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CC(83) 6th
Conclusions

COPY NO 79

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 24 FEBRUARY 1983
at 10.30 am

P R E S E N T

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 Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

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

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

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

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

The Rt Hon Michael Heseltine MP
Secretary of State for Defence

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 John Biffen MP
Lord President of the Council

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
Lord Privy Seal

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP
Chancellor of the Duchy of Lancaster and
Paymaster General

The Rt Hon Lord Cockfield
Secretary of State for Trade

The Rt Hon Tom King MP
Secretary of State for the Environment

SECRET

ALSO PRESENT

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson (Item 4)
Mr A D S Goodall (Items 2 and 3)
Mr D H J Hilary (Item 1)
Mr M S Buckley (Item 4)
Mr G Stapleton (Items 2 and 3)
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.

FOREIGN
AFFAIRS

Middle
East

Previous
Reference:
CC(83) 5th
Conclusions,
Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the meeting of the Palestine National Council which had just ended in Algiers had criticised President Reagan's plan for a Middle East settlement without rejecting it. Mr Arafat was now in a position to pursue his talks with King Hussein of Jordan, who had been in London earlier that week. In the light of these talks King Hussein would decide whether he could put a realistic package to the United States Government. The crucial question would then be whether the United States and Israeli Governments were prepared to negotiate on the basis put forward. On his forthcoming visit to Washington he would be stressing to the United States Government the urgency of the need for progress.

King Hassan of Morocco had now announced that the proposed visit to London by an Arab League delegation would take place on 18 March and had accepted that the interests of the Palestinians should be represented on the delegation by Mr Milhem. It was still unclear whether this had been agreed with Mr Arafat; it was therefore still uncertain whether the visit would take place.

In Beirut the British contingent to the Multinational Force had settled in well and established good relations with the Israelis. There was no question of increasing the size of the contingent, which was just under 100 men, but there would certainly be pressure for it to remain in the Lebanon beyond the present period of three months.

Mexico

THE FOREIGN AND COMMONWEALTH SECRETARY said that The Queen's recent visit to Mexico had been an outstanding success. The Queen had been received with enthusiasm by Government and population alike. He had himself had useful talks with the President, Senor de la Madrid, and with the Mexican Foreign Minister, Senor Sepulveda. The President was a strong personality who had made a good start in tackling the problems of the Mexican economy. Senor Sepulveda had shown considerable understanding for the British position on Belize, and had been in favour in principle of efforts to put Belize's security on to a wider international basis. He had, however, made it clear that Mexico had no influence with Guatemala. He had doubted whether the United States had much influence either, and was very worried about United States arms sales to Guatemala. He had been appreciative of the role played by Britain in arranging financial assistance for Mexico through the International Monetary Fund, and had expressed interest in the possibility of informal talks with the United Kingdom and other oil producing countries about the management of the oil market in the light of the recent fall in prices, which was creating serious difficulties for Mexico. The Foreign and Commonwealth Secretary said that he was consulting the Secretary of State for Energy on how to respond to the Mexican approach about oil prices, and would be taking up the question of arms sales to Guatemala with the United States Government on his visit to Washington.

Zimbabwe

THE FOREIGN AND COMMONWEALTH SECRETARY said that the situation in Zimbabwe was deteriorating. Government troops in Matabeleland, where the white population was being protected by units which had been trained in North Korea, were behaving with appalling savagery. The British Government's concern at the numbers of people being killed had been expressed to the Zimbabwean authorities. It appeared that the Prime Minister of Zimbabwe, Mr Mugabe, had fears for the possible breakdown of the state; and there was a risk of civil war, with Matabeleland itself in a situation comparable to that of Biafra. If reports of pressure on the Chief Justice to resign were correct, this would have serious consequences for the administration of justice throughout the country. No decision had yet been taken about the future of the British Military Advisory Training Team (BMATT) in Zimbabwe, which had successfully assisted with the establishment of an integrated Zimbabwean army and was now well into the training phase. General Shortt, Commander of BMATT, who was playing a helpful role in the handling of the internal situation in Zimbabwe, would be returning to London for consultations.

