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CABINET

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

THURSDAY 29 JUNE 1989

at 10.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

The Rt Hon Lord Mackay of Clashfern
Lord Chancellor

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

The Rt Hon Peter Walker MP
Secretary of State for Wales

The Rt Hon George Younger MP
Secretary of State for Defence

The Rt Hon Norman Fowler MP
Secretary of State for Employment

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

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

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

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

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

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

The Rt Hon Paul Shipman MP
Secretary of State for Transport

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

The Rt Hon John Wakeham MP
Lord President of the Council

The Rt Hon The Lord Belstead
Lord Privy Seal

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

The Rt Hon John Major MP
Chief Secretary, Treasury

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

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon David Waddington QC MP
Parliamentary Secretary, Treasury

The Rt Hon Peter Brooke MP
Paymaster General

SECRETARIAT

Sir Robin Butler
Mr R G Lavelle (Item 3 and 4)
Mr P J Weston (Item 3 and 4)
Mr P J C Mawer (Item 1 and 2)
Mr S S Mundy (Item 1 and 2)

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PARLIAMENTARY
AFFAIRS

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

Water Bill

Previous
Reference
CC(89) 18.1

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he was grateful to the Lord Privy Seal and to the Captain of the Gentlemen at Arms for their skilful handling of the Water Bill, which had completed its passage through the House of Lords earlier that week. Only two amendments had been carried against the Government: at Commons' consideration of Lords' amendments on the following Monday and Tuesday, he would be inviting the House to overturn an Opposition amendment which sought, in effect, to set a deadline of 1993 for the completion of the extremely expensive programme of work which would be required to meet the European Community drinking water directive; and negotiations were continuing on whether an acceptable compromise could be reached on the amendment sponsored by Lord Radnor, which sought to require water undertakers, in general, to secure the approval of landowners before laying pipes on their land. It was essential that the Bill should proceed to Royal Assent in the following week, as planned, in order to maintain the timetable for flotation.

The Cabinet

Took note.

HOME AFFAIRS

Abolition of
the Dock Labour
Scheme

Previous
Reference
CC(89) 22.2

2. THE SECRETARY OF STATE FOR EMPLOYMENT said that the Dock Work Bill had completed its Report Stage in the House of Lords unamended and was on course to achieve both its Third Reading in the Lords and Royal Assent on the following Monday. The regulations to be made under the Bill would be laid immediately thereafter. The result of the ballot of the Transport and General Workers Union's dockworker members was likely to be announced on Friday 7 July, 4 days after the Dock Labour Scheme was due to be abolished. It was sensible to plan on the basis that strike action would take place, but if so it would be against the background that all port employers would in future be free to recruit non-registered labour and that redundancy payments for those registered dock workers who took strike action would be put at risk.

Continuing, THE SECRETARY OF STATE FOR EMPLOYMENT said that the position on industrial action in the economy generally could become more difficult over the following 2-3 weeks: the transport unions were threatening a further 24-hour stoppage on the following Wednesday on British Rail, the London Underground, and London Buses; local authority members of the National and Local Government Officers

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Association were threatening to mount a 24-hour stoppage in the following week and two such stoppages in the week after that; and there was also the possibility of strike action by dock workers. Strike action by all those workers might coincide in the week beginning 10 July. These disputes all involved public sector workers, with the exception of the protest over the abolition of the Dock Labour Scheme which nevertheless had a public sector element to it. A common theme to the disputes was that they were concerned not only with pay but also with the modernisation of working practices, on which the private sector had generally made the necessary changes several years previously.

Industrial
Action in the
Transport
Sector

Previous
Reference
CC(89) 22.2

THE SECRETARY OF STATE FOR TRANSPORT said that the previous day industrial action by members of the National Union of Railwaymen (NUR) had resulted in no trains running on British Rail (BR) and minimal services on the London Underground. London Buses had operated normally, indeed some additional services had been provided, although traffic congestion in London had been considerable. Members of the Amalgamated Society of Locomotive Engineers and Firemen (ASLEF) had now voted overwhelmingly for 24 hour stoppages on the London Underground, and a further day of industrial action on the London Underground, British Rail and London Buses was expected the following Wednesday. A variety of disputes were involved. On the London Underground these involved pay for drivers of single manned trains and the introduction of London Underground Limited's Action Stations proposals providing for the promotion of station staff on merit rather than on the basis of seniority. London Underground was determined to stand firm on its proposals. Talks with the NUR on pay and productivity were continuing under the auspices of the Advisory, Conciliation and Arbitration Service. On London Buses, the dispute was about pay, and there were some small signs of movement by the union involved, the Transport and General Workers Union (TGWU). On British Rail there were disputes about pay and about the introduction of decentralised pay bargaining arrangements. British Rail management was determined to see the latter introduced, about which there was ample time for negotiation as it was not envisaged that the new arrangements would begin to operate until November. As regards the British Rail dispute on pay, the right course under the industry's agreed procedures was for the NUR and ASLEF to take their grievances to the Railways Staff National Tribunal, as the other rail union, the Transport Salaried Staffs Association, had already done, but they had so far declined to do this. British Rail management were mounting an

