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CC(82) 16th
Conclusions

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CABINET

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

TUESDAY 6 APRIL 1982

at 10.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Francis Pym MP
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Education and Science

The Rt Hon John Biffen MP
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Northern Ireland

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Norman Fowler MP
Secretary of State for Social Services

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Baroness Young
Chancellor of the Duchy of Lancaster

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Cecil Parkinson MP
Paymaster General

SECRET

ALSO PRESENT

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr R L Wade-Gery (Items 3 - 5)
Mr P L Gregson (Item 6)
Mr D J S Hancock (Items 3 and 4)
Mr D J L Moore (Item 6)
Mr D H J Hilary (Items 1 and 2)
Mr L J Harris (Items 1 and 2)
Mr D H Colvin (Item 3)
Mr C H O'D Alexander (Item 5)

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RESIGNATION OF
LORD CARRINGTON

1. THE PRIME MINISTER said that the Cabinet would wish to record its profound regret and sense of loss at the resignation of Lord Carrington. All his colleagues would respect the sense of honour which prompted his decision, but would greatly miss his judgment and wisdom. He had served his country with distinction and devotion in many capacities, and was among the greatest of her Foreign Secretaries. All his colleagues would hope that the day would come when he would be able to join them again

The Cabinet -

Agreed to record its profound regret and sense of loss at the resignation of Lord Carrington, and unanimously endorsed what the Prime Minister had said.

PARLIAMENTARY
AFFAIRS

2. The Cabinet were informed of the business provisionally arranged to be taken in the House of Commons during the first week after the Easter Adjournment.

FALKLAND
ISLANDS

Previous
Reference:
CC(82) 15th
Conclusions

3. The Cabinet had before them a minute of 5 April to the Prime Minister from the Secretary of the Cabinet, describing the implications for Civil Departments of the situation in the South Atlantic.

THE PRIME MINISTER said that she had seen the Governor of the Falkland Islands and the two Royal Marine Commanders on their return from Uruguay. Their morale was high. It was clear that the Marines had put up an impressive resistance. The Governor had specifically confirmed that the authorities in the Falkland Islands had had no earlier intelligence about the Argentine invasion before they were warned of it from London on the evening of 31 March. It would be important to scotch the current rumour that London had learned of the invasion plan ten days in advance. There would of course be many demands for post-mortem analysis. These should be resisted, on the basis that what now mattered was the future.

THE FOREIGN AND COMMONWEALTH SECRETARY explained the diplomatic and economic action which was in hand. The need was to muster international support. With the Fleet at sea, the range of politico-military options would need to be studied with the utmost care.

THE SECRETARY OF STATE FOR DEFENCE gave a short account of the composition of the British task force. It had been a remarkable achievement by the Royal Navy and the Portsmouth dockyard workers to complete the preparations in so short a time.

In discussion, the following points were made:-

a. The crisis would not be solved by diplomatic means alone or by the intervention of the United States unless it was made absolutely clear that, in the last resort, Britain was prepared to fight. It would also be damaging to the Navy's morale if the task force were to come to believe that the Government's resolve might be faltering or that the reason for their despatch had merely been to overcome political embarrassment at home.

b. There was no basis for current allegations that the Royal Navy had been excessively weakened by expenditure cuts. On the contrary, the budget for conventional naval forces (ie excluding expenditure on the Trident programme) was £ $\frac{1}{2}$ billion higher, and also higher as a percentage of the Defence Budget, than when the Government took office. HMS Invincible was not due to be sold until the end of 1983, when she would be replaced by HMS Illustrious; and the replacement of HMS Hermes by HMS Ark Royal, also without a gap, would ensure that present carrier strength was continuously maintained.

