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CABINET

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CONCLUSIONS of a Meeting of the Cabinet  
held at 10 Downing Street on  
THURSDAY 14 DECEMBER 1989  
at 10.30 am

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P R E S E N T

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon Sir Geoffrey Howe QC MP  
Lord President of the Council

The Rt Hon John Major 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 Tom King MP  
Secretary of State for Defence

The Rt Hon Nicholas Ridley MP  
Secretary of State for Trade  
and Industry

The Rt Hon Kenneth Baker MP  
Chancellor of the Duchy of Lancaster

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 Cecil Parkinson MP  
Secretary of State for Transport

The Rt Hon John Wakeham MP  
Secretary of State for Energy

The Rt Hon The Lord Belstead  
Lord Privy Seal

The Rt Hon Antony Newton  
Secretary of State for Social Security

The Rt Hon Christopher Patten MP  
Secretary of State for the Environment

The Rt Hon Peter Brooke MP  
Secretary of State for Northern Ireland

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

The Rt Hon Norman Lamont MP  
Chief Secretary, Treasury

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ALSO PRESENT

The Rt Hon Timothy Renton MP  
Parliamentary Secretary, Treasury

The Hon William Waldegrave MP  
Minister of State for Foreign and  
Commonwealth Affairs

The Rt Hon Sir Patrick Mayhew QC MP  
Attorney General (Item 5)

SECRETARIAT

Sir Robin Butler  
Mr R T J Wilson (Item 5 only)  
Mr L V Appleyard (Items 3 and 4)  
Mr D A Hadley (Items 3 and 4)  
Mr G Monger (Item 5 only)  
Mr P J C Mawer (Items 1 and 2)  
Mrs J M Bailey (Items 1 and 2)

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PARLIAMENTARY  
AFFAIRS

Parliamentary  
Business

1. The Cabinet were informed of the business to be taken in the House of Commons in the following week and the week beginning Monday 8 January 1990.

THE LORD PRESIDENT OF THE COUNCIL said that a number of Ministers had indicated a wish to make an oral statement before the House rose for the Christmas adjournment. The programme for the following week was, however, tightly packed. It would be helpful if colleagues could wherever possible postpone statements until after the Christmas adjournment, or if announcements could be made in alternative ways. He would be discussing the need for individual statements with those concerned.

In a brief discussion, it was noted that questions following statements were increasingly lengthy, with the result that debates on subsequent business were too often curtailed. It was for the Speaker to decide how many questions to allow following a statement, and he was known to wish to give as many backbenchers as possible an opportunity to pose them. In the interests of shortening proceedings, Ministers should, as a matter of general practice, make their oral statements and responses to supplementary questions as brief as was reasonably possible.

The Cabinet -

Took note.

HOME AFFAIRS

Unemployment

Previous  
Reference:  
CC(89) 28.2

2. THE SECRETARY OF STATE FOR EMPLOYMENT said that the unemployment figures for November would be published later that day. They showed a seasonally adjusted fall in unemployment of 25,200 to 1.650 million, the lowest level for over 9 years. Unemployment had now fallen for 40 consecutive months and was lower than at any time since October 1980. Since the 1987 General Election, unemployment had fallen by over 1.3 million. Long term unemployment continued to fall faster than total unemployment and was now at its lowest level since October 1982. Over the previous year there had been significant improvements in the employment situation. The number of people without jobs had fallen by over 450,000 compared with November 1988. There were still around 600,000 vacancies in the economy as a whole. The unemployment rate now stood at 5.8%, a reduction of 1.7% over the year. All regions had seen a reduction in unemployment over the year with the North, Wales and Scotland experiencing the largest falls. Figures for the annual increase in average earnings would also be published later that day. These were less encouraging. The rate of increase of average earnings over

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the year had increased by 0.25 per cent to 9.25 per cent. The increase in unit wage costs in the United Kingdom over the year was 6 per cent, which compared unfavourably with the position in other major countries. In the Federal Republic of Germany and the United States, for example, the equivalent figure was 1 per cent, in Japan minus 1 per cent, and in France minus 3 per cent. There was a prospect of further high wage settlements in the car industry. Moderation in pay remained a key requirement if the United Kingdom was to remain competitive in world markets and the following year's employment prospects were not to be put at risk.