Disarmament
and Arms
Control

Previous
Reference:
CC(83) 3rd
Conclusions,
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that President Reagan made an important speech about intermediate range nuclear forces on 22 February which brought the position of the United States Government very close to that of the British Government. The speech took account of comments and advice which the President had sought from the Prime Minister before the text was finalised. The United States chief negotiator on INF, Mr Nitze, now had instructions to seek any solution which the Soviet side might put forward in the Geneva negotiations. Mr Nitze had visited London the previous day on his way back to Washington for consultations, and had reported that the negotiators in Geneva were taking a hard line and showing no significant flexibility. Mr Nitze was disinclined to table any specific new proposal from the United States side until the Soviet position had been more extensively probed, but the United States Government had still to take a decision on this.

Gibraltar

Previous
Reference:
CC(83) 2nd
Conclusions,
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Spanish Foreign Minister, Senor Moran, had asked for a meeting with him before the signing of the Lisbon Agreement took place. The reasons for this request were unclear, but it appeared that the Spanish Government was becoming apprehensive about implementing the Lisbon Agreement in the knowledge that there would be no movement from the British side on the question of sovereignty over Gibraltar. The meeting would take place in London at the end of a series of visits by Senor Moran to other European capitals. It would be made clear to him that anything short of a comprehensive lifting of all the remaining restrictions in force between Spain and Gibraltar would be unacceptable to the British Government.

The Cabinet -

Took note.

COMMUNITY AFFAIRS

Community Budget

Previous Reference: CC(83) 4th Conclusions, Minute 3

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that at the Council of Ministers (Foreign Affairs) on 21-22 February there had been no discussion of the Commission's Green Paper on the future financing of the Community.

In discussion it was noted that the greatest disadvantage of the Green Paper for the United Kingdom was its suggestion of an expanded budget through an increase in own resources. It also failed to propose any adequate limit to expenditure on the Common Agricultural Policy.

Uniform Electoral Procedure

Previous Reference: CC(83) 2nd Conclusions, Minute 3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Council of Ministers (Foreign Affairs) had fixed the dates for the next elections to the European Parliament for 17-20 May 1984, which meant that polling in the United Kingdom would take place on Thursday 17 May next year. The Council had recognised that there was no longer any prospect of creating a uniform electoral procedure in time for those elections, but there had been no disposition to attach any blame to the United Kingdom.

Japan

Previous Reference: CC(83) 5th Conclusions, Minute 3

THE SECRETARY OF STATE FOR TRADE reported that there had been some largely informal discussion of the Community's export restraint agreement with Japan at the Council of Ministers (Foreign Affairs), when both France and the United Kingdom had taken the view that, while it was a useful step forward, a great deal more needed to be done. They argued that it should be used as a lever to open up Japan's domestic market to imports from the Community. The Netherlands and Germany, on the other hand, had argued that the agreement would entrench inefficiency in European industry and that it should therefore be the last of its kind. Both in the informal discussions and in the Council itself he had registered the United Kingdom's concerns about video cassette recorder kits and colour television tubes.

Trade with Spain

Previous Reference: CC(83) 5th Conclusions, Minute 3

THE SECRETARY OF STATE FOR TRADE reported that the Commission had sought to avoid putting the subject of their discussions with Spain on to the agenda of the Council of Ministers (Foreign Affairs) on the grounds that they had done all they could and that nothing more could be achieved. He had, however, successfully insisted that it should remain before the Council.

Community/
United
States
Agricultural
Trade

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD reported that at the suggestion of the Foreign and Commonwealth Secretary he was going to Washington shortly to urge moderation and understanding in the current difficulties between the United States and the Community over agricultural trade.

The Cabinet -

1. Took note.

European
Parliament:
Northern
Ireland

THE SECRETARY OF STATE FOR NORTHERN IRELAND reported that the Political Affairs Committee of the European Parliament was about to embark on a study of political and economic affairs in Northern Ireland. The European Democratic Group in the European Parliament had tried unsuccessfully to prevent the study. It was reported that the Committee planned to hold meetings in London, Belfast and Dublin. He proposed to take a very strong line publicly against the study and would refuse to meet representatives of the Committee, but he felt it would be important to try and ensure privately and informally, both through the European Democratic Group members on the Committee and through the proposed rapporteur, Mr Haagerup, that the United Kingdom's point of view was understood.

