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CC(84) 32nd  
Conclusions

COPY NO 81

CABINET

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

THURSDAY 4 OCTOBER 1984

at 9.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon Lord Hailsham  
Lord Chancellor

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

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

The Rt Hon Michael Heseltine MP  
Secretary of State for Defence

The Rt Hon Patrick Jenkin MP  
Secretary of State for the Environment

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

The Rt Hon Tom King MP  
Secretary of State for Employment

The Rt Hon Peter Rees QC MP  
Chief Secretary, Treasury

The Rt Hon Douglas Hurd MP  
Secretary of State for Northern Ireland

The Rt Hon David Young  
Minister without Portfolio

The Rt Hon Viscount Whitelaw  
Lord President of the Council

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

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer

The Rt Hon Peter Walker MP  
Secretary of State for Energy

The Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon John Biffen MP  
Lord Privy Seal

The Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry

The Rt Hon Michael Jopling MP  
Minister of Agriculture, Fisheries  
and Food

The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport

The Rt Hon Earl of Gowrie  
Chancellor of the Duchy of Lancaster

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Michael Havers QC MP  
Attorney General (Items 3-6)

The Rt Hon John Wakeham MP  
Parliamentary Secretary, Treasury

The Rt Hon John Gummer MP  
Paymaster General

SECRETARIAT

Sir Robert Armstrong	
Mr P L Gregson	(Items 3,4,6-9)
Mr D F Williamson	(Items 1 and 2)
Mr B G Cartledge	(Items 1 and 2)
Mr M S Buckley	(Items 3,4,6,8 and 9)
Mr C J S Brearley	(Items 5 and 7)
Mr R Watson	(Item 5)

CONTENTS

Item	Subject	Page
1.	FOREIGN AFFAIRS	
	United Nations General Assembly: Hong Kong	1
	Soviet Union	1
	South Africa	1
	Lebanon	2
2.	COMMUNITY AFFAIRS	
	Community Budget and United Kingdom Refunds	2
	Agriculture: Wine	3
3.	INDUSTRIAL AFFAIRS	
	Coal Industry Dispute	3
4.	ECONOMIC AFFAIRS	3
5.	THE QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT	4
6.	AIRLINE COMPETITION POLICY	6
7.	LOCAL GOVERNMENT FINANCE	7
8.	PUBLIC SERVICE PAY AND EXPENDITURE IN 1985-86	8
9.	PUBLIC EXPENDITURE SURVEY 1984	10

1. THE FOREIGN AND COMMONWEALTH SECRETARY said that the agreement which had been reached between Her Majesty's Government and the Government of the People's Republic of China on the future of Hong Kong had been a key feature of discussions at the United Nations in New York during the previous week. The terms of the draft settlement had been generally well received and had attracted favourable comment from the representatives of a large number of countries. The agreement had been welcomed as a characteristically British achievement.

FOREIGN AFFAIRS  
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 United Nations General Assembly: Hong Kong  
 Previous Reference: CC(83) 31st Conclusions, Minute 1

Soviet Union

Previous Reference: CC(84) 31st Conclusions, Minute 1

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had met the Soviet Foreign Minister, Mr Gromyko, in New York on 27 September and discussions had taken place over lunch. He had asked Mr Gromyko why he had postponed his address to the United Nations General Assembly by two days and whether he had made any changes to it in the light of the address to the General Assembly on 24 September by President Reagan of the United States. Mr Gromyko had replied that he had added two paragraphs to his own speech to take account of President Reagan's. In general, Mr Gromyko had been as unforthcoming in private as he had been in public, especially on the issue of human rights. Mr Gromyko had perhaps been slightly more disposed than in earlier discussions to listen to the views put to him: his general attitude had certainly been no worse than before, although it could not be said to have improved. The fact was that the Soviet leadership was passing through an uncertain but truculent phase.