Water  
Privatisation

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THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the flotation of the Water Industry had been highly successful. There had been over 2.7 million applications for shares, of which half were from customers. This was the second highest number of applications for a Government privatisation share offer. In the light of the demand, the overseas and United Kingdom clawback arrangements had been triggered so that 7 per cent of the total offer was available to the general public and employees. The share allocations had favoured the smaller investor and over one million applications (42 per cent) had been met in full. Despite the immense logistical difficulties of selling 10 companies to the public simultaneously against the background of unparalleled political opposition and problems with the European Commission on environmental issues, the original objective and timetable had been met. The offers had been managed and presented in a way that had enabled the Stock Market to absorb a complex major sale very smoothly. Credit for this important success should be given to his predecessor, the Secretary of State for Trade and Industry, and the Minister for Housing and Planning (Mr Howard).

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The Prime Minister said that the Cabinet joined in congratulating the Environment Secretary, the Trade and Industry Secretary and the Minister for Housing and Planning for the very successful outcome of the share offer. The Minister for Housing and Planning deserved particular credit for the skilful way in which he had handled both the Water Bill and the flotation in very difficult political circumstances.

The Cabinet -

Warmly endorsed the Prime Minister's remarks.

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Industrial Action  
in the Ambulance  
Service

The Cabinet discussed the continuing industrial action in the Ambulance Service. The discussion is recorded separately.

Previous  
References:  
C(89) 36

FOREIGN AFFAIRS

—  
Eastern Europe

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE (MR WALDEGRAVE) said that rapid developments were continuing in Eastern Europe. In Czechoslovakia, there were to be elections next year and the majority of the Ministers in the interim government were non-Communists. A complicated and potentially fraught situation was building up over the election of an interim President of the Republic. The elections might be carried out by the Federal Assembly which was still dominated by the Communists. Support for Mr Vaclav Havel was increasing and he was the strongest candidate to become interim President. However, the Communists might propose Mr Alexander Dubcek. He was a Communist and a somewhat outdated figure, so that such a proposal could spark off strikes and demonstrations. In Bulgaria the new Party Leader, Mr Petar Mladenov, had made a surprising commitment to allow free elections by June 1990. He had also proposed the abolition of the leading role of the Party. In Poland the new government was likely to sign a Letter of Intent with the International Monetary Fund by the end of the week. The Solidarity leader, Mr Lech Walesa, had issued an unexpected call for "special powers" which were probably intended to speed up implementation of the government's austerity measures, to which he was giving useful support. Nevertheless, his call carried unfortunate echoes of the demands for special powers made by General Pilsudski in the 1920s. The Hungarian Prime Minister, Mr Miklos Nemeth, had just visited London where he had seen the Prime Minister and other Ministers. He had given an impressive account of his government's determination to press ahead with the necessary economic measures. He was having considerable difficulty with the present Parliament, whose Members had been elected under the old system. They were now trying to increase their popularity by adopting populist positions. Finally, the situation in East Germany was most difficult and dangerous. In demonstrations in the streets there had been increasing calls for reunification.

Soviet President's  
Speech at the  
Communist Party  
Central Committee  
Plenum

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that the Soviet President, Mr Mikhail Gorbachev, had made an important speech on 9 December at the Communist Party Central Committee Plenum. The telegram from the Embassy in Moscow said that President Gorbachev had used more ominous

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language than hitherto, warning against interference by Western countries in Eastern Europe. He had been critical of the West German Government, whose position he had compared unfavourably with those of Britain and France. President Gorbachev had not concealed his anxieties about the pace of change in Eastern Europe.

