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CABINET

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

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

The Rt Hon Lord Mackay of Clashfern
Lord Chancellor

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

The Rt Hon Peter Walker MP
Secretary of State for Wales

The Rt Hon George Younger MP
Secretary of State for Defence

The Rt Hon Norman Fowler MP
Secretary of State for Employment

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

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

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

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

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

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

The Rt Hon Paul Channon MP
Secretary of State for Transport

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

The Rt Hon John Wakeham MP
Lord President of the Council

The Rt Hon The Lord Beestead
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 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

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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)

C O N T E N T S

Item	Subject	Page
1.	HOME AFFAIRS	
	Future of the Training Commission	1
	Unemployment	2
	The Economy	2
	Crime and the Prisons	3
	Northern Ireland	4
	Postal Strike	6
	Nurses' Pay Settlement	6
2.	FOREIGN AFFAIRS	
	Iran/Iraq War	7
	Regional Conflicts	7
	Soviet Union	8
	United States Presidential Election Campaign	8
	Bilateral Relations with Australia	9
	Diplomatic Expulsions from London	9
	Aid for Victims of Natural Disaster	9
	Burma	10
	Irish Terrorist Bomb Attempt in Gibraltar	10
	North Atlantic Treaty Organisation Affairs	10
3.	COMMUNITY AFFAIRS	
	Delors Speech to Trades Union Congress	10
	Prime Minister's Bruges Speech	11
	European Community Statistics	11

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mission

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 union 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. The TUC 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.

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Unemployment

Previous

Reference:

CC(88) 25.2

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 and 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 peculiarly 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

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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.

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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.

Crime and
the Prisons

Previous
Reference:
CC(88) 23.5

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

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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 he 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.

Northern
Ireland

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 organising 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 declaration of the campaign, and it was clear that the attack on Sir Kenneth 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 whatsoever 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 very 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

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unit of the PIRA had been killed at Drumnakilly 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 commonsense 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 callous 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.

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Postal Strike 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, including 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.

Nurses' Pay Settlement

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 three 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.

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The Cabinet -

5. Took note.

FOREIGN
AFFAIRS

Iran/Iraq War

Previous
Reference:
CC(88) 27.5

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.

Regional
Conflicts

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

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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 Ceular, 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 being 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.

Soviet Union

Previous

Reference:

CC(88) 25.3

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, whereas 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.

United States
Presidential
Election
Campaign

Previous

Reference:

CC(88) 26.3

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.

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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.

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Burma
previous
reference:
C(88) 27.5

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.

Irish
terrorist
bomb attempt
in Gibraltar
previous
reference:
C(88) 24.3

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.

North
Atlantic
Treaty
Organisation
Affairs

THE SECRETARY OF STATE FOR DEFENCE said that the recent removal of United States ground launch 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 demagoguery. 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

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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

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