- c. False but damaging rumours were circulating about the operational capabilities of the British task force and of the Argentine forces it might encounter. These should be countered, so far as security considerations allowed.
- d. It was unfortunate that the broadcasting organisations in particular should be speculating so freely about the military options which would be open at a later stage in the crisis. But it was unlikely that they could be restrained by informal Ministerial pressure, which they would see as putting them at a disadvantage vis-a-vis the Press. Any restraining action would therefore need to be official, via the D Notice system, and to cover all the media. This was primarily a point for the Secretary of State for Defence.
- e. The attitude of the United States Government was certain to be a key factor. The present Argentine regime had moved close to Washington in the financial, military and defence fields. Argentina exported many of her agricultural surpluses and new products to the West Coast of the United States. Her industrial development programmes were similarly linked to the United States. The United States Government could cripple the Argentine economy if they so chose. They had expected their allies to respond severely to the Soviet invasion of Afghanistan. There would be serious consequences for the Alliance if they were not prepared to respond similarly when British territory was invaded by a totalitarian regime.
- f. It would similarly be essential to secure maximum support from Britain's partners in the European Community. Their response would be seen by the British public as a test of how much Community solidarity really meant. Merely to discourage new bank lending to Argentina would be seen as an insufficient response.
- g. The economic measures taken so far, particularly the freezing of Argentine assets, had been calmly taken by the financial community. Sterling had fallen slightly and would need to be watched.
- h. President Mitterrand personally had been very sympathetic, and at the United Nations Security Council the French had been extremely helpful to the British cause. They had persuaded Togo and Zaire to vote for United Nations Security Council Resolution No 502. The performance of Sir Anthony Parsons and his staff at the United Kingdom Mission to the United Nations in New York had been outstanding.

THE PRIME MINISTER, summing up the discussion, said that a small Sub-Committee of the Defence and Oversea Policy Committee would be established under her chairmanship to maintain day-to-day control of the situation and to consider the political and military options open to the Government. Major decisions would be referred to the Cabinet, which would meet on 15 April, or to the Defence and Oversea Policy Committee. Officials should urgently appraise the issues likely to arise as a result of the economic actions already taken or decided on, including the total ban on imports from Argentina which would be announced that afternoon and come into effect at midnight. She herself would address messages, the preparation of which should be arranged by the Foreign and Commonwealth Secretary, to the Heads of Government of member States of the European Community and certain other friendly countries. The Secretary of State for Defence should circulate urgently to all Ministers a note on the capability and budget of the Royal Navy, which they should draw on in dealing with unfounded criticism. He should also brief the Cabinet, after Easter, on the detailed capability of the British task force now on its way to the South Atlantic. She would arrange for the establishment of a presentation unit to ensure that false rumours were immediately countered; and this Unit would ensure that members of the Cabinet were kept adequately briefed on such matters during the Easter Recess.

The Cabinet -

1. Took note with approval of the Prime Minister's summing up of their discussion.
2. Noted that the Prime Minister would arrange for the establishment of a small Sub-Committee of the Defence and Oversea Policy Committee to maintain day-to-day control of the situation, and of a presentation unit.
3. Instructed the Secretary of the Cabinet to arrange for officials to appraise the issues likely to arise as a result of economic actions.
4. Invited the Foreign and Commonwealth Secretary to prepare draft messages for the Prime Minister to send to certain Heads of Government.
5. Invited the Secretary of State for Defence to circulate briefing material as indicated in the Prime Minister's summing up.

COMMUNITY
AFFAIRS

Council of
Ministers
(Agriculture)
31 March - 2 April

Previous
Reference:
CC(82) 11th
Conclusions,
Minute 2

4. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Council of Ministers had not been able to reach agreement on the annual price review in the absence of a solution to the British budget problem; and it was encouraging that other member states had accepted this as a fact. The United Kingdom had not been isolated in the detailed discussions but had succeeded in maintaining an alliance with Germany, the Netherlands and Denmark. He had also persuaded the Commission to retain the butter subsidy at virtually its present level in their compromise package proposal and had secured the support of five other member states for the proposition that countries should be free to change their Green Currency rates when they saw fit and not under the direction of the Commission. If the Foreign Affairs Council to discuss the budget problem had taken place on 3 April as planned, Agriculture Ministers would have been able to give their Foreign Minister colleagues a good report on the chances of agreement on a farm package. Further progress on the farm price review was now clearly dependent on a solution to the budget problem.

