinet to convey their warm sympathy to Sir Kenneth Bloomfield and his family at their having been the target of a particularly barbarous and vicious PIRA outrage, their heartfelt gratitude that Sir Kenneth and his family were unharmed, and their deep appreciation of Sir Kenneth's reaction to the incident which was in the highest traditions of the public service.

The Cabinet -

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

4. Warmly endorsed the Prime Minister's congratulations to the Northern Ireland Secretary and instructed the Secretary of the Cabinet to send a message on their behalf to Sir Kenneth Bloomfield as the Prime Minister had indicated.
THE CHANCELLOR OF THE DUCHY OF LANCASTER said that on the previous Monday the Post Office management had reached an agreement with the trades unions for the postal workers to return to work on a basis that would have preserved management's position on all the main issues, excluding the question of regional payments. About 100,000 out of the total staff of 140,000 had returned to work by the previous day, but a number of main sorting offices including those in London, Liverpool, Manchester and Glasgow, remained on strike. The workers at 10 of the 14 sorting offices in London had concluded deals to return to work, but were unwilling to put them into effect until the remaining 4 London offices also fell into line. Post Office management's tactics were to concentrate on getting the London services back to normal, and to isolate the more militant trades unionists in Manchester, Liverpool and Glasgow, where the unions were trying to extract a totally unacceptable rate of overtime payment in return for their co-operation in clearing up the back-log of the strike. He had previously decided that if an agreement had not been reached early in the week he would have announced an immediate short-term suspension of the Post Office monopoly for the carriage of letters; while that step would have been unlikely to lead to the rapid emergence of any full alternative to the Post Office, the public were now well aware of the inhibiting effect of the monopoly and would not have understood its continued application during the strike. The Cabinet Ministers most concerned, whom he had minuted on this subject on 7 September, had not dissented, and he proposed to act quickly to introduce a short-term suspension of the letter monopoly if events over the next few weeks should suggest that it would be advantageous to do so. He also invited his colleagues to maintain the contingency arrangements that their departments had made for their own business until it was quite clear that the postal services had returned to normal.

THE SECRETARY OF STATE FOR HEALTH said that the implementation of the nurses' pay settlement involved a massive and complex process of regrading. This process, which involved 190 district health authorities and 14 regional health authorities in England, was still in train and he was putting pressure on the authorities to iron out the anomalies that had emerged between them, with the aim of getting the new money into the nurses' pockets by Christmas. A main obstacle to that timetable was the attempt by the trades unions to renege on their original agreement with the settlement, and to revise it to their own advantage. In particular, the unions were attempting to distort the creation of these new grades of nursing sister, and were alleging that sisters who occasionally found themselves in charge of wards were unfairly treated under the settlement. These claims were totally false, and the Government should not concede them. If the payment of the new money to the nurses should be delayed beyond the turn of the year, then the responsibility should be firmly pinned on the unions' attempt to rewrite the agreement. Above all, the nurses' pay settlement could not be costed until the regrading exercise was completed, and allegations in the meantime that the Government was not fully funding the settlement were factitious.
The Cabinet -

5. Took note.

2. THE PRIME MINISTER said that Iraq's attitude had created difficulties in securing a comprehensive peace settlement following the cessation of hostilities between Iran and Iraq. The Iraq Foreign Minister, Mr Tariq Aziz, was being particularly difficult on the definition of national boundaries. It was important that the United Nations Secretary General, Mr Perez de Cuellar, should continue to have widespread support from the international community for his peace efforts. Intelligence reports strongly suggested that the Kurds had been subjected by Iraq to attack by chemical weapons though it was not yet possible to identify these precisely. This indicated the ruthlessness of Iraq.

Meanwhile the United Kingdom was cautiously rebuilding its relations with Iran. This had to be done with great care and without prejudicing the position over British hostages in Lebanon on whose behalf the British Ambassador in Beirut continued to work hard. The United Kingdom had throughout retained commercial relations with Iran and these were now being given renewed impetus with the despatch to Iran of a second British official. The agreement between the United Kingdom and Iran covering the reciprocal refurbishment of diplomatic premises at the expense of the host country was being implemented.

During her recent visit to the Persian Gulf, she had seen the Armilla Patrol at first hand and the remarkable performance of the young British crew members there in the tanker escorting role. The Royal Navy would remain present in the Gulf until overall prospects were more certain, together with the Belgian and Netherlands contingents. There was a minesweeping role to be performed in the northern waters of the Gulf but this would not extend for British minesweeping vessels to the Shatt-al-Arab.