Vietnamese  
Boat People

Previous  
Reference:  
CC(89) 36.3

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that the first group of 51 non-voluntary returnees had been sent back to Vietnam on 12 December. The operation had gone smoothly. No force had been used. The Vietnamese Government had been co-operative. When the Foreign and Commonwealth Secretary saw the United States Secretary of State, Mr James Baker, on 11 December he had informed him of the British decision. Mr Baker had taken a rather cynical position. He had argued that if Britain delayed repatriation pending negotiation of an international monitoring system for returnees and confirmation in a multilateral form of the right of first asylum, the United States would become more acquiescent. At the same time, the United States Administration must be expected to continue to be critical of non-voluntary repatriation. Officials in the Embassy in Washington had been asked to contact the State Department to see whether this proposal could usefully be pursued. Lord Ennals and Mr Raison would go to Vietnam in January to monitor the condition of the returnees. It was not intended to carry out a further repatriation operation before the resumed meeting of the Steering Committee of the Geneva Conference on Refugees on 18-19 January. At this Conference Britain would work once again for international agreement to repatriate non-refugees. Some progress might have been made in the discussions with the United States Administration by then, though it would be wrong to pin too many hopes on this. The Minister of State, Foreign and Commonwealth Office (Mr Maude) had given evidence to the House of Commons Foreign Affairs Committee. He had handled some hostile questions with considerable skill. There had been predictable media criticism of the Government's action. On the other hand, articles were now appearing in support of the Government's position.

In discussion, the following points were made:

- a. There were now 1,700 Vietnamese immigrants prepared to go back voluntarily. 13,000 had already been designated as bona fide refugees and were awaiting settlement. It was essential to take urgent steps to repatriate the volunteers and to press those governments who had made commitments to accept refugees to honour their pledges. This action should be pursued

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without delay, and without waiting for further repatriation of non-voluntary returnees.

b. Although British public opinion found repatriation distasteful, there was a great deal of support for the Government's action. Criticism from the United States Administration nevertheless could have a damaging effect. It was regrettable that the United States Government had criticised the British Government's actions over the Vietnamese boat people. In the past Britain had often been alone in supporting unpopular American policies. The American position on the repatriation of immigrants was inconsistent since the United States also sent back illegal immigrants. United States policy derived in part from the psychological after-effects of the Vietnam war. The United States Administration could be more helpful in persuading the Philippine government to establish a regional clearing centre. The British Government should not hesitate to rebut American criticism, and should ask the United States Government in return whether it would make a clear commitment to take more refugees. In view of the criticism by the United States, Britain no longer had any obligation to support United States policy in South East Asia, except where it was consistent with British interests.

c. The policy of repatriation was overwhelmingly popular in Hong Kong. It would be helpful if leading Hong Kong figures could express their support on television and in the press. The media tended to choose the few, unrepresentative figures from Hong Kong who criticised the policy. Publicity given to the conditions in the refugee camps has not necessarily unhelpful.

d. Britain had a good case to make on the screening of refugees. Criticism of the monitoring process, which was carried out by the Embassy in Hanoi, was misguided. There were only nine families in the first repatriation group and these could easily be monitored by the Embassy. If necessary numbers in the Embassy could be increased as the repatriation gathered speed.

e. Britain made a substantial financial contribution to the United Nations. The United Nations Commissioner for Refugees should be pressed to be more helpful on monitoring.

f. Consideration should be given to protesting to the Chinese government about the help which the Chinese authorities gave to the refugees who crossed the northern border from Vietnam and travelled through China before setting out by boat for Hong Kong.

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g. Although the present Vietnamese Government was one of the remaining unreconstructed Communist administrations, it should be possible for Britain to take a robust attitude on aid. On the other hand it was important not to encourage the Vietnamese to draw the moral that, by facilitating the boat people, they could attract more aid. Normal development assistance and reintegration aid to areas where many clandestine departures took place were preferable to increased direct payments to individual returnees. The Vietnamese Government had solid economic reasons for not mistreating the returned groups of refugees, and this point should continue to be brought home to them.

h. Vietnam had a population of nearly 66 million. If the Vietnamese government continued to permit the clandestine emigration of the boat people, and no action was taken by Hong Kong, the flood would increase. A key objective of present policy was to discourage further waves of immigrants by sending an appropriate signal to Hanoi of the British Government's determination.

i. The majority of the immigrants came from rural populations in North Vietnam. They were quite distinct from the earlier, mainly Chinese, refugees who had fled for political reasons. The latest immigrants had a much lower standard of education and lacked professional skills. This distinction was often blurred by the media.