South Africa

Previous Reference: CC(84) 31st Conclusions, Minute 1

THE FOREIGN AND COMMONWEALTH SECRETARY said that there had been no change in the situation in the British Consulate in Durban: the six leaders of Opposition Parties who had entered the Consulate on 13 September were still there. The Natal Supreme Court was about to reach a decision on the appeal by the six men against the validity of the detention orders which had been made on them. If the Supreme Court found in their favour, it was likely that the six would leave the Consulate voluntarily; if the decision went against them, they would probably stay put. The British Government's position remained that the six would not be forced to leave the Consulate against their will. The practical difficulties created by their presence would nevertheless increase and might necessitate a running down of the Consulate's activities and possibly its temporary closure. The only feasible course was to move towards a situation in which the six men would depart of their own accord. The problem was manageable but unlikely to be resolved quickly. Exchanges were continuing with the South African Government about the prosecution of the four South Africans who faced

charges in the United Kingdom in the "Armscor case"; the South African Government were maintaining their refusal to hand over the four accused. This issue had not yet come to a head but could prove difficult.

Lebanon

Previous  
Reference:  
CC(84) 31st  
Conclusions,  
Minute 1

THE FOREIGN AND COMMONWEALTH SECRETARY recalled the car bomb explosion at the United States Embassy in Beirut on 20 September in which Her Majesty's Ambassador had been injured and said that there was now clear and specific evidence of a threat of a similar operation against the British Embassy Annexe, the Villa Tohme. The building was therefore being evacuated. It was recognised that the threat might persist for some time, with consequent penalties to the effective working of the British Embassy; but the evidence had been so clear that precautionary action was essential.

The Cabinet -

Took note.

COMMUNITY  
AFFAIRS

Community  
Budget and  
United  
Kingdom  
Refunds

Previous  
Reference:  
CC(84) 31st  
Conclusions,  
Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that in the Council of Ministers (Foreign Affairs) on 2 October an agreement had been reached which protected the United Kingdom's position on supplementary finance until other issues were resolved. The draft supplementary Community budget for 1984 had been established conditionally by the Council and sent forward to the European Parliament. It had been recognised that the United Kingdom would not enact its procedures for financing its share unless the European Parliament released the 1983 refund and we were also satisfied on budgetary discipline. In the light of the Council's agreement on supplementary financing for 1984, the European Parliament should now release the 1983 refund, but the European Parliament's actions could not be predicted with certainty. The Council had also agreed on the 1985 draft Community budget within the 1 per cent Value Added Tax (VAT) limit and had sent it forward to the European Parliament. The question how any additional needs later in 1985 might be financed had been left open: nine member states were in favour of introducing new Community financial resources under the 1.4 per cent VAT ceiling during 1985, but the Federal Republic of Germany had not accepted this timing.

THE CHANCELLOR OF THE EXCHEQUER said that at the Council of Ministers (Finance) on 1 October progress had been made and there had been a large measure of agreement on a satisfactory text on budget discipline. There remained a general Danish reservation, and a French reservation on one important point, which the French Minister had indicated to be linked with a satisfactory settlement of other outstanding budgetary issues. Agreement had not been reached on the form, in particular whether the result should be expressed in a decision or in a resolution of the Council. The main weapon which the United Kingdom had been able to use in the discussions in order to obtain the improvements in the

text had been the refusal to agree to supplementary financing in 1984. This link between supplementary financing and budget discipline had been useful so far, but nine member states would have been willing to make an agreement on finance without the United Kingdom and to vote through the 1984 draft supplementary Community budget. In addition, the situation was complicated by a disagreement within the French Government on the question of budget discipline.

Agriculture:  
Wine

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that in the Council of Ministers (Agriculture) on 1 October there had been no progress, because of Italian objections, on measures to reduce the Community's wine surplus.

The Cabinet -

Took note.

Previous  
Reference:  
CC(84) 31st  
Conclusions,  
Minute 2

3. THE SECRETARY OF STATE FOR ENERGY reported to the Cabinet on the latest position in the coal industry dispute. The Cabinet's discussion is recorded separately.

INDUSTRIAL  
AFFAIRS

Coal  
Industry  
Dispute

Previous  
Reference:  
CC(84) 31st  
Conclusions,  
Minute 3

4. THE SECRETARY OF STATE FOR EMPLOYMENT informed the Cabinet that the unemployment figures for September, to be published that morning, showed an unadjusted 'headline' figure of 3,284,000 unemployed in the United Kingdom. Of these, school leavers numbered 182,000. The seasonally-adjusted figure for total unemployment was 3,099,000. The figures would attract heavy adverse publicity. The total of unemployed was the highest since the War, and indeed since records had been kept; and the seasonally-adjusted figure suggested that the underlying increase in unemployment might well have accelerated. Although the seasonally-adjusted total of vacancies notified to job centres (110,000) was the highest for 4½ years, it would not be easy to present the figures.