THE PRIME MINISTER said that the situation with respect to Angola and Namibia was very much better now that South African troops had withdrawn from Angola. But large numbers of Cuban troops remained there, and had indeed increased, and a date had not yet been agreed for their departure. It appeared that the Cuban President, Dr Fidel Castro, was not particularly anxious to withdraw them since the payment for their services from Angolan oil revenue represented a valuable source of income to Cuba. The South Africans had so far behaved very well.

In Cyprus the overall situation was also somewhat better. The new President, Mr George Vassiliou, had turned out to be easier to deal with than his predecessor. He had already met the leader of the Turkish
Cypriot community, Mr Rauf Denktash, and it was clear that in personal terms they got on well. The United Nations Secretary General, Mr Perez de Cuellar, had so far handled matters very well. Following the meeting between the representatives of the Greek and Turkish Cypriot communities, there was a basis to begin negotiations.

On Kampuchea, Prince Norodom Sihanouk, whom the Prime Minister had met during her recent visit to the region, was having contacts with all parties to the dispute. The Russians had also been talking to the Chinese. A key factor was the need for Chinese firmness with the leader of the Khmer Rouge party, Pol Pot. It was unthinkable that Pol Pot should return to Kampuchea after the genocide that he had perpetrated there.

THE PRIME MINISTER said that the General Secretary of the Communist Party of the Soviet Union, Mr Mikhail Gorbachev, had taken a very long summer holiday and it appeared that during his absence there had been a certain loss of control over the reform movement, with hard-line statements being made by two Politburo members, Mr Ligachev and Mr Chebrikov. It was therefore good that he had now resumed full charge in Moscow. One area in the arms control field where Soviet behaviour was still very unsatisfactory was that of chemical weapons. The Soviet Union was not being honest and was denying facts about its capability that the United Kingdom knew to be true. Despite recent exchanges of inspection teams between the Soviet Union and the United Kingdom, the British inspectors had not been treated with reciprocity and had been kept out of certain buildings, despite the Soviet inspectors in the United Kingdom had been permitted full access. This was a very difficult subject, not least because the political atmosphere was changing following the overt use of chemical weapons recently in the Middle East.

THE PRIME MINISTER said that whatever preferences there might be for one or other of the candidates in the forthcoming United States Presidential Election, it was important that members of the Government should keep these to themselves and avoid public references to the subject between now and the Presidential Election. The overriding priority was that the United Kingdom should continue to have a strong relationship with the United States thereafter.
THE PRIME MINISTER said that following her visit to Australia in August, she was convinced that now was the time to step up British ties with Australia. She had taken the line in her speeches there that Australia had successfully built its own nationhood; and that a new basis for relations between the United Kingdom and Australia now existed which would extend into the next century and eclipse the old approach determined by the perception of Britain as the ex-Colonial power. The Australian Prime Minister, Mr Bob Hawke, would be visiting the United Kingdom in 1989 accompanied by other Australian Ministers. The United Kingdom should seek to sell more to Australia, especially defence equipment.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he too had visited Australia, some three weeks after the Prime Minister, and could vouch for the great impact her visit had had on the Australian press as well as the Federal and State Governments. In trade the United Kingdom had overtaken the Federal Republic of Germany to become Australia's third largest supplier. The United Kingdom had some $37 billion of investment in Australia, compared with some $40 billion of American investment there, and was the largest foreign holder of equity in Australia.

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that the numerous personal ties and exchanges between young people in the United Kingdom and Australia were also a valuable asset on which the new relationship should capitalise.

THE PRIME MINISTER said it had been necessary to expel the Cuban Ambassador and another Cuban diplomat from the United Kingdom because of the latter's offence in firing a gun in a London street on 12 September. A member of the Vietnamese Embassy, who had brandished a gun outside the Embassy on 4 September, had also been expelled. The Parliamentary Under Secretary of State for Foreign and Commonwealth Affairs had handled both incidents very well.

THE PRIME MINISTER said that the United Kingdom had given £11 million of emergency assistance against floods and famine in Sudan, and over £7 million of emergency aid to Bangladesh following the unusually severe floods there. Hurricane Gilbert had now caused great damage in Jamaica: the Government had so far announced half a million pounds worth of aid but this would need to be looked at again in the light of the extent of the damage which was now emerging.
THE PRIME MINISTER said that there was no end in sight to current internal unrest in Burma. It was a very interesting phenomenon that the Communist-inclined government had been unable to stand out against the widespread public protest now manifesting itself there.

THE PRIME MINISTER said that the inquest in Gibraltar into the deaths of three IRA terrorists on 6 March was going quite well so far for the Crown. The inquest would probably last another four weeks. The members of the security forces who had so far given evidence had done so in an impressive and authoritative manner.

