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CC(83) 25th
Conclusions

CABINET

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

TUESDAY 26 JULY 1983

at 10.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Viscount Whitelaw
Lord President of the Council

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Leon Brittan QC MP
Secretary of State for the Home Department

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

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
Secretary of State for Energy

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 John Biffen MP
Lord Privy Seal

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

The Rt Hon Cecil Parkinson MP
Secretary of State for Trade and Industry

The Rt Hon Lord Cockfield
Chancellor of the Duchy of Lancaster

The Rt Hon Tom King MP
Secretary of State for Transport

The Rt Hon Peter Rees QC MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Michael Havers QC MP
Attorney General (Item 1)

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

SECRET

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson (Item 1)
Mr A D S Goodall (Item 2)
Mr R L L Facer (Item 2)
Mr M S Buckley (Item 1)

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THE STOCK
EXCHANGE
Previous
Reference:
CC(83) 24th
Conclusions,
Minute 4

1. THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that, following the discussion by the Cabinet the previous Thursday, the Council of the Stock Exchange had now agreed to recommend to their membership certain changes to their rules. These dealt with three issues of major concern to the Government: the rules prescribing minimum scales of commission would be dismantled by 31 December 1986; the rules prescribing the separation of capacity of brokers and jobbers would, as the Government wished, be continued; and steps were to be taken towards liberalisation of the rules of entry. In return the Stock Exchange would look to the Government to take action which would bring an end to the proceedings in the Restrictive Practices Court. On the following day they wished the Government to make a statement in the House of Commons which would provide them with grounds for applying to the Court for a temporary adjournment of the proceedings for a period of four months. This would provide time for them to secure the agreement of their members to changes in the rules. At that point it would be for the Government to bring an Order before the House exempting the Stock Exchange from the provisions of the Restrictive Trade Practices Act. The Stock Exchange would then make an application to the Court for sine die adjournment.

Earlier that morning he had seen the Director General of Fair Trading, Sir Gordon Borrie, to ascertain whether he would oppose the two applications. The Director General had said that, although he would not oppose an application for a temporary adjournment, he would oppose the application for a sine die adjournment. In the Director General's view an exempting Order, which would not have retrospective effect, would not relieve him of his statutory obligation to pursue the case in the Courts. The only circumstances in which the Director General would agree to sine die adjournment would be if the Government introduced primary legislation to exempt the Stock Exchange from the ambit of the Restrictive Trade Practices Act, thus demonstrating the exceptional position of the Stock Exchange. If the Director General opposed an application for sine die adjournment, it was not clear what view the Court would take. There was a considerable risk that the proceedings would continue. He therefore proposed to make a statement in the House of Commons the following day saying that, in the light of the proposals made by the Council of the Stock Exchange, the Government would take action to exempt the Stock Exchange from the Restrictive Trade Practices Act either by Order or by primary legislation.

In discussion the following main points were made

- a. It was highly desirable to try and settle the matter out of Court, both to avoid further legal expense and to avoid continuing uncertainty. If the case were to continue, the Court's findings would probably be difficult to implement, there would be disruption in the securities market and the Government would eventually be faced with the need for primary legislation.

b. It would however be a major step for the Government to commit itself, without a very careful examination of the implications, to the introduction of primary legislation which would exempt the Stock Exchange from the Restrictive Trade Practices Act. Although such a Bill would be short, it would be contentious and might attract criticism from some of the Government's own supporters, especially if, as seemed likely, the Director General of Fair Trading made it clear that he was not satisfied with the changes in the rules which the Stock Exchange was prepared to introduce.

c. It was arguable that the proposals made by the Council of the Stock Exchange had not gone far enough in liberalising the rules of entry.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet was not prepared, at this stage at least, to agree that primary legislation should be introduced to exempt the Stock Exchange from the ambit of the Restrictive Trade Practices Act. It was nevertheless desirable to continue to try and settle the matter out of court. As a first step the Secretary of State for Trade and Industry should make a statement the following day which would provide the basis for an application for a temporary adjournment. The statement should not refer to the possibility of primary legislation but should say the minimum necessary about the Government's intentions to ensure that the Stock Exchange would make, and the Director General of Fair Trading would refrain from opposing, an application later that week for a temporary adjournment. The Secretary of State for Trade and Industry should urgently prepare the draft of such a statement in consultation with the Attorney General. She would, in consultation with other Ministers primarily concerned, consider the matter further when the draft of the statement was available.

The Cabinet -

1. Took note of the Prime Minister's summing up of their discussion.
2. Invited the Secretary of State for Trade and Industry, in consultation with the Attorney General, to prepare a draft statement on the lines indicated in the Prime Minister's summing up of the discussion.
3. Took note that the Prime Minister would consider the matter further in consultation with other Ministers primarily concerned.