In discussion, the following points were made -

- a. In presenting the figures it would be helpful to point out that all Western European countries faced similar problems of unemployment; and that the increase in the population of working

age, due to demographic factors, made it more difficult to keep unemployment down. The importance of moderate pay settlements and higher productivity to keep down unit labour costs and enhance competitiveness, and the damaging effects of industrial action, should also be stressed.

b. The Government should take credit for the success of the Youth Training Scheme (YTS). It seemed likely that those young people who had been on the scheme would enjoy greater success in subsequently finding employment than those who had been on its predecessor, the Youth Opportunities Programme. More generally, the Government's efforts to keep the wages paid to young people down to economic levels, and to improve training, had enhanced the employment prospects of young people. By contrast, the actions of certain trade unions in insisting that employers must pay excessive wages for young people had had damaging effects on the willingness of those employers to recruit and train young people. The one point of concern was that the very success of the YTS might worsen the employment prospects of those young people who had not been on it.

c. As the population of working age had increased by 158,000 during the previous 12 months, while unemployment (before seasonal adjustment) had increased by only 116,000, it was clear that there had been an increase in the numbers of those in employment.

The Cabinet -

Took note.

5. The Cabinet considered a memorandum by the Lord President of the Council (C(84) 24), to which were attached drafts of The Queen's Speeches on the Prorogation and Opening of Parliament.

THE LORD PRESIDENT OF THE COUNCIL said that the draft Speeches attached to C(84) 24 had been prepared by the The Queen's Speeches and Future Legislation Committee (QL) on the basis of suggestions put forward by colleagues. There were only two outstanding points both on the Opening Speech, requiring resolution by the Cabinet. The first concerned the reference to the Nationalised Industries Bill. He understood that, following discussion in the Ministerial Sub-Committee on Nationalised Industries (E(NI)) the previous day, it was no longer proposed to proceed with this Bill in the 1984-85 Session. The reference could accordingly be deleted. It had been suggested that the Trustee Savings Bank Bill should be added to the programme in its place. Whether this was feasible would depend on how quickly that Bill could be prepared. QL would wish to examine the matter and whether a reference to this Bill should be made in the Speech. The second point for decision was the reference to legislation on scientific experiments on live animals.

It was not proposed to legislate in the 1984-85 Session on this subject, but the Home Secretary was anxious to secure a reference to future legislation in The Queen's Speech in order to ensure that those concerned with animal rights were in no doubt of the Government's intention to legislate in this Parliament. On balance, QL had considered that such a reference was not necessary. Finally, the preparation of Bills for the 1984-85 Session was not going as well as either he or the Lord Privy Seal would have hoped. There were still too many Bills where discussion of policy issues had been allowed to run on and where the draftsmen were still waiting for instructions. He therefore asked colleagues to maintain a close interest in the Bills for which they were responsible and to ensure that their preparation was speeded up wherever possible.

In discussion, the following points were made -

- a. Despite the importance of the reference to legislation about experiments on living animals, inclusion in The Queen's Speech without legislation in the same Session might well produce the opposite effect to that hoped for by the Home Secretary. No one doubted that the subject was politically very sensitive and that a commitment to legislation was important. It should, however, be possible to indicate the Government's continued willingness to legislate in this Parliament without a reference in The Queen's Speech.
- b. The paragraph on Northern Ireland referred to "Anglo-Irish relations". The use of the term "Anglo" produced an adverse reaction in Scotland and it would be preferable to replace that phrase by "relations with the Government of the Republic of Ireland".

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the draft Speeches attached to C(84) 24, subject to the points made in discussion and to QL's conclusion on a reference to the Trustee Savings Bank Bill. The Secretary of the Cabinet should now prepare revised versions for her to submit to The Queen for approval. The lack of progress in the preparation of some of the Bills for the next Session was regrettable, and the Ministers concerned should do everything possible to expedite the Bills for which they were responsible.

The Cabinet -

1. Invited The Queen's Speeches and Future Legislation Committee to consider whether the Opening Speech should include a reference to the Trustee Savings Bank Bill.
2. Subject to 1. and to the changes agreed in discussion, approved the draft Speeches attached to C(84) 24.