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advertising campaign aimed at persuading NUR and ASLEF members and the general public that this was the right course. In the short term he was considering what further steps could be taken to help commuters: a decision would have to be made within the next 24 hours on whether to make available, at 3 days notice, some 7,000 additional parking spaces in central London, for example in Royal Parks, with an equivalent number further out from where commuters could be bussed to the centre. The police had so far, however, been opposed to such a step on the grounds that provision of extra parking would attract more cars into central London, so worsening traffic problems. He would see whether more buses could be made available, especially in London, although they were in short supply because of the abnormal demand. For the longer term, the Chairman of London Regional Transport had been asked to speed up putting out more London bus routes to competitive tender: it was noteworthy that there had been no industrial action so far on any of the 25 per cent of London bus routes which were already operated under tender. It would also be possible to privatise London Buses completely but legislation would be needed to safeguard the present concessionary fares system, the loss of which would be highly damaging to public support for privatisation. Overall, the managements of the three transport undertakings affected by the industrial action were fully justified in the course they were taking to modernise working practices, and deserved firm support.

In discussion the following main points were made:

- a. It was becoming increasingly difficult to explain to the general public why no special measures to assist commuters, such as opening up additional car parks, were being taken. On the other hand, the police's concern about the possibility of this adding to traffic problems, either in the centre or on key approach routes to London, was understandable, and might well be justified in the light of past experience. The police were also bound to have in mind the experience of the day of the Old Bailey and other terrorist bombings, which demonstrated the opportunity such circumstances provided to terrorists. One way of possibly minimising the traffic problem might be to use any additional parking spaces for buses rather than cars.
- b. Other possible ways of easing problems, such as staggering working hours and journey times and encouraging car sharing, needed to be examined.

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c. Since the rail system had shown that it was unreliable, there might be a case for the Government reviewing the relative priority which it had given road and rail within its transport programme. The Government had recently announced a major increase in spending on roads: it was arguable that the road programme itself should be examined to ensure that it gave the right priority to roads which would help get people to work. The more that satisfactory alternative means of getting people to work could be developed, the more British Rail would risk permanently losing passengers.

d. It was important that employees taking industrial action should feel the effect on their pay packets. It was unclear whether the striking union members were being affected in this way or whether the tax system operated in some fashion to cushion the blow. The point was worth examining further.

e. Presentationally, the coverage by the media of the strike seemed to be moving in the Government's favour. The NUP and the Official Opposition had no effective explanation for the Union's failure to refer its pay dispute with BR to the Railway Staff National Tribunal. Useful information had become available about the relatively high average earnings of rail staff. But ways of further strengthening the Government's position should be considered: one possibility, for example, might be to brief a small team of Government supporters in the House of Commons who could be available to present the Government's case to the media as required.

THE PRIME MINISTER, summing up the discussion, said that a decision was clearly needed quickly about the possible provision of additional parking spaces in London. The Home Secretary should chair a meeting on that issue within the next 24 hours, at which the Secretaries of State for Employment, Energy, Trade and Industry and Transport should be present or represented. Current arrangements for monitoring industrial action in the docks, and for coordinating the Government's reaction to it, would need to be extended to cover industrial action in the transport sector. The Secretary of State for Transport should take account of the points made in discussion in the further handling of the various transport disputes.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of its discussion and invited the Home Secretary and the Secretary of State for Transport to

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proceed accordingly.

demonstrations
by the Muslim
community against
for Salman
Rushdie's book
'Satanic Verses'

THE HOME SECRETARY said that there was a continuing series of protests by members of the Muslim community against Mr Salman Rushdie's book "Satanic Verses". This was a difficult issue for the Government since it was not possible to meet the protestors' main demands: in particular, it would not seem right either to extend the law of blasphemy to cover religions other than Christianity or to create a new offence of incitement to religious hatred. Following several of the protest meetings, groups of young Muslims, sometimes as many as 200 strong, had resorted to disorder and violence. He had the power to ban processions, on application by the Chief Constable and the local authority, if serious disorder could not otherwise be avoided; and Chief Constables were empowered to impose conditions on meetings if they anticipated serious disorder, although there was no power to ban such meetings. It would be helpful if colleagues could impress on Muslim leaders in their constituencies and elsewhere, that the disorder associated with the recent protest action was harming their cause.