THE SECRETARY OF STATE FOR DEFENCE said that the recent removal of United State ground launched cruise missiles from the Royal Air Force base at Molesworth in Cambridgeshire was an important reminder of the progress made in arms control and a vindication of the Government's consistent policy. This was a point which could profitably be underlined in Ministerial speeches. He had attended the previous weekend a very successful meeting of the Independent European Programme Group covering defence equipment, collaboration. The fact that the United Kingdom would be assuming the chairmanship of this Group for the next two years would provide a useful opportunity to shape and guide its efforts. THE PRIME MINISTER said that the recent visit to the United Kingdom by the Military Committee of the North Atlantic Treaty Organisation had been successful and the visitors well pleased with their reception.

The Cabinet -

Took note.

COMMUNITY AFFAIRS

Delors Speech to Trades Union Congress

3. THE PRIME MINISTER said that she regarded the speech delivered by the President of the Commission, Monsieur Delors, to the Trades Union Congress on 8 September as outrageous. As had happened on other occasions, notably in his addresses to the European Parliament, Monsieur Delors had reverted to demagogy. The proposals he had put forward included the creation of a statute for European companies with provision for worker participation. More generally we would need
bearing in mind the significant number of socialist administrations now in the Community, to guard against attempts to tie us up with increased bureaucracy. The present Commission approach was wholly inconsistent with that of the founding father of the Community.

Prime Minister's Bruges Speech

THE PRIME MINISTER said that she had in mind in the speech she was to deliver in Bruges on 20 September, having recalled that links with Europe had been a dominant factor in British history, to underline the themes of deregulation and open markets. There were numerous areas such as shipping, insurance and financial services where the United Kingdom was well ahead of the other member countries in this respect. Others should now follow our example.

European Community Statistics

THE PRIME MINISTER said that the head of the Government Statistical Service had brought to her attention the increasing demands for statistics being proposed by the Commission particularly in connection with the completion of the single market in 1992. A draft programme for the next four years had recently been put forward involving over 200 projects, of which nearly one half were either wholly or substantially new. It was essential that individual proposals should be subjected to the same rigorous examination as those which originated in the United Kingdom. Our response to the programme as a whole should also be fully co-ordinated by Directors of Statistics in each Department with the Central Statistical Office.

The Cabinet -

Took note.

Cabinet Office

15 September 1988
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on THURSDAY 29 SEPTEMBER 1988 at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

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 George Younger MP
Secretary of State for Defence

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

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

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

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

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

The Rt Hon The Lord Belstead
Lord Privy Seal

The Rt Hon John Major MP
Chief Secretary, Treasury

The Rt Hon Lord Mackay of Clashfern
Lord Chancellor

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 Kenneth Baker MP
Secretary of State for Education

The Rt Hon John MacGregor MP
Minister of Agriculture, Fisheries

The Rt Hon Paul Channon MP
Secretary of State for Transport

The Rt Hon John Wakeham MP
Lord President of the Council

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

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

THE FOLLOWING WERE ALSO PRESENT

- Hon David Waddington QC MP
  Parliamentary Secretary, Treasury

- The Rt Hon Lynda Chalker MP
  Minister of State,
  Foreign and Commonwealth Office

- The Rt Hon Peter Brooke MP
  Paymaster General

SECRETARIAT

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

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1. THE SECRETARY OF STATE FOR ENERGY said that the interim report of
the technical inquiry which he had established into the explosion on the
Piper Alpha platform would be published later that day. Lord Cullen,
the Chairman of the public inquiry into the explosion, would be
announcing at the same time the date of the inquiry's preliminary
hearings and that the Department of Energy's report on the incident on
the Piper Alpha platform in 1984 was being made available to the public.
The Technical report had been difficult to compile because much of the
physical evidence remained on the sea bed. However, two possible
explanations had emerged and, while it would be for the public inquiry
to reach its own conclusions, it appeared that the most likely cause of
the explosion was human error rather than a failure in the structure of
the rig. The trades unions had been seeking to build up their position
in the North Sea, as had the Opposition's energy spokesman in courting
the trades unions, and as a result there had been a good deal of
exaggerated and ill-informed criticism of safety arrangements. This had
been heightened by the explosion on board the Ocean Odyssey platform the
previous week when the radio operator had lost his life. However, he
was clear from his discussions with the workforce during a visit to the
Alwyn North oil field the previous day that, while there was naturally a
good deal of anxiety, North Sea oil operators and workers all attached
the highest priority to safety considerations. The trades unions had
claimed that safety arrangements in the Norwegian sector were superior
to those in the British sector, but their contention that his Department
should no longer be responsible both for safety and development was
undermined by the fact that responsibility for these two matters in the
Norwegian sector was likewise exercised by a single body. The Burgoyne
Committee on Offshore Safety had examined that issue and had concluded
that there would be no benefit in removing responsibility for safety
from the Department of Energy. The Government should not be drawn into
commenting on the possible causes of the explosion on Piper Alpha, which
was a matter for the public inquiry. However, without prejudice to
that, his Department had written to the oil companies to urge them to
examine six issues relating to safety.