3. Instructed the Secretary of the Cabinet to prepare a final revision of the draft Speeches, taking account of these changes, for the Prime Minister to submit to The Queen.

4. Invited Ministers responsible for Bills in the programme of Government legislation for 1984-85 to expedite progress on those Bills wherever possible.

6. The Cabinet considered a note by the Secretary of State for Transport (C(84) 27) on airline competition policy. Their discussion and the conclusions reached are recorded separately.

AIRLINE  
COMPETITION  
POLICY

Previous  
References:  
CC(84) 27th  
Conclusions,  
Minute 1,  
CC(84) 28th  
Conclusions,  
Minute 1, and  
CC(84) 29th  
Conclusions,  
Minute 5

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7. The Cabinet considered a memorandum by the Secretary of State for the Environment (C(84) 28) and a note by the Secretary of the Cabinet (C(84) 25) on local government finance.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Party Conference agenda contained a motion which urged the Government to make positive steps towards the abolition of the domestic rating system, replacing it eventually with a system of local taxation which bore more fairly on a wider spread of the population. As it stood the motion was unacceptable, and he proposed that an amendment should be brought forward which welcomed existing policies and looked forward to further steps to improve the position of the ratepayer and secure greater responsibility in local government spending. The fact was that the policies the Government was pursuing had been successful in reducing the rate of growth of local government spending and had achieved the lowest increase in rates for many years. Nonetheless the whole system of local government finance was suffering severe strains and present policies could not, in his view, hold the position very far into the life of the next Parliament. The regime of targets and penalties was seen as unfair and was becoming increasingly unpopular. The system of block grant and grant-related expenditure assessment, though sound in principle, was not understood. The rate poundage equalisation acted as a hidden transfer mechanism which encouraged high-spending councils and gave no credit to economical councils. The link between paying rates, receiving services and voting was tenuous and provided little accountability. It was therefore necessary to begin now to study the problems and how they might best be tackled so that there would have been an opportunity to consider the way forward carefully before the problems became critical. He proposed that work should be done by his officials under the guidance of the Minister for Local Government and with a reconstituted Sub-Committee on Local Government Finance of the Ministerial Steering Committee on Economic Strategy (E(LF)), as proposed in C(84) 25, as a steering body. The work would not have the status of a formal review. He sought the agreement of his colleagues to work being undertaken and steered in this way, and to the Party Conference motion being dealt with as he had proposed.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed that work on the lines proposed should be undertaken in accordance with the arrangements set out in the note by the Secretary of the Cabinet (C(84) 25). It was important that expectations should not be unduly raised and, in particular, that no encouragement should be given to the idea that domestic rates could be abolished. The Secretary of State for the Environment's proposals for handling the Party Conference motion were in line with this approach and were agreed.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of the discussion and invited the Secretary of State for the Environment to proceed accordingly.

2. Took note that the Prime Minister would give instructions for the reconstitution of the Sub-Committee on Local Government Finance of the Ministerial Steering Committee on Economic Strategy as proposed in C(84) 25.

3. The Cabinet considered a memorandum by the Chief Secretary, Treasury (C(84) 26) about the assumption to be made about pay increases in the Government's expenditure plans for 1985-86.

THE CHIEF SECRETARY, TREASURY said that it was necessary to decide what to assume about public service pay increases in public expenditure plans and Estimates for 1985-86. The assumption for 1984-85 was 3 per cent. Given the prospects for private sector pay settlements, a lower figure for 1985-86 would be seen as unrealistic and could be ineffective: a higher figure would give the wrong signals about the desirable course of future settlements. He therefore recommended that the figure of 3 per cent should be retained. The assumption would apply to all public service groups other than those in local government; it would not apply to the nationalised industries. The public expenditure figures for 1985-86 had, in effect, been constructed on the basis of an assumption of 4 per cent for pay and prices alike. A 3 per cent pay assumption would reduce the baseline figures for 1985-86 and later years by £200 million. In 1982 and 1983 the Government's decisions on the pay assumption had been explicitly announced: in both years, the result had been unhelpful headlines. This year, there should be no formal announcement in advance of the Autumn Statement. Questions before them should be answered by saying that there would again be a pay assumption, and that it would be much the same in 1985-86 as in 1984-85.