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THE PRIME MINISTER, summing up the discussion, said that the Foreign and Commonwealth Secretary should institute further urgent action over the repatriation of the 1,700 volunteers and the onward movement of the 13,000 Vietnamese who had already been designated bona fide refugees and were awaiting resettlement. United States criticism of Britain's policy on repatriation should be rebutted as necessary. Consideration should be given to protesting to China about the help which it gave to Vietnamese boat people in transit. Further action should be taken to encourage the leading figures in Hong Kong, who overwhelmingly supported the policy, to express these views in public.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Foreign and Commonwealth Secretary to be guided accordingly.

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COMMUNITY  
AFFAIRS

Meeting of  
Group of 24  
13 December

4. THE MINISTER OF STATE FOREIGN AND COMMONWEALTH OFFICE said that the meeting in Brussels of representatives of the 24 Organisation for Economic Co-operation and Development countries to review assistance to Poland and Hungary, which the Foreign and Commonwealth Secretary had attended, had gone well and had shown increased momentum. There were signs of greater participation from non-European countries, particularly Japan. It was clear that very considerable resources would be available to Poland, once she had signed an agreement with the International Monetary Fund, and also for other East European countries as they demonstrated a genuine commitment to democratic reform.

Agriculture  
Council  
11-12 December

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the meeting of the Agriculture Council had been long but successful. A satisfactory agreement had been reached on the veterinary inspection of meat products imported from other Member States. This increased the chances of satisfactory decisions on the more difficult and crucial issues of inspections of imports of live animals and plants for disease control purposes. The Council had also discussed the paper which the Community was due to table by the end of the year on agriculture in the General Agreement on Tariffs and Trade Round discussions. The text proposed by the Commission went further in the direction of liberalisation than he had expected, given the known views of the Agriculture Commissioners. Although it continued to advocate the rebalancing of external protection, it showed some movement towards the United States position on tariffication. For this reason it had been opposed by those Member States most strongly against further agricultural reform, particularly Germany and Spain. A number of Member States had argued against tabling any paper at all. He had argued in favour of the paper being tabled and had given general support to the text in the hope that this might improve the chance of obtaining helpful modifications. There would be a further discussion of the text at the Foreign Affairs Council on 18-19 December.

Fisheries  
Council  
17-19 December

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the forthcoming meeting of the Fisheries Council would be of crucial importance. It would determine the total allowable catch for 1990 and its allocation between Member States. In addition it would have to consider the proposed agreement with Norway on the amount of catch to be allocated to Norwegian and Community fisherman in each other's waters during 1990. Because Norwegian fishing in

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Community waters mainly took place in the latter part of the calendar year, the Norwegians tended to prolong the negotiations until very shortly before the year was due to start, thus leaving Member States very little time to assess the position. Scientific advice was that the fish stock position was poor and that a significant cut-back in the catch was needed. The Commission, extraordinarily, were proposing a bigger reduction than recommended by their own scientists. In addition the deal emerging from their discussions with Norway would give Norwegian fishermen an increased share of the much lower figures which the Commission proposed for cod and haddock, the two most important species. This was impossible to defend to British fishermen. There would be an uncomfortable Parliamentary debate that day. He intended to attack the Commission proposal which he regarded as totally unreasonable. He could only assume that the Spanish Fisheries Commissioner wished to make the Common Fisheries Policy unworkable in the hope that Spanish fishermen would in the end emerge with an increased share of the catch.