THE HOME SECRETARY said that the prison officers at Holloway Prison had
ceased their industrial action on 22 September, after it had been made
plain to them that staff not obeying orders would be sent home. The
staff at a number of other prison establishments, however, were
continuing to refuse to accept new prisoners and this had led to a rise
in the number of prisoners held in police cells, which presently stood
at about 1700. This situation, which was both expensive and damaging to
the efficiency of the police, was totally unacceptable, and he had
accordingly invited the national chairman of the Prison Officers'
Association (POA), Mr John Bartell, to meet him that afternoon. At that
meeting he would make it plain to the prison officers that the
Government could not tolerate the present situation, which came after a
long period of patient handling by prison management, and that any
continuation of the industrial action must lead to staff disobeying
orders being sent home under the Temporary Relief from Duty procedures,
and to suspension of check-off facilities for the payment of POA subscriptions. Although there were some risks in taking such a firm line, the present state of affairs was manifestly intolerable and, having discussed the matter with the police, he believed that the time had come to leave the prison officers in no doubt about the Government's resolution.

The Prime Minister said that six important White Papers would need to be published before the end of the year. It was important that their publication should be spaced out and in particular that two White Papers should not compete for attention in the same week.

The Cabinet -

took note.

2. The Minister of State, Foreign and Commonwealth Office
(MRS CHALKER) said that the inquest in Gibraltar on the deaths of three Irish Republican Army terrorists on 6 March would probably conclude on 30 September or very early the following week. There were indications of differing views within the jury. While there was still a significant chance of a finding of justifiable homicide, the possibility that the outcome would be an open verdict was thus greater than had earlier seemed the case. Draft statements for use in either eventuality had been prepared by officials and would be submitted to the Ministers primarily concerned. Media coverage of the inquest had on the whole been acceptable, with the major exception of the Thames Television programme, "Death on the Rock", which following recent revelations would be the subject of a major internal enquiry to be reported to the Independent Broadcasting Authority in due course.

The Minister of State, Foreign and Commonwealth Office said that the Foreign and Commonwealth Secretary would be meeting the Iranian Foreign Minister, Dr Ali Akbar Velayati, in New York on 30 September. The Government's objective remained to re-establish a British Embassy in Tehran. It was hoped to use the 30 September meeting to finalise agreement on this. If the meeting was successful it was in theory be possible to reopen the British Embassy within twenty-four hours. Talks between British and Iranian officials had begun in Geneva on 27 September. The Iranian side were making rather heavy weather of these, arguing that they should be permitted to open a Consulate-General in Manchester in exchange for allowing the British Embassy to reopen in Tehran. Should these talks fail due to Iranian obstinacy, the Foreign and Commonwealth Secretary intended to put an ultimatum to Dr Velayati.
either to permit the United Kingdom to return its representation in Tehran to full Embassy status or to find a protecting power for the present Iranian mission in London.

In a brief discussion, it was emphasised that the United Kingdom was not in the position of being a supplicant to Iran over normalisation of diplomatic relations and could not appear to be offering a quid pro quo for the release of British hostages still held in Lebanon. In view of the public perception that Iran had some influence over the captors of the hostages, the current talks needed to be handled extremely carefully.

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that the talks between Iran and Iraq were stalled although the ceasefire in the Gulf was holding. Another meeting between the parties would take place in New York within the following few days. Thereafter the talks would probably be resumed in Geneva. Iraq was still intransigent over freedom of navigation in the Gulf and clearance of the Shatt-al-Arab. The United Nations Secretary General, Mr Perez de Cuellar, was seeking a compromise but this might take some time to achieve.

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that there was compelling circumstantial evidence, albeit not fully proven, that Iraq had used chemical weapons against the Kurdish community there. It appeared that such weapons had been used in a scattered manner and that tear gas had also been employed to induce additional panic amongst the victims. The Government had requested an independent United Nations investigation. Iraq had refused this and Turkey had also proved reluctant. There was nevertheless a need to keep up the pressure of condemnation in order to deter any future use of chemical weapons. Multilateral action was the most effective. The United States Congress was still considering sanctions against Iraq. The United States Administration would oppose this and employ a veto over Congress if necessary. The sensitivity of the Iraqi Government to world opinion suggested the condemnation had had its intended effect.