THE CHANCELLOR OF THE EXCHEQUER said that the Cabinet's discussion of the unemployment figures earlier that morning had emphasised the close link between pay and jobs. Although he had not yet received the autumn forecast, present indications were that output would increase in the current year by about 2 per cent: this was less than had been forecast at the time of the 1984 Budget because of the effects of the coal-miner's strike. When coal production recovered after the strike was settled there would be a counterbalancing increase in the rate of growth of output. Despite the rise in mortgage interest rates it seemed likely that the annual rate of inflation at the end of the year would be close to the 4½ per cent forecast at the time of the Budget. The money supply was well under control; but interest rates remained high, partly because of the effect of interest rates in the United States and partly because of the effects of the coal-miner's strike on market sentiment. Although North Sea oil revenue was running at higher levels than forecast, the fiscal prospect for both 1984-85 and 1985-86 was less satisfactory than before. It would be vital to hold the Government's public expenditure plans to the totals which the Cabinet had agreed in July (CC(84) 25th Conclusions, Minute 5). The outcome of the current Public Expenditure Survey would also be crucial to the success of the forthcoming flotation of British Telecom.

In discussion, the following main points were made -

a. Although the proposal to set the pay assumption for 1985-86 at 3 per cent was entirely justified, it should be recognised that the Government was finding increasing difficulties in recruiting and retaining the most able people against competition from the private sector. Civil Service pay arrangements should be made flexible enough to allow higher rewards to be given to such people within whatever overall pay settlements could be afforded.

b. There were stronger arguments than seemed to be allowed in C(84) 26 for announcing the Government's decision on the pay assumption for 1985-86. The decision was likely to leak: the fact that the Government had not announced it might then be misinterpreted. It was also desirable to influence the expectations of other employers in the public services, some of whom were either engaged in, or would shortly embark on, pay negotiations. In particular, the line to be taken when Ministers met representatives of the local authority employers on 22 October to discuss prospects for the 1984-85 pay round would need careful consideration. On the other hand, there were drawbacks to any announcement, since it would be represented, or misrepresented, as establishing a Government pay 'norm'. This would, among other things, be provocative to workers in key public sector industries.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the proposals in C(84) 26. However, although they agreed that no formal announcement should be made of their decision on the pay assumption for 1985-86 at this stage they recognised that it might well become known. The Chief Secretary, Treasury should consider what guidance should be given to the media in that event.

The Cabinet -

1. Approved the proposals in C(84) 26.
2. Invited the Chief Secretary, Treasury to consider what guidance should be given to the media if the Cabinet's decision on the pay assumption for 1985-86 should become known before the formal announcement.

PUBLIC EXPENDITURE SURVEY 1984  
Previous Reference: CC(84) 25th Conclusions, Minute 5

9. The Cabinet considered a memorandum by the Chief Secretary, Treasury (C(84) 29) reporting progress in the Public Expenditure Survey 1984.

THE CHIEF SECRETARY, TREASURY said that in accordance with the Cabinet's conclusions at their meeting on 5 July he had engaged in bilateral discussions of expenditure programmes with the Ministers responsible. C(84) 29 reported the position that he had reached. Although good progress had been made, important issues on several programmes were still unresolved. It might be helpful to set up a small group of Ministers to consider those issues and report to the Cabinet. It was possible that it might also be necessary to ask the group to consider the manpower levels of some Departments if he was unable to reach agreement bilaterally with the Ministers responsible.

THE PRIME MINISTER, summing up a brief discussion, said that in the light of C(84) 29 she had decided to invite the Lord President of the Council to be the Chairman of a small group of Ministers to consider and make recommendations to the Cabinet on expenditure and manpower issues arising from the 1984 Public Expenditure Survey. It could be made known, in response to any enquiries from the media, that such a group had been set up, as was often done in the course of annual public expenditure surveys to assist the Cabinet in reaching final decisions.

The Cabinet -

1. Took note that the Prime Minister would invite the Lord President of the Council to be the Chairman of a small group of Ministers to consider and make recommendations to the Cabinet on expenditure and manpower issues arising from the 1984 Public Expenditure Survey.
2. Agreed that the response to enquiries from the media about the setting up of such a group should be as described by the Prime Minister in her summing up.

