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CABINET

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

THURSDAY 6 DECEMBER 1979

at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

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

The Rt Hon Lord Hailsham
Lord Chancellor

Rt Hon Lord Carrington
Secretary of State for Foreign and
Commonwealth Affairs (Items 1 - 4)

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

Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Francis Pym MP
Secretary of State for Defence

Rt Hon Lord Soames
President of the Council (Items 1 - 4)

The Rt Hon James Prior MP
Secretary of State for Employment

Rt Hon Sir Ian Gilmour MP
Privy Seal (Items 1 - 4)

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

Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon George Younger MP
Secretary of State for Scotland

Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Humphrey Atkins MP
Secretary of State for Northern Ireland

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

Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

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

ALSO PRESENT

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr M D M Franklin (Items 3 and 4)
Mr P Le Cheminant (Item 5)
Mr R L Wade-Gery (Items 3 and 4)
Mr D E R Faulkner (Items 1 and 2)
Mr W N Hyde (Items 1 and 2)
Mr A S D Whybrow (Item 5)

CONTENTS

Subject	Page
CONFIDENTIALITY OF CABINET DOCUMENTS	1
PARLIAMENTARY AFFAIRS	1
Local Government, Planning and Land Bill	1
FOREIGN AFFAIRS	
Rhodesia	4
Iran	4
Ireland	5
Cambodia	5
COMMUNITY AFFAIRS	
European Council 29-30 November 1979	6
AGRICULTURE	8

CONFIDENTIALITY
CABINET
MEETINGS

1. THE PRIME MINISTER drew attention to the appearance in "The Guardian" that morning of extracts from the record of the Ministerial discussion about the future nuclear power programme. She would consider the implications of such leaks for the form and circulation of Cabinet and Cabinet Committee papers and minutes and the need for fresh guidance on the subject.

The Cabinet -

Took note.

PARLIAMENTARY
BUSINESS

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

Government,
Planning and Land

THE CHANCELLOR OF THE DUCHY OF LANCASTER said that during business Questions on the previous Thursday the Leader of the Opposition had pressed the Government to reconsider the decision to introduce the Local Government, Planning and Land Bill in the House of Lords. Formal representations had subsequently been made to him through the usual channels, and he had indicated to the shadow Leader of the House, Mr Foot, that he would bring the matter back to Cabinet. The Opposition considered that a serious constitutional point was at stake and had drawn attention to a statement by the then Leader of the House, in a debate on a Procedure Committee report in November 1971, to the effect that there were many Bills, the vast majority, which by their very nature, political or financial, must start in the House of Commons. The Opposition were clearly determined to obstruct business if the Government did not give way, and the consequences for the legislative programme could be more serious than the dislocation which would result from a decision not to proceed with the Bill in the House of Lords and to introduce a similar Bill in the House of Commons.

Business
Agenda:
(a) 22nd
Business,
Page 1

In discussion, it was argued that the Government should not accept that a constitutional principle was involved. The Opposition's claim might well have only limited support within the Labour Party in the House of Commons, and it was likely to attract little attention outside Parliament. It was essentially a political device designed to provide a justification for obstructing Government business, and the Government should resist it accordingly. If they did not do so, there would be a serious risk that they would eventually have to abandon one of the major Bills in their programme which had been drawn up on the assumption that one or more such Bills would be introduced in the House of Lords. The extent to which the Opposition would press a campaign of

disruption was uncertain, but if they were intent on such a campaign they would press it regardless of the Government's decision on this Bill. There was little to be gained from devices such as proceeding simultaneously in both Houses by means of a (No. 2) Bill, or dividing the Bill in such a way that the more controversial provisions were removed and introduced as a separate Bill in the House of Commons while the remainder made progress in the House of Lords.

Support was, however, expressed for the view that the deciding factor should be the practical consequences for the Government's programme as a whole. It was important that the Zimbabwe Independence Bill should not be subject to delay, and important, too, that the Employment and Housing Bills, both shortly to be introduced in the House of Commons, should have a secure passage; other important legislation was still in preparation; and it would be unfortunate to jeopardise the good progress which had been made with Bills that were already proceeding through Committee. The Local Government, Planning and Land Bill could be taken through the Commons in the period after the Christmas recess. Problems would undoubtedly arise in the House of Lords, not least for Ministers concerned with other Bills which would also be before the House when the Bill reached its Committee stage, and an extended session would probably have to be accepted for both Houses; but the consequences for the Government's business generally were likely to be less serious than the effect of sustained obstruction in the Commons. If obstruction were to take place, the Government should always be in a position to demonstrate the correctness of their own actions and thus to place the blame for delay on a factious Opposition.

