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CABINET

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

THURSDAY 14 JUNE 1979

at 10.30 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 Lord Carrington
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

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 Humphrey Atkins MP
Secretary of State for Northern Ireland

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services

The Rt Hon Norman St John-Stevas MP
Chancellor of the Duchy of Lancaster

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Mark Carlisle QC MP
Secretary of State for Education and Science

The Rt Hon John Biffen MP
Chief Secretary, Treasury

The Rt Hon Angus Maude MP
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Michael Havers QC MP
Attorney General (Items 5-8)

The Rt Hon Norman Fowler MP
Minister of Transport

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt
Sir Clive Rose (Items 2 and 3)
Mr M D M Franklin (Items 2-4)
Mr P Le Cheminant (Items 7 and 8)
Mr P J Harrop (Items 1, 5 and 6)
Mr P Mountfield (Item 7)
Mr D E R Faulkner (Items 1, 5 and 6)
Mr D M Elliott (Item 4)
Mr P J Fowler (Item 8)

CONTENTS

Subject	Page
PARLIAMENTARY AFFAIRS	1
FOREIGN AFFAIRS	
Rhodesia	1
Vietnamese Refugees	1
Namibia	2
COMMUNITY AFFAIRS	2
CAP PRICES AND GREEN POUND DEVALUATION	3
HOUSE OF COMMONS PROCEDURE	6
LEGISLATIVE PROGRAMME 1979-80	8
CASH LIMITS	9
THE BINGHAM REPORT	
A Further Inquiry	11

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

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that on the previous day the United States Senate had added an amendment to the Military Authorisation Bill calling for an immediate end to sanctions. The Bill now had to go through the House of Representatives where a vote was likely to be taken within the next two weeks. If the House of Representatives supported the Senate's view it would still be open to President Carter to veto the Bill. In this case a two-thirds majority of both Houses would be required to overturn his veto. It was too early to say whether this was likely to be obtainable.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the refusal of the Malaysians and Indonesians to take any more refugees from Vietnam would have the result of increasing the pressure on Hong Kong. The Governor, whom he had seen the previous day, was worried about the situation and would be seeing the Prime Minister that evening. The Thai Government had begun forcibly to expel refugees back across the border and those who were returned in this way were being shot on arrival. There was still doubt about whether the Taiwanese would accept the refugees on board of Roachbank: contrary to earlier reports no more than half of them were children of 15 and under. Norse Viking, the other British ship currently carrying refugees, had left Hong Kong and was on the way to Osaka. If the Japanese refused to accept the refugees on board we would be asked to do so. The response to the Prime Minister's proposal for an international conference, which the Secretary General of the United Nations, Dr Waldheim, had welcomed, had been favourable, but the initial enthusiasm was now waning. The United Nations High Commissioner for Refugees, Mr Hartling, who had been given the task of organising the conference, was reluctant to do so in the absence of assurances that those attending would be willing to accept refugees. The Minister of State, Foreign and Commonwealth Office, Mr Blaker, was going to Geneva to see Mr Hartling to try and persuade him to do something, and we would follow this up with a further message to Dr Waldheim. The United States Administration were getting concerned about the problem and President Carter was intending to raise it with President Brezhnev of the Soviet Union in Vienna.

THE FOREIGN AND COMMONWEALTH SECRETARY said that we were having great difficulty in restarting the initiative of the Five. The Security Council was due to meet to discuss Namibia the following day and it was likely that the proposal for sanctions against South Africa would be revived. We should be able to hold this situation for the time being. But with the United States Secretary of State, Mr Vance, heavily engaged on the Vienna Summit we were not getting as much support from the Americans as we would have wished.

The Cabinet -

Took note.

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that other member states now wished to increase the Community's aid offer in the negotiations for a new Lome Convention. We were continuing to resist this in view of the Government's general position on public expenditure. The increase proposed might involve an additional United Kingdom contribution of £12 million per annum over the next five years.