Cabinet Office

4 October 1984

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CABINET

LIMITED CIRCULATION ANNEX

CC(84) 32nd Conclusions, Minute 3

Thursday 4 October 1984 at 9.30 am

THE SECRETARY OF STATE FOR ENERGY said that the number of pits working normally was 45; 9 pits were producing some coal; 23 pits had some men present; the number of pits where no miners were present had gone down to 97, compared with 121 earlier in the year. The reduction was largely due to attendances of 3 or 4 men at many Yorkshire pits. Attendances and coal production at the working pits were at high levels. Coal movements in the previous week had been 885,000 tonnes, the highest level since the strike began. Power station coal stocks had shown a small increase in every week during September. Mr Scargill, the President of the National Union of Mineworkers (NUM) had been summoned to appear in the High Court that day for contempt of court in connection with an injunction granted to working miners in the Yorkshire area on the grounds that the strike was contrary to the NUM's own rules. It was thought likely that this would result in a fine imposed on the NUM and, if the NUM refused to pay the fine, sequestration of NUM assets. A substantial majority for strike action had been obtained the previous week in a ballot conducted by the National Association of Colliery Overmen, Deputies and Shotfirers (NACODS). Since then the National Coal Board (NCB) had been in discussion with NACODS. Agreement had been reached on the two specific points of dispute affecting NACODS members but the NCB's closures policy had also been mentioned on the strike ballot paper and NACODS had put forward a proposal for independent arbitration on closures as a way of settling the existing dispute with the NUM. The NCB had thought it right to explore these ideas very thoroughly, exposing the difficulties to NACODS including in particular the conflict with the NCB's statutory obligations to manage the industry efficiently. The NCB had undertaken to meet NACODS again the following Friday after its regular Board meeting, since NACODS had indicated that, if no progress was made, a strike would be called on Monday 8 October. Meanwhile, however, NACODS had been in touch with the Advisory, Conciliation and Arbitration Service (ACAS) who had underlined the fact that any proposals for settling the dispute would have to be discussed with the two other unions, the NUM and the British Association of Colliery Managers (BACM). Both the NUM and BACM had now made it clear that they did not favour the NACODS proposal. ACAS would be meeting the NUM the following Saturday. It was therefore hoped that NACODS would accept that the discussions would have to be prolonged and would not call for a strike on 8 October. There was in any case evidence

INDUSTRIAL  
AFFAIRSCoal  
Industry  
DisputePrevious  
Reference:  
CC(84) 31st  
Conclusions,  
Minute 3

that NACODS members in working areas would be unlikely to obey a strike call. It now seemed very unlikely that there would be significant action in support of the miners by workers in power stations.

THE HOME SECRETARY said that progress in dealing with the criminal cases arising from the coal dispute would be accelerated by the appointment of four more stipendiary magistrates, in Chesterfield (in addition to the one there already), Mansfield, St Helens and Peterlee. In Worksop there had been a serious case of intimidation the previous day involving Mr Taylor, one of the plaintiffs in the civil case against Mr Scargill, and his family. Two men had been arrested, one of whom was the General Secretary of the local NUM branch, and they would probably be remanded in custody. The Attorney General would be asking the Director of Public Prosecutions to take over the case and would also be considering whether any other serious cases should be handled similarly. It would in due course be for the prosecution to consider whether to apply for the Worksop case to be heard outside the area to lessen the risk of intimidation of jurors. There continued to be a limited but substantial core of pickets who were prepared to resort to violence. Police morale remained high but there was great concern in the police service that the main Opposition Party had attacked the police for carrying out its duty of maintaining law and order.

In discussion, the following main points were made -

- a. Although the case brought by the working miners was under the normal law relating to breach of contract rather than the Government's employment legislation, the legal remedies against the NUM by way of fines and sequestration of assets would be much the same. The outcome would therefore be an important test of the impact of the civil law on the dispute. The possibility of further civil action against the NUM and other unions involved in the dispute would need to be reviewed in the light of the current case.
- b. There were increasing indications that the present law relating to public order and the procedures for ensuring that cases were dealt with promptly were not adequate. The Bill to be introduced in the coming Session would make some improvements. A review of the public order legislation would be completed by the end of the year. All aspects of the matters would need to be considered again in the light of the lessons of the coal dispute.

