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CC(81) 26th  
Conclusions

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CABINET

CONCLUSIONS of a Meeting of the Cabinet  
held at 10 Downing Street on  
THURSDAY 2 JULY 1981  
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 Lord Carrington  
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 Industry

The Rt Hon Francis Pym MP  
Chancellor of the Duchy of Lancaster and  
Paymaster General

The Rt Hon Lord Soames  
Lord President of the Council

The Rt Hon James Prior MP  
Secretary of State for Employment

The Rt Hon John Nott MP  
Secretary of State for Defence

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

**SECRET**

The Rt Hon John Biffen 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 Norman Fowler MP  
Secretary of State for Transport

The Rt Hon Leon Brittan QC MP  
Chief Secretary, Treasury

**ALSO PRESENT**

The Rt Hon Michael Jopling MP  
Parliamentary Secretary, Treasury

**SECRETARIAT**

Sir Robert Armstrong  
Mr M D M Franklin (Items 2 and 3)  
Mr R L Wade-Gery (Items 2 and 3)  
Mr W N Hyde (Item 1)  
Mr L J Harris (Item 1)

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PARLIAMENTARY  
AFFAIRS

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

Finance  
Bill

THE CHANCELLOR OF THE EXCHEQUER informed the Cabinet of certain tax changes which he intended to announce that afternoon.

The Cabinet -

Took note.

FOREIGN  
AFFAIRS

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Republic  
Ireland

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the closeness of the result in the Irish general election suggested that the new Government now formed by the former Opposition leader, Dr FitzGerald, might not last long. There was a danger that the former Taoiseach, Mr Haughey, might adopt in opposition a more extreme attitude to the problem of Northern Ireland, although he might be restrained by the possibility of returning to office at an early date and therefore of needing to be able in that event to resume a working relationship with the British Government.

Israel  
Previous  
reference:  
C(81) 25th  
conclusions,  
minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the close result of the general election in Israel looked like producing another Government headed by the existing Prime Minister, Mr Begin. This was regrettable. If the Opposition leader, Mr Peres, had emerged as the victor by a narrow margin, he would probably not have had much scope for altering the substance of Israeli policy towards the Arabs; but he might at least have improved its tone.

Italy  
Previous  
reference:  
C(80) 12th  
conclusions,  
minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the new Italian Government, under Signor Spadolini, was unlikely to prove more durable than its predecessors, but Signor Spadolini himself had made a favourable first impression.

Afghanistan  
 Previous  
 Reference:  
 (81) 24th  
 conclusions,  
 minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that he would be going to Moscow on 5 July to discuss with the Soviet Government the British-inspired initiative on Afghanistan which had now been put forward by the ten member countries of the European Community. Present indications suggested that the Soviet response was unlikely to be favourable. But one important aim of the initiative had been to refocus international attention on the situation in Afghanistan, and this aim would best be served by continuing for the present on the basis that the initiative had a reasonable chance of succeeding. If it in due course became clear that success was unattainable, responsibility for that state of affairs could then be unambiguously laid at the Soviet Government's door.

Belize/  
 Guatemala  
 Previous  
 Reference:  
 (81) 21st  
 conclusions,  
 minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Minister of State, Foreign and Commonwealth Office, Mr Ridley, would be going to New York on 6 July where he would meet Premier Price of Belize and with him negotiate with the Guatemalan Foreign Minister, Ing Castillo, with the aim of reaching final agreement on the proposed Anglo-Guatemalan Treaty concerning Belize. A difficult situation might arise thereafter, because Premier Price had committed himself to holding a Belizean referendum on the Treaty, which would be fought on party lines and might be lost. In such circumstances Britain would remain committed to bringing Belize to early independence but there would be an obvious problem about providing for Belizean security. He would shortly be circulating a paper on the subject, including its possible military implications for Britain, for the information of his colleagues on the Defence and Overseas Policy Committee.

Defence  
 Policy  
 Previous  
 Reference:  
 (81) 24th  
 conclusions,  
 minute 4

In the course of a brief discussion of international reactions to the Government's announcements about defence policy on 25 June, it was noted that the Secretary of State for Defence had paid a successful visit to the United States. The Administration had clearly been appreciative of the continuing high level of British military spending and relieved that a more serious cutback in defence plans was not contemplated. It was also significant and satisfactory that the subject had not been raised with the Foreign and Commonwealth Secretary by any of his colleagues on the occasion of the recent meeting of the European Council.