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that the term of office of President Gemayel had ended on 23 September without a successor being appointed. There were now in effect two rival governments, that of the Christian Prime Minister, General Aoun, who had been appointed at the eleventh hour by Mr Gemayel, and that of the previous caretaker Muslim Prime Minister, Selim Hoss, backed by Syria. There was growing de facto partition in Lebanon. The risk of Syrian proxy military pressure on Christian Beirut was high. The Government's
line was to maintain contacts with both the rival governments while
stressing that these contacts had no implications for their competing
claims. Other European Community countries endorsed this approach,
which had also been adopted by the United States. The Americans
remained in touch with the Syrians but the prospects of a compromise
between the Christians and the Muslims to elect a President looked
increasingly bleak. These developments carried no direct implications
for the British hostages. The British Embassy were still in contact
with leaders in Beirut. The situation, and its implications for British
diplomats and their families, was being kept under close and continuous
review.

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that the
condition of Emperor Hirohito of Japan was stable but critical. His
death might be imminent. The Crown Prince had taken over the Emperor's
official responsibilities. The funeral would take place 40 to 50 days
after the Emperor's death. Existing agreed contingency plans provided
for the United Kingdom to be represented at the funeral by a senior
member of the Royal Family and by a Cabinet Minister. The death of
Emperor Hirohito would signal the end of an era in Japan, but was
unlikely to have serious effect on Japan's domestic and international
policies since the Emperor's role was now purely symbolic.

In discussion, it was pointed out that British representation at the
funeral of the Emperor would need to be handled with great sensitivity
given not only the current importance of relations with Japan but also
the strong feelings on the part of those members of the British public
who had direct experience or memories of Japan's wartime role and her
treatment of prisoners. It was important to find out quickly the
intentions of other friendly governments as to representation at the
funeral, particularly the United States, the old Dominions and key
European partners, especially those with Royal Heads of State such as
the Netherlands. The United Kingdom needed to be broadly in line with
major partners on this question.

THE CHANCELLOR OF THE EXCHEQUER, reporting on the annual meeting of the
International Monetary Fund (IMF) and the World Bank said that the
general atmosphere had been calm, with the world economy in reasonable
shape and the US Presidential elections ahead. He had had a bilateral
discussion with the United States Treasury Secretary Brady whom he
judged likely to retain his position if Mr Bush became President.
Mr Brady had made clear that he would maintain the policies of his
predecessor, Mr Baker, in relation to international financial
cooperation. Mr Brady had also indicated that after the Presidential
election he would wish to get to grips with the problems of the United
States budget deficit, although he did not indicate what action he proposed to take. The Group of Seven meeting, preceded by an unpublicised meeting of the Group of Five, had produced a satisfactory communique.

Continuing, THE CHANCELLOR OF THE EXCHEQUER said that, following the discussion at the Toronto Summit, detailed arrangements for dealing with the problem of Sub-Saharan debtors had been worked out in the Paris Club. The Germans had been holding up general agreement, but following pressure put on them during the present meeting, the agreement had now been concluded, with the Germans opting for the same technique of reducing interest rates as we had chosen. A difficult position had, however, arisen in relation to the position of middle income debtors. At a very late stage in the Toronto Summit, the Japanese had produced long and elaborate proposals in this area which there had not been time to discuss. On the eve of the present meeting, the Japanese had again brought forward a complex scheme. The United States Government were suspicious of the proposals which in their view appeared to transfer risk from the private to the public sector. The outcome was that the Japanese proposals, which in the absence of the Japanese Finance Minister had been presented by the Governor of the Bank of Japan, had been reflected in a single tentatively worded paragraph. Nevertheless the problem had not been away. In particular there was the danger of a Japanese alliance with the French. It was not unlikely that President Mitterrand, on the occasion of his visit to the United Nations later in the year, would produce an initiative on similar lines. The Japanese initiative might well reflect both their wish to cut a figure on the international stage and the pressure on them from Japanese banks.

However, there were a number of alternative ideas available for market based solutions, including increased use of the secondary market.

In a brief discussion it was noted that there had been recent indications that the French authorities had been opening up their market to Japanese companies for the first time and substantial investments had been negotiated. While both the United Kingdom and Germany had attracted such inward investment in the past, we had not hitherto had to face the problem of French based competition.

THE CHANCELLOR OF THE EXCHEQUER said that in the course of the meeting, the Chairman of the World Bank, Mr Conable, had announced the conclusion of an agreement with Argentina. Such an agreement would normally be backed by an IMF programme and the proposals had also not yet been approved by the Bank Board. This had led to a debate between Monsieur Camdessus and Mr Conable and the matter would have to be resolved in due course in the Bank/Fund Boards.