THE PRIME MINISTER, summing up the discussion, said that the NCB was clearly right to handle the discussions with NACODS with care and to seek to avoid a strike. The proposal for independent arbitration on closures was unacceptable and it was fortunate that the other two unions had now made clear their opposition to it. Meanwhile it was vital that the Government should retain the support of public opinion. This involved not just the making of new points but the repetition of the

fundamental arguments, such as those marshalled by the Secretary of State for Energy in his letter to the Bishop of Durham. The Secretary of State for Energy should continue to ensure that suitable briefing was made available to the Government's supporters in Parliament and elsewhere.

The Cabinet -

Took note.

Cabinet Office

5 October 1984

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CABINET

LIMITED CIRCULATION ANNEX

CC(84) 32nd Conclusions, Minute 6

Thursday 4 October 1984 at 9.30 am

The Cabinet considered a note by the Secretary of State for Transport (C(84) 27) on airline competition policy.

THE SECRETARY OF STATE FOR TRANSPORT said that he had asked the Civil Aviation Authority (CAA) in December 1983 to review the implications of the privatisation of British Airways (BA) for competition and the sound development of the British airline industry. The CAA had published a report in July 1984 making a large number of recommendations, the most contentious of which were for a reduction in the relative size of BA by the transfer of specified routes to British Caledonian (BCal) and other British airlines. It was clear that BA would not willingly accept these transfers; and the only way of compelling them to do so was by primary legislation. A meeting of Ministers on 11 September under the chairmanship of the Prime Minister had concluded that such legislation would be undesirably contentious and arguably in breach of undertakings given by the then Secretary of State for Trade in 1979. The meeting had accordingly invited him to discuss with BA and BCal a negotiated 'route swap'. With the greatest of difficulty he had prevailed upon BA to agree to the transfer of their routes to Saudi Arabia to BCal in exchange for BCal's route to Atlanta in the Southern United States and a number of other routes mainly to Latin America. BA estimated that the exchange would reduce their profits by about £20 million a year in the short run and increase BCal's by about £17 million. The loss of profits to BA could be expected to entail a reduction in the proceeds of privatisation, if the Government sold 100 per cent of the shares, of between £80 million and £100 million. It was also likely to reduce the proportion of the proceeds which was received by the Government.

BCal had indicated that they would accept the deal, provided that they were allowed to retain the Atlanta route, which generated some 10 per cent of the airline's revenue and about £2 million a year profit out of a total of just over £3 million. It was also relevant that BA could fly to 17 'gateway' airports in the United States while BCal could fly to only 5: it would be difficult to defend transferring one of the routes concerned from BCal to BA. His judgment was that, in the last resort, BCal would accept the deal even if it entailed losing the

AIRLINE  
COMPETITION  
POLICY

Previous  
References:  
CC(84) 27th  
Conclusions,  
Minute 1,  
CC(84) 28th  
Conclusions,  
Minute 1, and  
CC(84) 29th  
Conclusions,  
Minute 5

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Atlanta route to BA. The Cabinet would wish, however, to consider the alternative of trying to persuade BA to accept a modified deal under which BCal would retain the Atlanta route.

Regarding the other recommendations in the CAA report his proposals were as follows.-

- a. The CAA's recommendations regarding domestic air services should be accepted.
- b. The Government should welcome the CAA's proposals for additional competition on intercontinental routes. He would instruct the negotiators in his Departments to make all efforts to secure the right to dual designation on such routes from foreign governments at an acceptable price.
- c. Unless Ministers were prepared to legislate, BA could not be made to withdraw its international services from regional airports. The Government should accept BA's offer to make limited financial and other support available to other airlines who wished to set up such services in competition.
- d. Methods of acting against predatory pricing and other anti-competitive practices should be strengthened by enhancing the role of the Office of Fair Trading. He had agreed proposals to this end with the Secretary of State for Trade and Industry.
- e. The CAA's request for wider licensing powers should be rejected.
- f. No overt action could be taken on airports policy until he had received the report of the Inspector on the Stansted public inquiry and the results of consultation on the operation of the limit on air transport movements at Heathrow airport.