THE PRIME MINISTER, summing up the discussion, said that the statement made in 1971 should have been drawn to the Cabinet's attention when they had previously discussed the matter on 22 November (CC(79) 22nd Conclusions, Minute 1). The Cabinet accepted that a decision not to proceed with the Local Government, Planning and Land Bill in the House of Lords would increase the congestion in that House later in the session and might require the session to be extended; but they now agreed that the Government's interests as a whole would be best served by minimising the opportunities for the Opposition to claim justification for obstructing Government business. The Chancellor of the Duchy of Lancaster should therefore announce during business Questions that afternoon that the Government did not now intend to proceed with the Bill in the House of Lords and that they would introduce a similar Bill in the House of Commons in due course. The opportunity should be taken to incorporate in the Bill as introduced in that House as many as possible of the amendments which would otherwise have been made in Committee. When informing the Opposition of the Government's decision he should seek assurances about their

attitude to the progress of this and other Bills in the House of Commons, and an agreement that they would not raise objections to the introduction of other substantial Government Bills in the House of Lords. Bills which were still in the course of preparation or awaiting introduction should be reviewed to identify those which might be suitable for that purpose. The fact that a Bill such as the Broadcasting Bill might include financial provisions should not itself be an obstacle, since there was a well-established procedure under which the Commons financial privilege could be protected by means of a privilege amendment. The Government's agreement to introduce the Local Government, Planning and Land Bill in the House of Commons should be presented as a concession to Parliamentary feeling in relation to that Bill and not as an acknowledgment of any general principle affecting the types of Bills which would be suitable for introduction in the House of Lords.

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 be guided accordingly.

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Patriotic Front had now agreed to the proposed ceasefire arrangements. The Cabinet wholeheartedly congratulated him on the achievement of this further progress in the negotiations to bring first legality and then independence to Rhodesia. He warned, however, that there could still be serious difficulties over the implementation of the arrangements, on which negotiations were continuing. He would have preferred if possible to avoid appointing and sending out the Governor until they were complete. But momentum needed to be kept up, in order to ensure the irreversibility of the process and to sustain the Salisbury delegation's confidence. It would therefore be necessary to announce the Governor's appointment on 7 December and to make clear that he would arrive in Salisbury on the morning of 11 December. This would be a calculated risk. The Salisbury and Patriotic Front delegations might well put divergent interpretations on what had been agreed. Recrimination might then be unavoidable; and the ceasefire might break down because, as had been made clear to the Front's leaders, although there would be progressive disengagement in Rhodesia if the Patriotic Front forces assembled in accordance with the agreement, the Rhodesian security forces would have to be used by the Governor to keep the peace if the Front's forces failed to assemble adequately as the agreement required. That could lead to the British Governor, who would have been appointed as an appropriate person to preside over an agreed settlement, facing the very different context of the war continuing, for which a different appointment would have been more suitable. The recall of the Governor, leaving his Deputy in charge, might then have to be considered.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet endorsed the course of action proposed by the Foreign and Commonwealth Secretary, despite the real risks involved, and renewed their warm congratulations on his achievement.

The Cabinet -

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

THE FOREIGN AND COMMONWEALTH SECRETARY said that there was concern about the steps against Iran which the United States might now take to secure the release of the hostages in Tehran or to retaliate if they were killed. British interests were liable to be affected, and indeed had already been by American action in the banking field (about which the Chancellor of the Exchequer had been informed but not consulted in advance as the Americans claimed). He expected to see the United States Secretary of State, Mr Vance, on 12 December and would seek both to dissuade him from any action which might, for example, endanger the international monetary system.

and to persuade him that, if the Americans were looking for support for any further actions they might feel bound to take, they would do well to inform those to whom they would look for such support of the actions they had in mind, so that those concerned had opportunities to consider their own reactions and to make comments and suggestions. The United States badly needed friends at such a juncture, and it was highly desirable that Britain should give all the support she could; but she should not be asked to support action without knowing what it was to be. An urgent interdepartmental study was being made of the possibilities as well as the dangers which might be involved.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the resignation of the Prime Minister of the Republic of Ireland, Mr Lynch, was likely to have adverse consequences for British interests. Public comment should, however, be confined to expressions of personal regret and observations to the effect that the choice of a successor was a domestic matter for the Irish.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Lord Privy Seal would later that day refer in Parliament to the fact that Britain was withdrawing recognition from the Pol Pot regime, which no longer met our criteria for recognition since, quite apart from its unsavoury character, it no longer controlled any significant part of the country. This step was unwelcome to China; and to the members of the Association of South East Asian Nations, particularly Singapore. But the Lord Privy Seal would make clear that it did not imply approval of the occupation of Cambodia by the Vietnamese, nor recognition of their puppet regime; and serious damage to British interests was not anticipated.