THE LORD PRIVY SEAL said that at the Council of Ministers (Foreign Affairs) on 12 June there had been some difficulty in ensuring that the item under which our budget problem would be discussed was adequately included in the agenda for the forthcoming European Council in Strasbourg. This could be indicative of the entrenched position of other member states especially the French. It would however be for the Heads of Government to determine the order in which the agenda was taken.

THE SECRETARY OF STATE FOR ENERGY said that he would be attending a meeting of the Council of Ministers (Energy) on 18 June to prepare the ground for the discussion on energy at the European Council. We did not want to go down the road of oil allocations.

The Cabinet -

Took note.

4. The Cabinet had before them a memorandum by the Minister of Agriculture, Fisheries and Food (C(79) 20) setting out the line he proposed to take on Common Agricultural Policy (CAP) prices and on the Green Pound in the 18 June meeting of the Council of Ministers (Agriculture).

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that his proposals, which had been considered by the Ministerial Sub-Committee on European Questions on 11 June, fell into two parts. On CAP prices, he proposed to support the Commission's proposals for a general price freeze, to accept token increases if necessary on minor items if they were proposed by the Commission during the discussions, but to stand firm on commodities in serious surplus - pre-eminently milk and sugar - and to reject a milk levy that discriminated unacceptably against United Kingdom producers. The French were likely to make a determined push for a general 2 per cent price increase in order to leave room for a reduction in German Monetary Compensatory Amounts (MCAs), and might make a link between our attitude on CAP prices and their willingness to make a move at the June European Council towards our budget objectives. Though we had unreliable Italian support for a price freeze, and the Germans had said that they would not themselves press for a price increase, all the other member states were likely to go along with the French desire. There were therefore tactical risks in our stance on the price freeze, but since it was improbable that the negotiations would be concluded at next week's Agriculture Council we should not be the first to make any concessions.

In discussion there was general support for the line proposed by the Minister of Agriculture, Fisheries and Food, although it was suggested that we should not accept a price increase for beef because it would represent a back-door stimulus to milk production and cause difficulties with third country suppliers.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet broadly endorsed the approach to the price-fixing negotiations proposed by the Minister of Agriculture, Fisheries and Food. Whilst it was accepted that he might need some measure of flexibility in the final stages of the negotiations, we should stand firm on a general freeze for the time being at least and should in particular not take any steps which would weaken the Commission's hand.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of this part of their discussion and invited the Minister of Agriculture, Fisheries and Food to be guided accordingly.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that, on the Green Pound, he proposed an early devaluation of $7\frac{1}{2}$ per cent plus a tactical bid for an additional devaluation of up to 5 per cent for pigmeat only. Farmers had suffered a 13 per cent drop in their real incomes in 1978 and they faced steeply rising costs in the current year; bank borrowings were now of the order of £2,000 million, 25 per cent up on last year. Without a further Green Pound devaluation farm incomes would fall by some 15 per cent this year, with disastrous effects on confidence and investment. There was a crisis in the pig industry, where because of excessive MCAs on imports a number of processing plants had already closed. The Government was committed to putting British farmers on level competitive terms with the rest of the Community during the present Parliament. A devaluation of the order proposed was necessary to restore confidence and profitability to British agriculture, which was well placed because of its efficiency to improve its export performance and thus yield benefits to the balance of payments. Both the Commission and our partners assumed that we would wish to secure a devaluation of the Green Pound during next week's Council, and there was now general acceptance in the Community that member states should be free to make changes in their green currencies provided that they were moving in the direction of the common price level.