The Cabinet -

Took note.
3. THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that at its meeting on 26 September the Foreign Affairs Council had not found it possible to agree the draft mandate for the Lomé negotiations. Outstanding points would need to be resolved before the opening session on 12-13 October. The Council had approved a statement on the recent United States Trade Act. Despite the inclination of the French and Italians for a more confrontational approach, the agreed text had matched the United Kingdom wish for a firm but balanced anti-protectionist message. The Foreign Secretary, in his meeting with the United States Secretary of State, Mr George Shultz, in New York would underline the importance in the context of the GATT Uruguay Round of a responsible Administration approach. The EC/Hungary trade and economic cooperation agreement had been signed in the margins of the Council. The Deputy Prime Minister, Mr Marja, had expressed his gratitude for the role played by the United Kingdom in the negotiation of an agreement and the interest taken by the Prime Minister in this issue following Mr Grosz's visit to London last May. The message which the Prime Minister had sent to Mr Grosz earlier in the week had been published in all the Hungarian newspapers.

THE CHANCELLOR OF THE EXCHEQUER, reporting on the informal meeting of the Economic and Finance Council on 16-18 September said that the unhelpful press accounts of the discussion of indirect tax approximation had reflected briefing by the Commission and in particular Lord Cockfield. However in substance the meeting had in fact gone well. He had presented a very thorough paper outlining a market based approach to the problem and reflecting the view that increased cross border shopping would encourage approximation of taxation without the necessity for central harmonisation by the Commission. The subsequent discussion had concentrated on this paper and the issues presented in it. The meeting had only addressed Lord Cockfield's paper, seeking answers to detailed questions on the implementation of the Commission's proposals, in its concluding minutes. Luxembourg had been the only member state to support the United Kingdom's approach but the other member states all had difficulties with the Commission's proposals and Denmark had described them as unacceptable. The other nine member states had regarded the United Kingdom's paper as a substantial and constructive contribution. While they had accepted the Commission approach in principle it clearly caused them major difficulties for economic policy and revenue reasons, and also in political terms. The Commission's proposals on excise duties, where there were much greater national variations than in respect to value added tax rates, raised particular difficulties. At the conclusion of the meeting, Monsieur Delors had accepted that the United Kingdom's paper remained on the table. The Commission had been asked to produce proposals amended in the light of the views expressed during the meeting and also of bilateral exchanges to take place subsequently with member states. It seemed inconceivable that while Lord Cockfield remained Commissioner any
satisfactory proposals would be brought forward; revised proposals were likely to reflect only minor changes and so would be unacceptable. It would be sensible for the United Kingdom to play this issue long in the hope that a new Commissioner would approach it with a fresh mind.

The Cabinet -  
Took note.

The Minister of Agriculture, Fisheries and Food said that at its meeting on 26-27 September the Agriculture Council had had a first discussion of the problem presented by a judgment of the European Court of Justice that farmers who had temporarily come out of milk production under a 1984 voluntary scheme should not have been denied any allocation of milk quotas. The decision presented some unwelcome issues, and the Council would need to return to the problem on a future occasion. There had also been a discussion of agriculture’s place in the Uruguay Round. He had had some preliminary exchanges on this issue with Commissioner Andriessen and had underlined the need for a further Community input in the GATT discussions were to be successful. He had expected a difficult debate on this issue in the Council. In the event, however, the French Minister of Agriculture, who had recently visited the United States, had taken up a much more open position than in the past. Only the German Minister had taken the view that the Community should stand pat on the reforms already agreed. There was a clear wish for further debate at a later Council in October or November. Given the nature of the debate on the present occasion, this presented a less unwelcome prospect than might have been expected.

The Minister of Agriculture, Fisheries and Food said that the Council had also considered a paper produced by the Commission on the future of the rural world which sought to take stock of the wider issues presented by changes in agriculture. Against the background that agriculture could not play an expanding role in world production, it was clear that there would need to be substantial adjustments. We would need to be on our guard against pressure for expenditure on other activities, both within the agricultural budget and elsewhere. There had finally been discussion of the implications of prospective underspending of the agriculture budget. This had reflected not only the impact on world prices of the drought in the United States but the effects of the reforms of the CAP already agreed and management savings in the dairy sector. Some member countries were looking for justification of the pressure on expenditure. It had been possible on this occasion to fight off such approaches. In a brief discussion it was noted with satisfaction that recent changes in the dollar rate would mean that the first activation of the monetary reserve would be in a positive direction.
THE HOME SECRETARY said that he had had a meeting in the previous week with the French Minister of the Interior, Monsieur Joxe. It was satisfactory that Monsieur Joxe had been prepared to put his name to a public statement recognising the necessity for frontier controls in the fight against terrorism, drug trafficking and criminal behaviour. As the Chancellor had noted in relation to tax approximation, other member countries frequently only agreed in private with United Kingdom views. There were continuing problems with the press corps in Brussels who were heavily briefed by the Commission on such issues. In a brief discussion it was noted that there had been clear recognition at the Hanover European Council of the importance of frontier controls.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that Nissan had established new manufacturing facilities at Washington New Town which were expected to produce 200,000 cars annually, half for export. These would meet the Community requirement for 60 per cent local content. The first car which he would himself drive off the production line at the weekend was intended for export to France. The French authorities had refused entry, indicating that they would only accept vehicles with 80 per cent local content. He was pursuing this issue with the Commission.