The Cabinet -

2. Took note.

4. THE PRIME MINISTER, reporting on the European Council in Dublin on 29-30 November, said that the French President and the German Chancellor had combined to take a restrictive view on the alleviation of our net budgetary contribution. In contrast the Benelux countries and the Italians had been more helpful towards us. It was an advantage that the Italians would assume the Presidency on 1 January 1980, and it would be for the Italian Prime Minister, Signor Cossiga, to decide when the European Council should resume its discussion of the subject. She had not felt it right to refuse the proposal to have another meeting in the face of the evident wish of our smaller partners to be helpful. The United Kingdom had lost nothing thereby; the offer to improve the 1975 financial mechanism so as to reduce the United Kingdom's gross contribution by some £350 million was unlikely to be withdrawn and there was now a prospect of securing some improvement in our receipts from the Community Budget. There would now need to be intensive discussions with Community partners and the European Commission: there would be no point in a further meeting unless it was clear in advance that there were good prospects of agreement. A reduction of £350 million or even £500 million in the United Kingdom's net contribution would not be enough. A bigger immediate reduction was necessary, together with promises that the structure of the Budget would be improved during the next few years. The intervening time before the next Council should also be used to work out what steps the United Kingdom might take if a reasonable settlement could not then be secured. Whether in these circumstances to withhold part of the United Kingdom contribution to the Community Budget, and whether to engage in systematic obstruction within the Community, were matters on which the Cabinet would need to take a decision in due course. Meanwhile Ministers should continue to deal with other Community business on its merits. The Foreign and Commonwealth Secretary and she had accepted no linkages. Where progress could be made without detriment to British interests, Ministers were free to negotiate accordingly. Discussion on the more controversial issues should be spun out, and nothing of importance should be given away in advance of the next European Council. It was a major objective of policy to secure a satisfactory settlement of the budget question. In all considerations of this matter, however, it was important not to lose sight of the wider political issues that would accompany a weakening of the Community caused by failure to agree: particularly in present world conditions, it was only the Soviet Union which would benefit from that.

In a brief discussion, the following points were made:-

- a. It was important not to lose sight of the cost of maintaining British troops in the Federal Republic of Germany, and the benefits which Germany derived therefrom. It was paradoxical that the Federal Republic had closer links with France, which had opted out of the North Atlantic Treaty Organisation (NATO), than with the United Kingdom.

b. At the recent meeting of the Council of Ministers (Energy) there had been sustained pressure from France and Germany for us to provide better access to North Sea oil. At the moment, the rest of the Community enjoyed the considerable advantage of buying oil from us at prices far below the spot market level.

c. At the recent meeting of the Council of Ministers (Fisheries) some useful progress had been made.

d. It seemed likely that the European Parliament would reject the draft Community Budget for 1980. The Government's attitude on this matter would be considered shortly by the Defence and Oversea Policy Committee, Sub-Committee on European Questions.

The Cabinet -

Took note.

CULTURE

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5. The Cabinet considered a note by the Secretary of the Cabinet (C(79) 59), enclosing a report by the Official Group on British Agriculture (MISC 23) and inviting the Cabinet to take decisions on a devaluation of the Green Pound, an increase in the maximum retail price of milk, and the Public Expenditure Survey (PES) provision for capital grants to agriculture in the years to 1983-84. They also had before them a letter dated 3 December 1979 from the Minister of Agriculture, Fisheries and Food to the Chancellor of the Exchequer about retail milk prices in relation to production and distribution costs.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that farmers' net income had fallen severely in real terms over the last few years. Real incomes in 1978, the worst year for farming under the previous Labour Government, had been 83 per cent of their 1975 level. The forecast for 1979 was that they would be 68 per cent of their 1975 level, and if no action were taken on the Green Pound or on retail milk prices the figure for 1980 would be 47 per cent. He proposed that he should seek a 5 per cent devaluation of the Green Pound at the European Economic Community (EEC) Council of Ministers (Agriculture) on Monday 10 December, and that the maximum retail price of milk should be increased by $1\frac{1}{2}$ p per pint from the beginning of January. These proposals would still leave farmers' net income in 1980 in real terms slightly below its 1979 level and 20 per cent below its 1978 level. To restore farmers' net income to its 1978 level would require a Green Pound devaluation of 12 per cent and an increase of $2\frac{1}{2}$ p per pint in the maximum retail price of milk.