In a brief discussion it was noted that these issues were crucial for the British fishing industry, especially in Scotland. It was unacceptable that the Commission should propose reductions greater than the scientists recommended: allocating extra cod and haddock to Norway, particularly in these circumstances, would be inflammatory. The Commission was also seeking to determine the detailed manner in which national quotas should be utilised, a matter which had in the past always been left to national decision. It was questionable whether the deal could be accepted at all unless it was improved. Through success in past negotiations, the United Kingdom had secured a favourable share of the available catch. Any revision of the Fisheries Policy would almost inevitably be to our disadvantage. This made it essential to defend the principle of "relative stability" as a way of preventing incursions by other Member States, notably Spain.

Quota-Hopping:  
European Court  
of Justice

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the European Court had that morning given judgment in the Agegate and Jaderow cases. These cases concerned the measures which the Government had taken to combat those Spanish fishermen who had gained access to United Kingdom fish quotas by reregistering their vessels as British vessels. Their original intention had been to continue to operate from, and land catches in, Spain: their report, probably incorrect, of what they had caught in British waters would then be counted against the British quota. The Government had taken steps, most recently through the Merchant Shipping Act, to impose conditions upon

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registration, including the need for boats to land their catches in the United Kingdom, to be crewed by persons resident here and to pay United Kingdom social security contributions. Other Member States had similar arrangements: for example France required a certificate of competence, which could only be obtained after a course of instruction in France. The need for such conditions was the more important when fishing had to be cut back in order to conserve stocks. The Court judgment had been more helpful than was often the case. It established the right of Member States to impose conditions creating a genuine link between a vessel and the country in which it was registered. They had ruled out the requirement that a proportion of the crew should reside in the Member State concerned. But it appeared that most or all of the other conditions, including the requirement to land fish in the country of registration, could be maintained.

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In a brief discussion the judgment was generally welcomed. It was felt that demonstrations by British fishermen against fish being landed in the United Kingdom from Spanish vessels of the United Kingdom register were unlikely: such vessels could be expected, as at present, to choose the ports of landing with care in order to avoid any clashes. The danger of clashes at sea, however, would remain.

The Cabinet -

Took note.

Barlow Clowes

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5. The Cabinet discussed the handling of the report of the Parliamentary Commissioner for Administration on Barlow Clowes. The discussion is recorded separately.

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LIMITED CIRCULATION ANNEX

CC(89)38th Conclusions, Minute 2

Thursday 14 December 1989 at 10.30 am

THE SECRETARY OF STATE FOR HEALTH said that the situation on the ground in the Ambulance Service dispute continued to vary. The Armed Forces were providing an accident and emergency service in six areas while in a few others ambulance staff were working almost normally. In other areas the position varied between these two extremes. The Armed Forces continued to cope very well, although difficulties were presented for them by the Union tactic of frequently varying the level of industrial action being taken by its members.

Following their recognition for negotiating purposes of the Association of Professional Ambulance Personnel (APAP), National Health Service (NHS) management had made a final offer to the Association which had been recommended to members by the Association's negotiators. This involved a minimum increase of 9 per cent over 18 months (1.8 per cent in London), with additional payments of up to £500 for fully trained paramedical staff. This would give a total increase for a fully trained paramedic in London of 16.3 per cent. The offer was designed to enhance the Ambulance Service's para-medical capacity, so that it could in the future focus its activities on providing an improved accident and emergency service, leaving scope for the more routine tasks it at present performed to be contracted out. APAP was currently balloting its members on the offer, and in spite of media reports of membership unrest, the Association's leaders claimed to be confident of gaining a majority for the offer's acceptance. The result was expected to be announced the following Monday. Its acceptance would of course mean substantial back payments to staff returning to normal working.

In an apparent attempt to disrupt the APAP ballot, the chief negotiator of the National Union of Public Employees (NUPE), Mr Poole, had asked for a meeting of the National Whitley Council, which would take place that day. NUPE was still claiming a pay increase of 11 per cent over 12 months, together with the introduction of pay review machinery on the lines of that in the Fire Service - demands which NHS management could not accept. The meeting was therefore likely to end in deadlock.