The Cabinet -
Took note.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on THURSDAY 6 OCTOBER 1988 at 10.30 am

PRESENT

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 Douglas Hurd MP Secretary of State for the Home Department

The Rt Hon George Younger MP Secretary of State for Defence

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

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

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

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

The Rt Hon The Lord Belstead Lord Privy Seal

The Rt Hon John Major MP Chief Secretary, Treasury

The Rt Hon David Waddington QC MP Parliamentary Secretary, Treasury

The Rt Hon Nigel Lawson MP Chancellor of the Exchequer

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 Kenneth Clarke QC MP Secretary of State for Health

The Rt Hon Paul Channon MP Secretary of State for Transport

The Rt Hon John Wakeham MP Lord President of the Council

The Rt Hon Cecil Parkinson MP Secretary of State for Energy

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

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Peter Brooke MP Paymaster General
CONFIDENTIAL

SECRETARIAT

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

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

THE FOREIGN AND COMMONWEALTH SECRETARY said that the overall result of the leadership changes in the Soviet Union was less radical than expected at first. There were now four reformers in the Politburo and three members of the old guard. The loyalties of the other five members of the Politburo were uncertain but included elements who favoured economic reform rather than political reform. It appeared that the position of the President and General Secretary of the Communist Party of the Soviet Union, Mr. Mikhail Gorbachev, in carrying forward perestroika was strengthened but he himself was showing signs of impatience with the policy of glasnost as reflected in the criticisms he had faced in Siberia and the attitude of the Soviet press. The irony was that Mr. Gorbachev had made these latest changes in a very undemocratic fashion: members of the Central Committee had been summoned peremptorily to Moscow to rubber-stamp decisions already taken. Centralised political power had been used in the name of trying to achieve greater economic decentralization.

THE FOREIGN AND COMMONWEALTH SECRETARY said that during his recent visit to New York for the United Nations General Assembly he had observed a new atmosphere pervading United Nations work, reflecting the progress which had occurred in finding solutions to the problems in Iran and Iraq, Afghanistan, Cambodia and Southern Africa. The new thinking in Soviet foreign policy introduced by Mr. Gorbachev was undoubtedly one factor in this, challenging as it did all the premises underlying Soviet foreign policy hitherto and questioning whether such policies had really been in the Soviet interest. Another very important factor had been the collective leadership demonstrated by the West. This rested on the pattern of good relations and mutual consultation among the allies such as had characterised the last Summit of the North Atlantic Treaty Organisation. The West had thus been able to respond constructively and sensibly to the emergence of new thinking in the Soviet Union. The speeches by the President of the United States, Mr. Ronald Reagan, and by the Soviet Foreign Minister, Mr. Eduard Shevardnadze, to the General Assembly, had reflected much greater similarities in position than previously. The United Kingdom Permanent Representative at the United Nations had assumed the de facto role of co-ordinator of the five Permanent Members of the Security Council. It was the United Kingdom which often took the initiative in calling the five together, as had been done over United Nations Security Council Resolution 598 on the Iran/Iraq war. There had been another meeting of the five Foreign Ministers with the United Nations Secretary General, Mr. Patricio Cuellar, on 28 September. The willingness of all concerned to reorganise this meeting at short notice to accommodate the Soviet Foreign Minister's sudden recall to Moscow for the Party Plenum had been
remarkable. There had been a very sensible discussion at the meeting itself. There was agreement to press on in implementing the ceasefire resolution on the Iran/Iraq war. The question had been raised as to what common action might be possible to bring about a political solution in Cambodia, picking up on the Prime Minister's own statement on this subject. There had been frank discussion of the situation in Angola and the possibility of diplomatic movement more generally in Southern Africa. Meanwhile Soviet withdrawal from Afghanistan was continuing.