In discussion, it was noted that such an examination of the internal political affairs of an individual member state was unprecedented and outside the competence of the Parliament under the Treaty of Rome. It raised serious constitutional implications, going beyond Northern Ireland itself, and could change the whole future course of the Province. It would undoubtedly be used by the Labour Party to work up public feeling against the Community. The United Kingdom's position should therefore be one of complete opposition to the study and a total refusal to co-operate. It was suggested on the one hand that, while this should be the United Kingdom's position in public, it would be desirable to take whatever private opportunities offered to get the United Kingdom's views across, so that this country's case would not go by default. On the other hand, it was argued that, while such a course of action might be advisable if the study went ahead - and there could be no guarantee that the report would be acceptable even then - the first priority should be to get it stopped. It might prove possible to do so by taking legal action either in the European Court or the domestic courts. At the least, proceedings of this kind might delay the inquiry and so gain some time. The procedures of the Committee should also be studied to see whether it would be possible to deprive it of a quorum if the United Kingdom members stayed away. It was agreed that there was no prospect of prevailing upon the Government in the Republic of Ireland to withhold co-operation. It was recognised that it might not prove possible to prevent the study going ahead, particularly since Committees of the European Parliament did have the power to investigate economic matters; even if the Political Affairs Committee could be prevented from looking into the internal political affairs of this country, they might still have a legitimate residual right to

explore the impact of Community measures on the economy of a member country or a region of such a country. It would therefore be prudent to examine what would be the United Kingdom's minimum obligations towards the Committee in such matters as security in the event that the study went ahead. It was agreed that, although the Chief Whip of the European Democratic Group was currently in London, it would be premature to discuss tactics with him.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the proposed study was a wholly unwarranted intrusion into the internal affairs of the United Kingdom. The Government's attitude should be one of resolute opposition, It was important that the matter should be handled in such a way as to avoid giving any incentive to the Opposition to inflame anti-Community feeling. It was therefore first necessary to take legal advice about the practicability of preventing the study by means of proceedings in the European or domestic courts.

The Cabinet -

2. Invited the Foreign and Commonwealth Secretary to consider urgently, in conjunction with the Secretary of State for Northern Ireland and the Attorney General, whether the European Parliament had power to undertake a study of political and economic affairs in Northern Ireland and what the United Kingdom could do to prevent such a study, and to report his conclusions as soon as possible.

Informal
Meeting of
Employment
Ministers
21-22 February

THE SECRETARY OF STATE FOR EMPLOYMENT reported that at the informal meeting of Employment Ministers on 21-22 February he had tabled a paper drawing attention to ways in which the measures which the United Kingdom had taken could be used to complete the Common Market and opposing Community legislation on matters such as working time and pay which were best settled in accordance with practices in individual member states. Although the United Kingdom Permanent Representation had been rather apprehensive about the reception the paper would receive, it had not been criticised adversely and he had in fact gained some support. He had successfully opposed French proposals for a special Council meeting on youth unemployment. The performance of the Greek Minister had been particularly unimpressive, reinforcing the view which had previously been expressed that the United Kingdom should make every effort to achieve as many of its Community objectives as possible in the course of the German Presidency.

The Cabinet -

3. Took note.

INDUSTRIAL
AFFAIRS

Oil Prices

Previous
Reference:
CC(83) 5th
Conclusions,
Minute 4

4. THE SECRETARY OF STATE FOR ENERGY said that the large increases in the price of oil imposed in 1979 by the Organisation of Petroleum Exporting Countries (OPEC) had not been justified by the supply position. The Saudi Arabian Government had tried to pursue a policy of allowing the real price of oil to fall by holding it steady in nominal terms; but this policy had been frustrated by the rise in the exchange value of the United States dollar, the currency in which oil prices were denominated. Despite attempts by certain countries to maintain the price at an artificially high level by restricting production, a significant fall in oil prices was now inevitable. The British National Oil Corporation (BNOC) had reduced the price for oil from the United Kingdom Continental Shelf (UKCS) by \$3 a barrel. This appeared to be regarded by OPEC countries as a reasonable response to the market. The Nigerian Government, however, had reduced the price of Nigerian oil by substantially more; this was widely regarded as a disruptive move. The interests of the United Kingdom lay in maintaining an orderly market. A moderate and gradual decline in the price of oil was probably helpful on balance to this country, since it would encourage an expansion of the world economy, from which we would benefit. A sharp and rapid decline would be less helpful: the damage to oil-producing countries would probably outweigh the benefits to oil-consuming countries; and the problems of adjustment would be greater. A sharp decline would also threaten the continued exploitation and development of the UKCS, and hence the future of our off-shore oil equipment industry and the duration of the period of the United Kingdom's self-sufficiency in oil. Nevertheless, it would be wrong to adopt a policy of restricting production as some OPEC countries had done. Such a policy was in any event unlikely to be effective.