In discussion there was support for a further immediate devaluation of the Green Pound. Farm incomes had been severely affected in Scotland and the North of England. It was particularly important to maintain farm incomes in Northern Ireland. Stimulus to agricultural production was consistent with the Government's policy of giving encouragement to competitive sectors of the economy. A move of this kind would create confidence among the rural community which would stand the Government in good stead in the future. Against this, it was strongly argued that a $7\frac{1}{2}$ per cent devaluation would add 2 per cent to the food price index and 0.5 per cent to the Retail Price Index (RPI); that these increases would come on top of the effects of the 5 per cent devaluation negotiated by the last Government in March, of the $1\frac{1}{2}$ p rise in the retail milk price announced in May, and of the Value Added Tax and other increases flowing from the Budget. The rate of inflation had gone up from 8 per cent to $17\frac{1}{2}$ per cent in a year, which was already damaging to the Government's standing in the country; taken together with other price increases, the effects of the proposed devaluation would fall particularly severely on the housewife. Moreover, the reduction in farm incomes last year was partly due to an exceptional fall in potato prices. Apart from the pig sector, for which the only final cure was a change in the way in which MCAs were calculated, many farmers had had a good year. While therefore the Government could not allow an increase in the RPI to be a determinant of policy, the inflationary effects of the present proposals could not be set aside. It was also suggested that a full $7\frac{1}{2}$ per cent devaluation now would leave little scope for

further Green Pound devaluations in later years to compensate farmers for rising costs, especially if the pound remained strong. We should keep some leeway in hand for next year, lest we found that the need to satisfy our own farmers then would conflict with our desire to maintain a freeze on CAP prices for products in surplus.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet were agreed that an immediate $7\frac{1}{2}$ per cent devaluation would be excessive in relation to the needs of farmers on the one hand and its effect on the housewife on the other. We should therefore go for a Green Pound devaluation of not more than 5 per cent. The Minister of Agriculture, Fisheries and Food was also authorised to make a bid for an additional 5 per cent devaluation for pigmeat.

The Cabinet -

2. Took note, with approval, of the Prime Minister's summing up of this part of their discussion and invited the Minister of Agriculture, Fisheries and Food to be guided accordingly.

5. The Cabinet had before them a memorandum by the Chancellor of the Duchy of Lancaster (C(79) 16) making recommendations about the proposals for Select Committees, set out in the First Report from the Select Committee on Procedure (the Procedure Committee) for Session 1977-78, and on the handling of the debate which was to take place in the House of Commons on Monday 25 June.

THE CHANCELLOR OF THE DUCHY OF LANCASTER said that there had been a long-standing demand for more effective Parliamentary scrutiny of Government. Undertakings had been given in the Manifesto and in The Queen's Speech to provide an opportunity for the House of Commons to come to a decision on the Procedure Committee's proposals. There was widespread support for them in the House, and a Motion calling for an early substantive debate had attracted over 260 signatures. It did not follow that all those Members who had signed the Motion would support the proposals themselves, but the great majority would do so. He believed that the proposals on the structure of Select Committees were right in principle: they would for the first time bring the whole area of Government activity within the scope of Select Committees; they were evolutionary in character and were, to a large extent, a rationalisation of the existing structure which had grown up piecemeal over a number of years. The proposals that Select Committees should have powers to order the attendance of Ministers and the production of papers, and to force a debate on the Floor of the House in the event of a refusal, were not acceptable, however. He therefore recommended that the Government should agree a structure of 12 departmentally-related Select Committees but with a closer restriction on the number of investigative sub-committees (four instead of seven); and that there should be no change in their powers. Select Committees would continue to be able to invite the attendance of Ministers, and to send for papers which would be provided subject to accepted restrictions on such matters as national security, the private affairs of individuals, negotiations and specific cases where the Minister might have an appellate or judicial function. The Procedure Committee had themselves proposed a series of Motions for debate covering the structure and powers of Select Committees. It would be preferable, however, for the Government to table their own Motions giving effect to their conclusions. Any departure from the Procedure Committee's proposals would meet some opposition in the House, but if the Government responded favourably to the proposals for departmentally-related Select Committees, there would be a good chance of resisting unacceptable amendments on powers.