The Cabinet -

Took note.

STATEMENT ON
THE DEFENCE
ESTIMATES 1982

Previous
Reference:
CC(81) 12th
Conclusions,
Minute 5

5. The Cabinet considered a note by the Secretary of State for Defence (C(82) 9) to which was attached a draft of the 1982 Statement on the Defence Estimates.

THE SECRETARY OF STATE FOR DEFENCE said that this year's Defence White Paper had already been considered in draft by the Defence and Oversea Policy Committee and following their discussion a few amendments had been made. The White Paper dealt fully in its first chapter with the Government's decision to adopt the Trident D5 missile for the United Kingdom's future strategic nuclear deterrent; and gave details in its second chapter of the improvements made in all three Services since the Government took office, including those affecting the capability for intervention outside the North Atlantic Treaty Organisation (NATO) area. He believed that the White Paper was still applicable in the situation which had arisen with the Argentine invasion of the Falkland Islands. The Soviet Union remained the main threat to the security of the United Kingdom. The thrust of the Government's defence policy and, in particular, the decision to place greater reliance on submarines, had been confirmed by the crisis in the Falklands. He had reviewed the draft in the light of the response to that event, and would be making some further amendments in the section dealing with out-of-area operations, but it would be preferable to keep these to a minimum and present the White Paper as having been prepared before the Falklands crisis. He proposed to authorise its immediate printing, which would make publication possible on any date from 28 April onwards. A decision on the exact date of publication could be taken nearer the time.

In discussion some concern was expressed about the adequacy of paragraphs 229 to 235 of the draft White Paper, in that they did not demonstrate clearly enough what British forces were capable of doing outside the NATO area. The balance of the White Paper was right, and the reservation expressed could be met by making only limited amendments. The decision to present the White Paper as a document prepared before the invasion of the Falklands suggested that its publication should take place as soon as possible; but some delay might nevertheless be necessary, depending on developments in the Falklands crisis.

THE PRIME MINISTER, summing up the discussion, said that, subject to the amendments which the Secretary of State for Defence would be making, the Cabinet approved the draft Statement on the Defence Estimates 1982; agreed that it should now be printed; and agreed to defer a decision on the timing of publication.

The Cabinet -

Invited the Secretary of State for Defence -

- i. to amend the draft Statement on the Defence Estimates 1982 to give further emphasis to the capability for military intervention outside the NATO area against the background of current events in the South Atlantic;
- ii. to arrange for the amended Statement to be printed;
- iii. to seek later agreement on the appropriate date for publishing the Statement.

INTERNATIONAL
CONFERENCE
CENTRE

Previous
Reference:
CC(81) 25th
Conclusions,
Minute 5

6. The Cabinet considered memoranda by the Secretary of State for the Environment (C(82) 7) and by the Chief Secretary, Treasury (C(82) 8) on the financing of the International Conference Centre (ICC) on the Broad Sanctuary site, Westminster.