In discussion, the following main points were made -

a. Uncertainties about future oil prices, and therefore oil revenue, made the task of the Chancellor of the Exchequer in preparing his forthcoming Budget unusually difficult. There had been similar uncertainties the previous year; but the present ones seemed markedly greater.

b. The participation agreements to which the BNOC was a party encouraged the misapprehension that the price of oil from the UKCS was set by the Government rather than by the market. It was largely for this reason that the Government was subjected to greater pressures from OPEC countries in the matter of oil prices than was the United States Government, even though oil production in the United States was far greater than here. There might therefore be advantage in terminating the agreements. On the other hand, to do so would require primary legislation; this would be politically contentious, since participation agreements were widely regarded as increasing the security of our oil supplies.

The Cabinet -

1. Took note.

Water
Industry
Pay
Negotiations

The Cabinet discussed the settlement of the recent pay dispute in the water industry. Their discussion and the conclusions reached are recorded separately.

Previous
Reference:
CC(83) 5th
Conclusions,
Minute 4

Trade
Figures

THE SECRETARY OF STATE FOR TRADE said that the trade figures for January would be published that afternoon. They would show a deficit on visible trade of some £400 million, and a deficit on current account of over £200 million. It would be a mistake, however, to read much significance into figures for a single month. The figures for the previous month had shown a handsome surplus, and over the three months to January 1983 the volume of exports had increased by 2½ per cent compared with the same period 12 months previously, and by 3½ per cent compared with the three months to October 1982. Any public comment should emphasise these points, and the fact that figures for a single month were subject to considerable fluctuations.

The Cabinet -

2. Took note.

Cabinet Office

24 February 1983

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CABINET

LIMITED CIRCULATION ANNEX

CC(83) 6th Conclusions, Minute 4

Thursday 24 February 1983 at 10.30 am

INDUSTRIAL
AFFAIRS---
Water
Industry
Pay
NegotiationsPrevious
Reference:
CC(83) 5th
Conclusions,
Minute 4

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that manual workers in the water industry had almost all returned to work. Pay discussions with craftsmen in the industry, who numbered about 5,000 were now in train; and the eventual settlement with them was likely to be on similar lines to that for the manual workers. The Committee of Inquiry into the pay dispute, under the Chairmanship of Dr Tom Johnston, had recommended a settlement lasting 16 months. The total pay increase was 10.4 per cent, equivalent to an annual rate of 7.8 per cent. This included certain improvements linked to productivity; apart from these, the increase (which had been described as the 'going rate') was 7.3 per cent over 16 months, equivalent to an annual rate of 5.5 per cent. The union negotiators had publicly represented the settlement as being worth as much as 12 per cent; but this appeared to be based on taking credit for a reduction of one hour in the working week, as recommended by the Committee of Inquiry, which would not take effect until April 1984. Because of the late hour at which the findings of the Committee of Inquiry had become public, the immediate presentation in the news media had been unsatisfactory. Exaggerated estimates of the value of the settlement had been quoted; and some newspapers had attributed the blame for the dispute to the Government and the employers, although the trade unions had clearly decided in advance to engineer a dispute in the industry and had persistently failed to honour their agreements. Both he and the Prime Minister had tried to correct these misrepresentations; and these efforts appeared to be having some success. The conduct of the Inquiry, and various statements and actions by the Advisory, Conciliation and Arbitration Service (ACAS), had left much to be desired. The water industry's national agreement on pay bargaining provided that after appropriate negotiation, mediation and conciliation there should be independent arbitration. It had been agreed that the Committee of Inquiry should report its findings, on the basis of a proper hearing of the evidence, to the National Joint Industrial Council of the industry; and that the Committee's findings were to be the basis of resolving the dispute. Instead, the Committee of Inquiry had been an extension of the negotiating process. It had interpreted its task as providing findings which would allow the dispute to be resolved. In effect, the trade unions had been given a veto over the findings. There also appeared to have been inadequate supervision of the final preparation of the Committee's findings. It was deplorable that outside protestors had been given the opportunity to try and intimidate the Committee. ACAS had given the impression, throughout the dispute, that it expected the employers to make all the concessions and had failed to draw attention to the failure of the unions to honour their agreements.