In discussion there was general support for the view that the Government should accept the principle of departmentally-related Select Committees, although the extra work which they would involve for Ministers and senior officials would be considerable and should be emphasised in the debate. There were arguments for grouping some

Departments together. On the other hand, there would be a clearer-cut relationship between Committees and Ministers if Committees dealt with a single Minister and Department. Moreover, the Government's position in the debate would be stronger if it accepted the full proposal of 12 Committees. The Procedure Committee themselves had proposed to group the Departments of Industry and Employment together; this was the wrong combination and it would be better to link Industry and Trade under one Select Committee, and to have a separate Select Committee for Employment. Proposals for Select Committees for Scotland and Wales should not be included in the Motions for debate on the Procedure Committee's report, but should be pursued separately as appropriate. Special considerations applied to the Lord Chancellor's Department and the Law Officers' Department. It was essential to preserve the constitutional independence of the judiciary and to protect from scrutiny by Select Committees such matters as judicial appointments, the Lord Chancellor's confidential communications with the judiciary, and the exercise of the Law Officers' discretion in the prosecution of criminal cases. It would be preferable for the two Departments to be excluded completely from the Orders of Reference of the Select Committee on Home Affairs. Members of Select Committees should be nominated on a Motion tabled by the Committee of Selection, as recommended by the Procedure Committee; the Committee of Selection had now been appointed for the Parliament.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet accepted the Procedure Committee's proposal for 12 departmentally-related Select Committees, but with a single Committee covering the Department of Industry and the Department of Trade and a separate Committee for the Department of Employment. The Orders of Reference of the Committee on Home Affairs should exclude the Lord Chancellor's Department and the Law Officers' Department. The Select Committee on the Parliamentary Commissioner for Administration should be retained. The Committees' powers to appoint investigative sub-committees should be restricted as proposed by the Chancellor of the Duchy of Lancaster. There should be no change in Select Committees' powers relating to the attendance of Ministers and the production of papers, and any attempt to give the Select Committees new powers should be resisted. The Chancellor of the Duchy of Lancaster should arrange for a Motion to be tabled in the light of these conclusions.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Chancellor of the Duchy of Lancaster to proceed accordingly.

6. The Cabinet had before them memoranda (C(79) 17 and 18) by the Secretary of State for the Home Department about the Legislative Programme 1979-80.

THE HOME SECRETARY said that The Queen's Speeches and Future Legislation Committee had aimed to construct a programme meeting the Government's main political objectives without over-burdening Parliament. The suggested programme contained 43 main Bills and a total of nearly 70 Bills when Contingent, Scottish and Second Reading Committee Bills were added. It included all the Bills that had been promised in The Queen's Speech. There were a considerable number of highly controversial Bills. The Government could expect every form of delaying tactic on the part of the Opposition, and it might be necessary to use the guillotine more than in any previous Session. From that point of view, the programme represented a heavy load and it might be necessary to consider dropping some Bills as the Session proceeded.

In discussion, there was general agreement that no more Bills should be added to the Programme. Concern was expressed about the number of Bills which would require to be guillotined in the Commons, for which no comparable procedure was available in the Lords. To achieve Royal Assent by the end of July controversial Bills would have to reach the House of Lords no later than the end of May. The possibility of merging the Industrial Relations and Employment Protection Acts (Amendment) Bills would be explored. The Offshore Installations Bill could be dropped. Legislation on the Disposal of Public Assets would require early introduction to enable sales to be made in the current financial year. Proposals were made for the substitution of the long Companies No. 2 Bill by three short Trade Bills, some of which could be introduced in the House of Lords.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed that the size of the Legislative Programme for the coming Session must not be increased. Subject to that condition, the Home Secretary might consider with the Secretary of State for Trade whether any variation in the Trade Bills could be authorised. The Telecommunications Authority Bill should be deferred until the next Session. It was essential that policy clearance should be obtained and the drafting of Bills in the programme begin as soon as possible, with a view to introducing Bills for early Second Reading when Parliament reassembled in the autumn.