THE FOREIGN AND COMMONWEALTH SECRETARY said that there were encouraging signs of movement in several quarters as regards the overall situation in Southern Africa. The Secretary General of the United Nations, Mr Perez de Cuellar, had returned from the region with a sense that changes were afoot over Angola and Namibia. He himself had recently returned from a trip to Africa. The Prime Minister had also seen the President of Zimbabwe, Mr Robert Mugabe. In South Africa the President, Mr P W Botha, had got himself into an illogical position internally. He was frightened of being out-flanked by his political right by the Conservative Party; while simultaneously trying to unscramble the Group Areas Act. Against this background he appeared to be trying to move forward externally. The President of Mozambique, Mr Joaquim Chissano, believed that South Africa was serious in its recommitment to the Nkomati Agreement. Most informed observers thought that South Africa was prepared to press on towards independence for Namibia. The two major remaining problems were Cuban troop withdrawal from Angola and internal political reconciliation there. Progress was slow but the chances of reaching agreement on the timetable for Cuban troop withdrawal looked somewhat better. Other major initiatives such as Summit meetings in Southern Africa seemed unlikely. Meanwhile perceptions of the United Kingdom's position on South Africa were shifting in the Government's favour at the time. This was because people recognised the strength of the arguments the Government had been putting, for example in recent speeches by Her Majesty's Ambassador to South Africa, particularly on the effect that punitive economic sanctions would have. The United Kingdom's positive aid to the Front Line States was another important factor in mitigating criticism of British policy.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had seen the Iranian Foreign Minister, Dr Ali Akbar Velayati, during his visit to New York the previous week. The objectives had been to work very cautiously toward the re-establishment of full diplomatic relations without a precise commitment at this stage as to the time or scale of this. He had naturally also pressed for better treatment for the two British citizens imprisoned in Iran and had raised again the question of British hostages in Lebanon. He had reached agreement in principle with Dr Velayati on 30 September to resume full diplomatic representation in London and Tehran, subject to talks in Geneva between the two sides on
detailed implementation. Iran was making unreasonable demands over the wording of a joint communiqué. It was therefore not inconceivable that the whole agreement would have to be called off. Notwithstanding British commercial interests in Iran, Iran needed resumption of diplomatic relations more than the United Kingdom. The British media reaction so far had been broadly supportive of the Government's line.

Gibraltar
Inquest
Previous
Reference:
CC(88) 29.2

THE FOREIGN AND COMMONWEALTH SECRETARY said that following the verdict of justifiable homicide returned by the jury in Gibraltar on 30 September on the deaths of three Irish Republican Army terrorists shot by British security forces on 6 March, the reaction of the Irish Government had so far been restrained while they considered the report of their own official observer at the inquest. All those who had been concerned in the organisation and conduct of the Crown's case at the inquest deserved congratulation.

In a short discussion of the next steps with regard to the Thames Television programme "Death on the Rock", it was noted that an independent inquiry was now under way, the result of which would be reported to the Independent Broadcasting Authority (IBA) and published in due course. This process might take some weeks. Thereafter it was for consideration whether any further statement should be made by the Government both on the programme itself and on the IBA's apparent failure to exercise its supervisory role. The episode had completely vindicated the arguments about the danger of media coverage causing contamination of the evidence on which Mr Justice Salmon had drawn attention after the Aberfan disaster in 1968.

Chile

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Government of Chile had conceded that the plebiscite held on 5 October had gone against the President, General Augusto Pinochet, by a margin of 53 to 44 per cent. President Pinochet was likely however to remain in office until March 1990. Congressional elections and a Presidential election were now due in January 1990. It was hoped that the plebiscite represented the first step in a return to democratic government in Chile. The problem was that the opposition parties were very divided among themselves and it might take time for them to rally and for strong opposition candidates to emerge. Although reactions both from pro-Pinochet forces and from the opposition had so far been moderate, there remained a danger that the internal situation would deteriorate and would come to resemble the Philippines after the fall of President Marcos but without the presence of a strong democratic leader such as Mrs Corazon Aquino. If in such circumstances the military were to move in and seize power, Chile's predicament would have come full circle.
The Cabinet -

Took note.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that an agreement had been reached late on 4 October on New Zealand exports of butter and sheepmeat to the Community. Not all the details were yet clear and the agreement was subject to ratification by the New Zealand Cabinet and, on the Community side, clearance by the full Commission and the Council. His understanding was that the proposed agreement would cover the four year period 1989-92. For butter there would be a reduction in New Zealand butter exports from the present 74,500 tonnes to 64,500 tonnes in 1989 and progressively to 55,000 tonnes in 1992. There would be a reduction in the butter levy from 25 to 15 per cent. For sheepmeat the ceiling would be reduced from the present 245,500 tonnes to 205,000 tonnes, with the existing 10 per cent tariff reduced to zero. It remained to be seen whether there would be any attempt in the Council to tighten up the detailed provisions of the agreement. His expectation was that for their part the New Zealand authorities would accept it as the best available outcome. For butter the effect of the reduction of the levy taken with the reduced access would be actually to increase New Zealand export returns in the first year. He judged that an outcome on the basis proposed would be acceptable to the United Kingdom dairy industry.

The Cabinet -

Took note.

Cabinet Office
6 October 1988