THE SECRETARY OF STATE FOR THE ENVIRONMENT recalled that in July 1980 the Cabinet had agreed, in view of competing claims for public expenditure on projects of higher priority, that the ICC should be built only if it could be financed from the private sector. Subsequently in June 1981, they had authorised him to pursue an offer from the Pearl Assurance Company for financing of the project. In reaching this decision the Cabinet were aware of the main features of the proposed contract with the Pearl and that private sector financing would inevitably be more expensive than public financing. The Pearl had now signed the contract and were waiting for him to sign on behalf of the Government: Bovis, the managing contractors appointed by the Property Services Agency, were ready to start work immediately. The Chief Secretary, Treasury had, nevertheless, asked him to refrain from signing the contract and to consider financing the project by public expenditure on the grounds that the Exchequer and Audit Department (E & A D) were expected to make an adverse report to the Public Accounts Committee (PAC) on the financing arrangements. It was now argued that it was unacceptable that there was no break-clause in the 125 year lease; but, in his view, this was to be expected since the Government would undoubtedly require the use of the ICC indefinitely. A further criticism was that the base-line for calculating the first rent review during 1991 would be 1981 rather than 1986 when the building would be ready; this formula was, however, common in financing schemes of this kind. He did not, therefore, accept that there was any force in these criticisms; nor did he accept the assumptions which led the Chief Secretary, Treasury to claim that, taking account of the rent review formula, the costs of private sector financing could be three-and-a-half to four times as expensive as public financing. He was satisfied that the deal with Pearl was as good as the Government was likely to get from the private sector. It was in line with the approach authorised by the Cabinet and it would now be acutely embarrassing for him to go back to the Pearl to tell them that he could not sign the contract. It would, moreover, put at risk the Government's credibility in the promotion of further private sector participation in the financing of public sector construction projects. He invited the Cabinet to agree that he should sign the contract with the Pearl forthwith.

THE CHIEF SECRETARY, TREASURY said that he was satisfied that circumstances had changed since the Cabinet had last discussed the proposal in June 1981. Under the rent review proposals which had now emerged, he calculated that the discounted cost of financing the ICC through Pearl would be about £120 million compared with only about £30 million through direct Government finance. In these

circumstances it would be wrong and damaging to proceed with the contract and to burden the taxpayer with an arrangement costing several times more than it need. He accordingly proposed that the Centre should be built with public finance, and he was prepared to make the extra public expenditure sums available accordingly. He would also be ready in principle to agree to some reimbursement of the abortive expenditure incurred by Pearl and the Government's advisers; the sums would be minute compared with the savings from giving up the proposed contract. Under the arrangements he now proposed the Centre would be built exactly as planned and with no extension of the timescale.

In discussion the following were the main points made:-

a. Some Ministers thought that the ICC should be financed by Pearl as proposed. This was the basis which the Cabinet had approved in 1981 in the knowledge that it would be more expensive than public sector financing. This decision had been taken because the Centre did not have sufficient priority, by comparison with other competing claims, for public expenditure. If the Centre were now to be financed by public expenditure, this would be criticised by those who would question the Government's judgment in giving priority to a prestige project in the centre of London. The decision to back out of the contract with Pearl at the last moment would be regarded as at best a piece of bad management and at worst a breach of good faith by the Government.

b. Other Ministers thought that in view of the comparative costs the Centre should be financed from public expenditure as proposed by the Chief Secretary. Otherwise the PAC would undoubtedly criticise the project in terms which would throw doubt on the Government's whole approach to private sector financing of public projects and to privatisation. As it was, the Government would be criticised for going so far in negotiations with Pearl and for incurring costs in compensating them. It was, however, better to accept that criticism than the much greater embarrassment that would arise from going ahead with private sector financing.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed, on balance, that the ICC should be financed by public expenditure, as proposed by the Chief Secretary. They sympathised with the Secretary of State for the Environment's difficult task of explaining to the Pearl Assurance Company that he could not conclude the Agreement, which he had negotiated with them on the basis of the Cabinet's decision of June 1981. They were, however, persuaded that the embarrassment to the Government would be far greater if the substantially more expensive course of private sector financing were pursued.

CONFIDENTIAL

The Cabinet -

Agreed that the International Conference Centre should be financed by public expenditure, and abortive expenditure incurred by the Pearl Assurance Company and by the Government's advisers reimbursed, as proposed in paragraph 5 of the Chief Secretary, Treasury's memorandum C(82) 8.

Cabinet Office

6 April 1982

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