The Cabinet -

2. Took note.

FOREIGN
AFFAIRS

Hong Kong

Previous
Reference
CC(89) 22.3

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that he would be visiting Hong Kong from 2 to 4 July where he would try to steady nerves and reassure people about the future following the blow to public confidence from recent events in China. There was the prospect of a sustained campaign on the key question of whether Hong Kong British passport holders should have the right of abode in the United Kingdom. On this the House of Commons Select Committee on Foreign Affairs was likely to be helpful to the Government's view in the report they would be publishing on 30 June. Further work would need to be done on contingency planning for mobilising the international community in the event of a major cataclysm precipitating a mass exodus from Hong Kong. In his own discussions in Hong Kong the following week he would focus on the more immediate question of greater flexibility in conceding the right of abode to Hong Kong British passport holders.

Continuing, THE FOREIGN AND COMMONWEALTH SECRETARY said that, on the problem posed by the continuing arrival in

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Hong Kong of Vietnamese boat people some headway had been made following the International Conference in Geneva and there was now broad international support in particular from South East Asian countries and Australia for the British view that Vietnamese boat people who did not qualify as genuine refugees would need to be repatriated. The United States had however been consistently unhelpful on this question. He had seen the Vietnamese Foreign Minister, Mr Nguyen Co Thach, on 28 June. The latter had agreed that Vietnam should participate in efforts to bring about the return to Vietnam of those non-refugees who would not resist repatriation even if they were not actively volunteering for it. This constituted a very important shift in the attitude of Vietnam.

China
Previous
Reference
CC(89) 22.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that hardliners had continued to consolidate their position following the recent repression of demonstrations in China. General Secretary Zhao Ziyang had been dismissed from all his posts at the enlarged plenum of the Central Committee of the Chinese Communist Party on 23/24 June. Three other reform-minded leaders had also been dismissed. Mr Jiang Zemin, formerly the Party Secretary of Shanghai, had been the surprise choice to replace Zhao Ziyang. Mr Jiang had visited the United Kingdom in 1988 as Mayor of Shanghai and had called on both the Prime Minister and himself. He was a difficult man to assess. Moscow-trained and fluent in English he gave the impression of a lively personality. He had done much to promote foreign investment in Shanghai. He had been able to avoid any open conflict with the People's Liberation Army in Shanghai when martial law had been imposed in early June. But he had also been quick to judge that the hardliners would predominate during recent political events and to adjust his own stance accordingly. It was unclear how much influence he would wield given that the Party's veterans Deng Xiaoping and President Yang Shangkun were still on the scene. It appeared that Chinese policy remained to pursue economic liberalisation without having to concede political liberalisation. The European Council in Madrid had adopted a useful statement on China and agreed a package of measures broadly in line with those already taken by the United Kingdom while avoiding blanket economic sanctions or severance of contacts.

Republic of
Ireland
Previous
Reference
CC(89) 22.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Taoiseach, Mr Charles Haughey, would be going to the Irish Dail later that day to seek a vote confirming him in office.

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as Taoiseach following the recent general election in Ireland which had left him six seats short of an overall majority. It seemed unlikely that he would be immediately successful in this. But, against the background of an unusual constitutional situation, further political manoeuvring would probably result in general acquiescence in due course that he should remain as Taoiseach. Mr Haughey had played quite a helpful role to the United Kingdom during the discussions at the recent European Council in Madrid.

The Cabinet -

Took note.

4. THE PRIME MINISTER said that the first major issue at the European Council in Madrid on 26-27 June had been the question of a Social Charter. Eleven Member States had indicated at an earlier meeting of the Social Affairs Council that they would be prepared in principle to support such a proposal. In making clear our objections to this approach it had been possible to point to United Kingdom adherence to the Charter of the Council of Europe, which three Member States had not themselves adopted. A document had also been prepared setting out the employment and social security arrangements in the United Kingdom. This was made available at the meeting. Against this background the argument had been strongly advanced that the Social Charter did not represent a suitable way forward in a Community whose members had different histories and had developed in different ways. The approach in the Charter was inconsistent with the doctrine of subsidiarity. If adopted it would also mean that the Community would price itself out of world markets. Other Member countries appeared to be under the impression that signature of a Declaration would have no practical implications. The reality was that it could be made the basis of some 33 new Directives. The account given of the wide range of social security benefits in the United Kingdom had been well received and had proved effective in establishing the United Kingdom's credentials in this area.