In discussion, the following main points were made -

- a. Although it was desirable in public discussion to use the lowest possible estimate of the cost of the settlement, it was doubtful whether a figure as low as 5.5 per cent would be regarded as credible. Moreover, its basis was not easy to explain; and the phrase 'going rate' which had apparently been used to describe it was misleading and dangerous. It would be better to accept that the cost was 7.8 per cent at an annual rate, but to stress that it was based on the special circumstances of the water industry and could not justify similar settlements in other industries. It would also be helpful to point out that the workers themselves would lose from such a high settlement through reductions in job numbers: similarly, the previous pay settlement had been of the order of 9 per cent, but the subsequent increase in the industry's annual pay bill had been only about 2 per cent. Moreover, it would be many months before the workers recovered the pay which they had lost through striking. Excessive overtime would make it easier for them to make good this loss. The water industry should be encouraged to use every measure, including outside contractors, to restore supplies to consumers as quickly as possible and so prevent unnecessary overtime within the industry being worked.
- b. The industry had been remarkably successful in maintaining supplies to consumers, thanks mainly to the efforts of managers and supervisors. It would be desirable in public comment to recognise the efforts of these workers. Their success showed that the widespread belief beforehand that a national water strike would rapidly cause the system to collapse was wrong. That fact should influence future pay negotiations in this industry.
- c. The methods of operation of ACAS should be reviewed, although it was necessary to recognise that ACAS was statutorily independent of directions from Government. The Secretary of State for Employment intended to see Mr Lowry shortly to discuss with him the lessons to be drawn from the water industry pay dispute, the Committee of Inquiry, and the role of ACAS in the proceedings.
- d. Most Government Departments had no professional expertise or experience which they could bring to bear on pay negotiations in the industries which they sponsored. This was not surprising, since Departments had no responsibility for the negotiations; but it seriously handicapped the Government in cases such as the dispute in the water industry, into which the Government was inevitably drawn. The Secretary of State for Employment was considering what steps might be taken within his Department to provide a firmer basis for the Government in dealing with industrial disputes.

e. It was essential to do everything possible to prevent the water industry pay settlement from leading to similar excessive settlements elsewhere. The trade unions in the gas and electricity supply industries would no doubt be demanding increases similar to those secured by the water workers, even though a large part of their case in the water dispute had been that water workers, whom they also represented, should have earnings similar to those of workers in the gas and electricity supply industries. Hitherto the electricity supply industry had been content with an increase at about the same level as the miners' settlement; an early settlement no greater than this might be possible but this remained to be seen. It was hoped that the local authority employers would stand firm on their 4½ per cent offer to the manual workers; industrial action was not thought likely in that sector.

THE PRIME MINISTER, summing up the discussion, said that the size of the settlement in the water industry was clearly excessive. In public comment, Ministers should emphasise that it was related to the special circumstances of the water industry, and should stress the damage which it would do to job opportunities in that industry and in other industries, and the financial losses which it had caused to the workers themselves. The methods of working of ACAS under its present Chairman should be reviewed. It was also for consideration whether the Service should be pressed to review its panel of potential Chairmen of Committees of Inquiry, so as to exclude those who would countenance the sort of interference and intimidation which had taken place in the present instance. The Secretary of State for Employment should consider these matters and make appropriate recommendations.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Secretary of State for Employment to review the working methods of the Advisory, Conciliation and Arbitration Service, and its list of potential Chairmen of Committees of Inquiry, on the lines described by the Prime Minister in her summing up; and to report.

Cabinet Office

25 February 1983