As to capital grants, an increase was necessary in order to encourage farmers to invest in the face of competition from farmers in the rest of the EEC who received much more support from their Governments. To match the incentives available in the rest of the EEC apart from Denmark, existing grant levels would need to be doubled. He was not asking colleagues to go this far, but proposed an increase in the PES provision from £160 million to £190 million in 1982-83, at 1979 survey prices.

In discussion the following main points were made:-

- a. There was general agreement that the Minister of Agriculture, Fisheries and Food should seek a 5 per cent devaluation of the Green Pound at the EEC Council of Ministers (Agriculture) on Monday 10 December.
- b. The reduction of £60 million in capital grants in 1982-83 proposed by the Chief Secretary, Treasury, and the consequential cuts in other years of the PES period, were the only reductions in public expenditure on agriculture now proposed. The Minimum Lending Rate was at 17 per cent

because public expenditure was still too high and it was not acceptable to exempt agriculture from making a contribution to the necessary reductions. On the other hand, it was argued that the Chief Secretary, Treasury's, proposal, which would entail a 50 per cent cut in grant rates from 1 January 1980, would be very damaging to confidence in the industry. If savings had to be found from capital grants they should be sought in more selective ways and not through 'across the board' cuts. It was doubtful, for example, if grant assistance should continue to be given to grain storage projects, whereas the case for continued grants for drainage schemes remained strong.

c. It was generally agreed that an increase was justified in the maximum retail price of milk and that this increase should be either 1p or $1\frac{1}{2}$ p per pint. To choose 1p rather than $1\frac{1}{2}$ p, however, would almost certainly necessitate a larger increase later in 1980. January would be a bad month for the increase because of price increases which were already in the pipeline, notably the increase in mortgage rates.

d. The present system of milk distribution, with its high level of doorstep deliveries, was very costly. Changes in the system could result in milk being available more cheaply in the shops, without necessarily denying the possibility of retaining doorstep deliveries for those who preferred and were prepared to pay a little extra to get their milk that way. The Minister of Agriculture, Fisheries and Food had commissioned a firm of accountants to study milk distributors' margins. This was not a full examination of the milk distribution system, but the accountants' report would be a useful input into future discussion of that system.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed to the Minister of Agriculture, Fisheries and Food's proposal to seek a 5 per cent devaluation of the Green Pound. They agreed that the PES provision for farm capital grants should be reduced by £35-£40 million in 1983-84 with consequential changes in expenditure in the other years of the PES period. In achieving these savings greater stress should be placed on increased selectivity in the scheme than on reducing the rates of grant. The Chancellor of the Exchequer and the Agriculture Ministers should agree the savings to be made in each year and the changes in the grant scheme needed to achieve them, and report their conclusions to her. The Cabinet also agreed to an increase of $1\frac{1}{2}$ p per pint in the maximum retail price of milk, with effect from a date which she would agree with the Minister of Agriculture, Fisheries and Food, but which would not be earlier than 1 February 1980. The question of the retail distribution system for milk would need to be looked at again when the accountants' report on distributors' margins was available.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Minister of Agriculture, Fisheries and Food to seek a 5 per cent devaluation of the Green Pound at the EEC Council of Ministers (Agriculture) on Monday 10 December 1979.
3. Agreed that the PES Provision for farm capital grants for 1983-84 should be reduced by £35-£40 million at 1979 survey prices, and invited the Chancellor of the Exchequer and the Minister of Agriculture, Fisheries and Food to reach agreement, in consultation as necessary with the other Agriculture Ministers, on the exact amount of the reduction, the method by which it should be achieved, and the consequences for the PES provision for farm capital grants in the earlier years of the PES period.
4. Agreed that the maximum retail price of milk should be increased by $1\frac{1}{2}$ p per pint with effect from a date not earlier than 1 February, 1980, and invited the Prime Minister to agree the precise timing of the increase with the Minister of Agriculture, Fisheries and Food.

Cabinet Office

6 December 1979