2. The Cabinet considered a note by the Secretary of the Cabinet (C(83) 28) to which was attached a note by officials on the choice of a Defence Suppression Weapon for the Royal Air Force.

THE SECRETARY OF STATE FOR DEFENCE said that the Royal Air Force needed a missile capable of suppressing the more sophisticated radar-controlled defence systems which were being introduced by the Soviet Union, in order that the new Tornado aircraft, equipped with the airfield attack weapon JP233, could destroy Warsaw Pact airfields. The requirement was for 750 missiles. The choice lay between an existing and proved United States missile, HARM, which would be produced by Texas Instruments in partnership with Lucas Aerospace, and a new British missile, ALARM, to be developed by British Aerospace in conjunction with Marconi Space and Defence Systems. Both missiles would be capable of meeting the Royal Air Force's requirements. The critical factors determining the choice were the in-service date (ISD), the cost, the employment consequences and, in his view most important, the effect on the technology base in British industry. The ISD for HARM would be January 1987, and the full order for 750 missiles would be completed in early 1991. The ISD in the proposed contract for ALARM would be August 1987, and deliveries would be completed in September 1989. Ministry of Defence officials advised that the ALARM programme would almost certainly suffer some delays; but a delay of up to 18 months would still leave completion of the order for 750 missiles no later than would be achieved with HARM. British Aerospace had offered a fixed price for 97 per cent of the work, subject to increases due only to inflation. The company would incur a financial penalty of £0.4 million if they failed to deliver the first 100 missiles on time, and would also incur cost of up to £3 million for each month by which the agreed programme was delayed. In the event of the ALARM programme running into serious difficulty, it would take between 6 and 12 months to adapt the Tornado to operate HARM, although some minimum capability could be achieved in 6-8 weeks if the United States offered assistance similar to that which they had given during the Falklands crisis.

There had originally been a wide difference in cost between the two systems, since Texas Instruments had been able to offer HARM at a price which reflected the fact that the United States taxpayer had already met the initial development costs. The price for 750 missiles had been £254 million for HARM and £388 million for ALARM; but following press reports of the options both bidders had revised their proposals. British Aerospace had reduced the price for 750 missiles so that it exceeded the price for HARM by only £37 million. Texas Instruments and Lucas had offered additional high technology work for British industry and a homing-head repair depot in the United Kingdom at an additional cost of £26 million. If these offers were accepted the cost difference between the two systems was only around £10 million.

ALARM would generate some 9,400 man years of work in British industry, mainly in the London area, the south of England and Lancashire, with a few jobs in Scotland and Wales. On the basis of the latest offer, HARM would generate about 4,650 man years of work, mainly in Lancashire and the West Midlands.

The most important factor affecting the choice was in his view technology. The use of missiles which sought their target through the characteristics of the target itself was now in the forefront of the development of warfare, The United Kingdom could not afford to be without this technology, and Marconi was the only British firm with a major capability in this area. If this capability were lost, the United Kingdom would be unable to offer a basis for collaboration with the Americans. To preserve the capability it was necessary to demonstrate that British industry was able to develop and manufacture complete systems: it was not sufficient to show a capability for research and initial development only. There was no guarantee that British firms would participate in the United States HARM programme other than for the small part of it which would meet the British requirement. He believed, therefore, that the balance of the argument pointed to an early decision in favour of ALARM.

In discussion, the following points were made -

- a. In the period covered by the Public Expenditure Survey, the ALARM programme would cost £98 million more than HARM. The defence budget would have to absorb this extra cost. But defence accounted for £2,300 million of the additional bids above existing plans which Departments had proposed for the survey period.
- b. It was far from clear how British Aerospace proposed to finance the ALARM programme. The latest price quoted appeared to be a loss leader. It was unlikely that the company would secure any export orders for the missile. British Aerospace would seek to recover their money from the Government in other ways, since the Government could not afford, either on defence or political grounds, to allow the company to fail. Participation in HARM would give Lucas a real prospect of securing export orders.
- c. The arguments for retaining a national base for areas of defence technology should be studied interdepartmentally before Ministers were faced with further decisions which involved choices between purchasing foreign weapons and entering into national development programmes. It made no industrial or economic sense for the United Kingdom to develop itself the full range of weapon systems which the Armed Forces required.
- d. Past experience suggested that British Aerospace could not hope to complete the development and production of ALARM in the timescale they had offered. Nor was the company likely to be able to meet any sudden requirement for additional missiles, whereas the choice of HARM would give access to a larger supply of missiles available to meet unforeseen requirements.
- e. The Government would face serious difficulty if they tried to justify a decision in favour of the American weapon by casting doubt upon the delivery programme offered by British industry and backed by industry's own money.

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THE PRIME MINISTER, summing up the discussion, said that there was not enough time on the present occasion for the Cabinet to complete their consideration of this matter. They would resume their discussion at their next meeting.

The Cabinet -

Took note.

Cabinet Office

26 July 1983

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