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The Christmas period was one of peak demand on the Ambulance Service and with this in mind NHS management was considering offering a 5 day truce under which ambulance staff would receive full pay if they in turn agreed to provide a normal accident and emergency service. Such a move would not be without dangers for management, but it would also pose problems for NUPE who would find it difficult to justify refusing the offer and might find it a problem to get their members to return to diminished earnings once the truce was over. A truce would have the added advantage of relieving the pressure on the Armed Forces over the Christmas period. On balance he saw advantage in management making such an offer quickly.

In discussion it was noted that the ambulance workers continued to attract substantial public support, including financial contributions to their collections. These might well, however, reduce after Christmas. It was essential that the management case be got across to the public as effectively as possible, although this was made difficult because some elements in the media appeared determined to support the ambulance workers' cause. They seemed, for example, unwilling to recognise that the difficulties in providing an adequate accident and emergency service stemmed solely from the industrial action being taken by ambulance staff. The continued occupation of ambulance stations by NUPE members was a further cause of difficulty, amounting to appropriation by them of public assets. Turning ambulance staff taking industrial action out of the stations would, however, be very difficult, in presentational as well as in other terms.

THE PRIME MINISTER, summing up the discussion, said that the action being taken by NUPE was wholly indefensible. Every effort must continue to be made to get across the management case in the dispute and to highlight the unacceptable consequences of the industrial action. All Ministers should give the Secretary of State for Health and the NHS management executive whatever assistance they could in this process.

The Cabinet -

Took note.

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LIMITED CIRCULATION ANNEX

CC(89)38th Conclusions, Minute 5

Thursday 14 December 1989 at 10.30 am

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that the Parliamentary Commissioner's report on Barlow Clowes would be published in the following week, before Parliament rose. He would at the same time make a statement to the House and publish a Government response. The Parliamentary Commissioner's report was flawed. In particular, it did not take account of the established view that regulators should not generally have liability, and it greatly exaggerated the effect of mistakes by the Department of Trade and Industry. Nevertheless, it had to be recognised that the circumstances were special. The Department's performance was not without blemish, the legislation governing the regulatory system at the time the main events had taken place had been inadequate, and there would be great political pressure to help investors, some of whom had suffered great hardship. He had therefore reached the view that the Government would have to pay compensation.

A scheme of compensation had been agreed with the Parliamentary Commissioner, whose willingness to support it would be important. The Commissioner himself had suggested that there should be a modest abatement in the sums paid in compensation on account of the risks inherent in high return investment. The abatement would be fixed so that small investors were recompensed for a higher proportion of their losses than larger investors. The compensation would be paid to the liquidators by the end of January, and to investors by the end of February. The Government would take over investors' rights against third parties and intended to take legal action against the Barlow Clowes auditors and anybody else from whom it might expect to recover part of its expenditure. It would ensure that no compensation was paid to associates of Barlow Clowes. Finally, it would take care in presentation to ring fence the decision to pay compensation, to ensure that it would not be quoted as a precedent in other cases.

Continuing, the SECRETARY OF STATE FOR TRADE AND INDUSTRY said that the package he had described was fair and generous and in excess of public expectation. It was therefore important that

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it should be kept secret until he made his statement, so as to give it maximum impact.

In discussion, it was noted that it was of great importance to ring fence the decision to pay compensation in this case. The costs could be high if it came to be seen as a precedent. The text of the Government response would need to be carefully considered in the light of this. It could not be denied that there had been some errors of administration.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed the proposals by the Secretary of State for Trade and Industry. They agreed in particular that the Government should pay compensation and that it would be right in the Government's response to be critical of some aspects of the Parliamentary Commissioner's report. They agreed that the Secretary of State should make an oral statement, which should be as short as possible, and publish the full response in the following week. The timing of this would be determined by the timing of the publication of the Commissioner's report. It was essential that the Government's response should remain confidential until the statement was made.

The Cabinet

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

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15 December 1989

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