The Cabinet -

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

7. THE LORD PRESIDENT OF THE COUNCIL recalled that the Cabinet had agreed on 17 May that economies of at least 3 per cent should be secured in the present financial year on wage related items in central Government expenditure, and that, if any Minister found it impossible to achieve this it was open to him to suggest alternative ways of securing equivalent savings. In the light of this decision the Government had publicly committed itself to a reduction of 3 per cent in the Cash Limits for staff-related costs in the Civil Service. The time had now come to publish these limits in detail. Exemptions already agreed, eg. for the prison service, would reduce the overall average saving to 2.8 per cent. The Department of Health and Social Security had suggested that instead of reducing staff in its local offices it should redeploy them to fraud prevention duties which it was thought would yield substantially bigger savings than the staff costs involved. The Department of Employment would wish to follow suit if the Department of Health and Social Security was allowed to follow this course and other Departments eg. Inland Revenue and Customs and Excise might be able to make similar claims. To allow the Departments of Health and Social Security and Employment to proceed in this way would bring the total saving on staff costs down to 2.4 per cent, very close to the previous Government's target of 'at least 2 per cent'. The Government would look very foolish if, having promised a 3 per cent reduction in staff costs, it fell seriously short of this target.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that, as he had previously indicated to the Cabinet, he could secure more than equivalent savings if he were allowed to increase the staff engaged in the prevention of fraud. This would both help to honour a Manifesto commitment and would yield even larger savings in subsequent years. In addition, there would be great difficulty in applying a 3 per cent cut to the staff of local offices without danger to the punctual payment of benefits. The Government's objective should be to secure large net savings in public expenditure, rather than to pursue economies in manpower for their own sake.

In discussion, it was argued that, important though fraud prevention work was, to allow a full offset in the Department of Health and Social Security would inevitably lead staffs in other Departments to seek comparable treatment. Some staffs might even be tempted to take industrial action to secure this. Moreover the work of the staff engaged in fraud prevention in the Department of Employment was closely linked to that of their counterparts in the Department of Health and Social Security and it was difficult to draw meaningful distinctions between them. Against this, it was argued that the Government was committed, not only to savings in public expenditure, but to large reductions in the size of the Civil Service. Its credibility would be put at risk if it fell seriously short of the announced 3 per cent cut.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that it was important to come as close as possible to the 3 per cent target for reductions in staff-related costs in 1979-80. The Lord President of the Council, in consultation with the Secretaries of State for Social Services and for Employment, and with the Chief Secretary, Treasury, should therefore agree and publish cash limits for the Department of Health and Social Security and for the Department of Employment which would come as close as possible to the required target. The Cabinet's decision implied no weakening in their resolve to act vigorously against fraud. This remained a major commitment to be pursued as resources permitted.

The Cabinet -

Took note, with approval, of the summing up of their discussion by the Prime Minister, and invited the Ministers concerned to be guided accordingly.

8. THE FOREIGN AND COMMONWEALTH SECRETARY said that before the General Election the Shadow Cabinet had decided not to support a further review and had informed the Labour Government of this. In his view that decision should now be confirmed as there was nothing useful to be gained by a further Parliamentary inquiry and a good deal to be lost. Some African Governments would be critical and it would be better to defer any announcement until Lord Harlech, the Government's special representative in Africa, had left Nigeria.

THE PRIME MINISTER, summing up a short discussion, said the Cabinet would clearly prefer there to be no further inquiry. The Director of Public Prosecutions had, however, still to reach his decisions on whether any prosecutions should follow from his examination of the Bingham Report. An early announcement of a decision not to hold a further inquiry might therefore be criticised as showing undue favouritism to fellow politicians, albeit of a different political Party, when relatively minor figures in the oil companies were still at risk. Moreover, the impact of an announcement on African opinion was important and could affect the timing of any announcement. This factor could be better judged when Lord Harlech had returned from Lagos and reported. The Cabinet preferred therefore to defer final decisions until Lord Harlech's report was to hand. In the meantime any questions should be answered by saying that no decision had yet been made.

The Cabinet -

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

Cabinet Office

14 June 1979