The Government's decision should be announced by the immediate issue of a White Paper on the lines of the draft circulated as Annex D to C(84) 27. This had been written on the assumption that BCal would accept the exchange of routes outlined in his memorandum, including the transfer of the Atlanta route to BA. If BCal rejected the deal, and the Cabinet took the view that legislation to enforce it, or some modification of it, would not be appropriate, the outcome would be that no routes could be transferred. Alternative drafts of the relevant passages of the White Paper to meet such a circumstance had been circulated with the letter of 3 October from his Private Secretary to the Private Secretary to the Secretary of the Cabinet.

THE SECRETARY OF STATE FOR DEFENCE said that BA, among others, had been invited to tender for four trooping flights a week to the Falkland Islands. Their tender had been the most advantageous. Subject to final confirmation of the requirement, he had decided that the contract should be awarded to BA, and was about to convey his decision to his Department.

In discussion, the following main points were made -

a. In the interests of competition policy it was undesirable to transfer the Atlanta route from BCal to BA. Moreover, although the Secretary of State for Transport had displayed great negotiating skill in bringing BA and BCal so close to agreement, the point to which public opinion was likely to attach most importance was that the arrangements envisaged were much less favourable to BCal than the route transfers recommended by the CAA. It would be difficult in these circumstances to defend insistence that any route swap should involve the transfer from BCal to BA of the Atlanta route, in which the airline had invested a great deal of money and which was crucial to the development of their business in that part of the world.

b. On the other hand, it was unlikely that BA would accept the proposed exchange unless it included transfer to them of the Atlanta route. Any attempt to force them to accept the deal on a different basis would have serious implications. At the very least it would lead to unacceptable delay in the programme for privatising the airline. The financial, political and economic importance of privatising BA argued strongly for transferring the Atlanta route. This was unlikely to cause BCal to reject the deal. If they accepted it, they would secure a very large proportionate increase in their profits: if they rejected it, they would receive nothing.

c. It was idle to try to devise ideal arrangements if there was no practicable means of bringing them about. Legislation was the only means of forcing BA to accept a deal which was unwelcome to them: it was not a practical possibility. The Cabinet should not embark on a course of action unless it was willing to carry it through.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet wished to congratulate the Secretary of State for Transport on the skill with which he had brought BA and BCal so close to agreement. It was now imperative to resolve the uncertainties which had followed publication of the CAA report. The Cabinet would prefer to see an exchange of routes between BA and BCal as described in C(84) 27, but with BCal retaining the route to Atlanta. BA might be willing to accept an exchange on this basis, especially when they were told that they were to be awarded the contract for troop transport flights to the Falkland Islands for which they had tendered. The Cabinet recognised, however, that, if BA were not willing, the only way to force them to accept an exchange of routes was by legislation; and that there were serious drawbacks to such a course. The Secretary of State for Transport should seek an interview with the Chairman of BA, Lord King, as soon as possible to inform him of the decision of the Secretary of State for Defence on the Falkland Islands troop transport contract and to seek to persuade him, in the light of that decision, to agree to an exchange of routes not including the route to Atlanta. Because of the urgency

of the matter the Cabinet agreed that she, in consultation with the Secretary of State for Transport, should reach a final decision in the light of the response by Lord King and his Board. The Cabinet approved the remaining recommendations in C(84) 27. They also agreed that as soon as the definitive views of BA and BCal were known, the Government's decisions should be announced in a White Paper on the lines of the draft circulated with C(84) 27, amended as necessary to suit the circumstances created by the response of BA and BCal. Meanwhile, the Government's public position should be that discussions with the two airlines were continuing. While those discussions were in progress, the strictest confidentiality must be maintained.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Secretary of State for Transport to hold further discussions with the Chairman of British Airways, on the lines described by the Prime Minister.
3. Agreed that, in the light of the outcome of those discussions, the Prime Minister, in consultation with the Secretary of State for Transport, should reach final decisions on the proposed exchange of routes between British Airways and British Caledonian.
4. Approved the remaining recommendations in C(84) 27.
5. Agreed that the Government's decisions should be announced as soon as possible by means of a White Paper on the lines of the draft circulated with C(84) 27, amended as necessary to suit the circumstances created by the response of British Airways and British Caledonian to the Government's proposals on an exchange of routes.

Cabinet Office

8 October 1984