The Cabinet -

Took note.



3. THE PRIME MINISTER reported on the meeting of the European Council in Luxembourg on 29-30 June. The new President of the French Republic and the new Prime Ministers of Italy and Belgium were attending for the first time. The discussion on the economic situation had produced long interventions from most of the Heads of State without much debate. The French President had spoken of the need for a new social order in Europe without making clear what he had in mind other than a reduction in working hours. The economic measures already taken by the new French Government would increase the budget deficit in France but still leave it as a lower proportion of Gross National Product than in the United Kingdom. The French President had secured no support for his economic policies except from the Danish Prime Minister. There had been considerable agreement on economic policy between herself, the Federal German Chancellor and the new Italian Prime Minister. The French President had made it clear that the French Government would not be ready to discuss the restructuring of the Community budget before September. The intervening period would be used to establish the necessary background information to the Commission's report, which was in very general terms. It contained a good deal about the Common Agricultural Policy and the need to modify other Community policies as well as about the structure of the budget itself, but took no account of the disproportionate net contribution paid by the Federal Republic of Germany. The Federal Chancellor had made it clear that he wished to see limits placed on the net contribution of the Federal Republic as well as on that of the United Kingdom.

The Prime Minister said that the European Council meeting had also given her the opportunity for a bilateral meeting with the French President. This had been a friendly and useful discussion, though they had not dealt with any issue in substance or detail. She had formed the impression that in his own way he would probably be no easier to deal with than his predecessor; he could be stubborn, as had been revealed by his subsequent attitude towards the drafting of the communique of the European Council. She had told him that the best way to get relations between Britain and the new French Administration off to a good start was to settle outstanding differences over sheepmeat and fisheries. It had also become clear that he had a different approach from that of his predecessor on the Middle East. He did not subscribe to the Community's declaration adopted at the European Council in Venice, although he acknowledged that it could not now be overturned. He favoured a step-by-step approach more akin to that of the Camp David agreement. On defence matters, he had taken a firm and positive line on the nuclear deterrent and the need to maintain defence expenditure.

THE FOREIGN AND COMMONWEALTH SECRETARY said it was not clear what the French President objected to in the Venice declaration, since he had said that he approved the principles which it contained. It seemed likely that his purpose was to distance himself from the position



taken up by his predecessor. There appeared to be some difference of opinion on this issue between the French President and Monsieur Cheysson, the French Foreign Minister. The Arab countries would be well aware of the difficulties created by the French at the European Council. Given the importance of French commercial interests in the Arab world, some change in the new President's attitudes was not to be excluded.

sheepmeat

previous  
reference:  
C(81) 25th  
conclusions,  
minute 3

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that, since the French Government had challenged the Commission's right to settle the outstanding problem on the Sheepmeat Regulation, a special meeting of the Council of Ministers (Agriculture) had been held on 30 June. The French and Irish had refused to agree to compromise proposals which were acceptable to all other member states. The Commission had subsequently discussed the matter again, but still seemed likely to be unduly sensitive to French interests in spite of a strong stand taken by the two British Commissioners. Further pressure on the President of the Commission, following what the Prime Minister and the Foreign and Commonwealth Secretary had said to him on 26 June, would be necessary. In the meantime, the United Kingdom reserve had been lifted on certain agricultural regulations due to come into operation on 1 July but maintained on others (notably on wine and cereals) which were of particular interest to France.

steel

previous  
reference:  
C(81) 22nd  
conclusions,  
minute 3

THE SECRETARY OF STATE FOR INDUSTRY said the agreement which had been reached on the regulation of steel production, prices and subsidies within the Community was a fragile one. It would be necessary to watch developments very carefully in order to prevent the favourable effect on steel prices being undermined through the Commission allowing additional quotas to certain member states.

THE FOREIGN AND COMMONWEALTH SECRETARY said it was noteworthy that, at a recent meeting of the National Economic Development Council, several trade union leaders had stressed the need to use the occasion of the British Presidency of the European Community as an opportunity to put across to British public opinion the importance of the Community in safeguarding jobs and providing a favourable climate for investment.

The Cabinet -

Took note.

Cabinet Office

2 July 1981