In discussion it was noted that the conclusions from the Madrid Council had themselves included the point that in the achievement of the Single Market top priority should be given to job development and creation. There had also been explicit recognition that in the further discussions in the social area the role to be played by national legislation and contractual relations had to be clearly established.

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COMMUNITY
AFFAIRS

Madrid
European
Council
26-27 June

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While the French Presidency might well carry forward work on a Charter it would be valuable to repeat the presentation made in Madrid in other Member countries and to enlist the support of business organisations including the European CBI whose support for the United Kingdom approach had not been reported to the meeting by the Spanish Presidency.

THE PRIME MINISTER said that as with the Social Charter a number of Member countries had adopted a wholly uncritical approach to the Delors Report, which was the second major subject for consideration at the Council. The United Kingdom's approach had however commanded support from Denmark, the Netherlands, Luxembourg and, intermittently, Ireland. There was some evidence of underlying discontent with possible Franco-German pretensions to determine the outcome of this debate. In the event agreement had been reached only on the proposals related to stage one in the Delors Report which were concerned with completion of the Single Market and closer economic and monetary cooperation on the basis of the existing Treaty. President Mitterrand had sought to gain agreement to a commitment to an early inter-governmental conference (IGC) to take forward stages two and three, but had been out-maneuvred. The underlying Treaty obligation which the Community had adopted was for a progressive realisation of Economic and Monetary Union (EMU). In this context the prescriptions for stages two and three in the Delors Report was wholly unacceptable for reasons the United Kingdom had made clear from the outset. These related in particular to the absence of political accountability and the transfer of sovereignty implied by the proposals, which would be wholly unacceptable to the British Parliament. Instead of the commitment sought by the French, agreement had been reached at the Council that there should be further preparatory work. This was to be taken forward by the Economic and Financial Council and other competent institutions. This outcome would permit the development of alternative approaches in which a major element might be closer cooperation undertaken on a voluntary basis. The need for such alternatives had been well brought out in an article in The Economist of 24 June. The opportunity had been taken at the meeting to set out in more detail the conditions that would need to be satisfied for the United Kingdom to join the Exchange Rate Mechanism (ERM) including a reduction in United Kingdom inflation and the abolition of exchange controls by major Member countries. It was noteworthy that although Spain had recently joined the ERM it had a derogation in relation to the Capital Liberalisation Directive.

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In discussion it was noted that the debate at the Madrid Council had been assisted by clear and firm direction from the Spanish Presidency. The Presidency and Secretariat had also judged very skilfully how the nature of a commitment to preparatory work for later stages of EMU might best be expressed in the Conclusions. While the language was not ideal, the formulation proposed had been one which the United Kingdom could accept, leaving the French in an unusual position of isolation. The United Kingdom's readiness to participate in a constructive examination of the reasons had wrong footed those countries, notably France, Italy and Belgium, that were looking for precipitate agreement to an IGC. The constructive approach taken up in the Madrid debate had been well received not only in the British press but the Parliamentary Party. The approach would be seen to contrast favourably with the uncritical stance in favour of the Delors Report taken up by the Opposition, including its readiness to contemplate a further shift of resources to southern Member countries. It remained to be seen how well the ERM would survive the test of final liberalisation of capital controls by France and Italy. However, provided that the necessary conditions were satisfied, United Kingdom membership of the ERM could be helpful not only to management of the economy but to the influence we could exert in the forthcoming debate. In the meantime, valuable breathing space had been won and it would be important to use it to enlist public opinion in other potentially sympathetic quarters including Germany. At the same time the Government should use this opportunity effectively to develop criticisms of the prescriptions in the Delors Report, to develop clear alternatives and to build up appropriate alliances. The Government should make use of the uneasiness that a number felt about the closeness of relations between the French authorities and the President of the Commission. The period ahead remained a dangerous one and the position would not be helped by possible Irish ambitions for their Presidency at the beginning of 1990, which would be followed by Italian Presidency.

Summing up the discussion the PRIME MINISTER said that in the discussion on the Social Charter it had been possible to gain ground by setting out the United Kingdom's own approach in detail. In the forthcoming discussions in the Economic and Financial Council, the Government should use the room for manoeuvre it now had to develop its own view of economic and monetary cooperation, develop alternative approaches and build up alliances in support of that approach.

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The Cabinet -

Took note with approval of the Prime Minister's summing up and invited the Chancellor of the Exchequer to proceed accordingly.

Cabinet Office
29 June 1989

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