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CC(85) 7th
Conclusions

COPY NO 74

CABINET

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

THURSDAY 28 FEBRUARY 1985

at 10.00 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 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 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 Patrick Jenkin MP
Secretary of State for the Environment

The Rt Hon John Biffen MP
Lord Privy Seal

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

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

The Rt Hon Tom King MP
Secretary of State for Employment

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

The Rt Hon Peter Rees QC MP
Chief Secretary, Treasury

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport

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

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

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Michael Havers QC MP
Attorney General (Items 4 and 5)

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

Mr John Gummer
Paymaster General

SECRETARIAT

Sir Robert Armstrong	
Mr P L Gregson	(Item 4)
Mr D F Williamson	(Items 2 and 3)
Mr B G Cartledge	(Items 2 and 3)
Mr C J S Brearley	(Items 1 and 5)
Mr A J Wiggins	(Item 4)
Mr R Watson	(Items 1 and 5)

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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.

Legislation
on
Commercial
Surrogacy

Previous
Reference:
CC(85) 4th
Conclusions,
Minute 8

THE LORD PRESIDENT OF THE COUNCIL said that, following discussion in Cabinet on 31 January, the Home and Social Affairs Committee had considered the draft of a Bill banning commercial activities associated with surrogate motherhood. The Committee had concluded that a Bill narrowly drawn to ban commercial agencies and advertising on their behalf was feasible and should be introduced as soon as possible. It would not deal with the wider issues raised by surrogate motherhood, which would be left to later legislation to implement the findings of the Committee of Inquiry into Human Fertilisation and Embryology (Warnock) as a whole. An announcement would be made early in the following week.

Action
Against Tax
Avoidance
by "Bond
Washing"

THE CHANCELLOR OF THE EXCHEQUER said that he had made an announcement that morning that legislation would be introduced in the Finance Bill to halt avoidance of tax by "bond washing" (by which income was transformed into tax free capital). It was estimated that the loss of tax revenue currently amounted to some £300 million a year. The legislation would not come into effect until February 1986. He had therefore also announced the immediate implementation of anti-forestalling devices which would limit "bond washing" during the following year to current levels. The market had not yet responded to the announcement, but he expected that an initial adverse response would soon disappear.

Allegations
About
Improper
Telephone
Tapping

THE HOME SECRETARY said that allegations of improper use of telephone tapping procedures over a number of years had been made in a television film for Channel 4. The film had been banned by the Independent Broadcasting Authority, but had been shown to Members of Parliament and the Press. The allegations had stemmed from information provided by former members of the Security Service. A decision on their prosecution under the Official Secrets Act was a matter for the Attorney General. It was the invariable practice of Governments neither to confirm nor deny such allegations but in the special circumstances of the impending Second Reading of the Interception of Communications Bill the Prime Minister was asking Lord Bridge of Harwich, the present judicial monitor on the operation of the interception of communications, to review the allegations relating to the period from May 1979 onwards and determine whether there had been any improper authorisations of interception.

Previous Prime Ministers and Home Secretaries were being invited to agree that Lord Bridge should also review the allegations relating to the previous period. He hoped that Lord Bridge would be able to conclude his investigations before the Second Reading debate.

The Cabinet -

Book note.

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FOREIGN AFFAIRS

Nigeria

Previous Reference: CC(85) 6th Conclusions, Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that since the convictions of those responsible for the attempted abduction of the exiled former Nigerian Minister for Transport, Mr Umaru Dikko, he had been working to limit the potential damage to British interests in relation to Nigeria. To this end he had conveyed messages to the Nigerian Foreign Minister, Dr Gambari, both directly and indirectly, endeavouring to explain the workings of the judicial process in the United Kingdom. There were some indications, in the Nigerian response, of recognition on the part of the Federal Military Government (FMG) that the imprisonment of Mr Mohammed Yusufu followed inevitably from his conviction and there were so far no public or political pressures in Nigeria on his account. The Nigerians nevertheless remained very preoccupied with Mr Dikko's future. Although Dr Gambari's reply to the Foreign and Commonwealth Secretary's message had been tolerably conciliatory and had expressed a wish to avoid any further disruption in bilateral relations, it had also restated the Nigerian belief that, given the political will, the British Government could act with regard to Mr Dikko as the FMG would wish. The Foreign and Commonwealth Secretary said that he and the Home Secretary were in close touch on the problem of Mr Dikko's future; it would be important to consider all the implications of any action before reaching a decision. The case of the two British employees of Bristow Helicopters Limited, who were due to come up for trial in Nigeria on 19 March, was disturbing since they could find themselves in the position of hostages if the verdict went against them. The Foreign and Commonwealth Secretary said that, depending on the outcome of this trial, it might be useful for him to meet Dr Gambari.

New Zealand

THE FOREIGN AND COMMONWEALTH OFFICE said that the Prime Minister of New Zealand, Mr David Lange, was about to arrive in the United Kingdom on a purportedly private visit, during which he would speak in a debate at the Oxford Union in favour of a motion condemning nuclear weapons on moral grounds. Although the original terms of the motion had been somewhat moderated, Mr Lange's participation in the debate was nevertheless unhelpful. During his recent visit to the United States, Mr Lange had been told of the United States Administration's decision to withdraw all bilateral co-operation between the United States and New Zealand in the defence and intelligence fields, in retaliation against

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the New Zealand Government's refusal to allow naval vessels carrying nuclear weapons to visit New Zealand ports. Secretary of State Shultz had described the American action as being such as to avoid turning a friend into an enemy; but the United State's response was, nevertheless, arguably heavy-handed. One of its consequences was that the United Kingdom would have to exclude New Zealand representatives from the Joint Intelligence Committee; but there was no case for restricting defence co-operation between the United Kingdom and New Zealand in any other respect.

In a brief discussion, it was noted that since the United Kingdom could not accept the New Zealand Government's requirement that the presence of nuclear weapons on naval vessels should be declared, there could be no visit to New Zealand by ships of the Royal Navy for the time being. The British Government would, nevertheless, continue to defend New Zealand's interests in the European Community. The point was made that over-reaction against the New Zealand Government's position by New Zealand's allies might serve only to strengthen domestic support for Mr Lange and his policies, although the cessation of Royal Navy visits might disturb New Zealand public opinion more than the absence of visits by ships of the United States Navy. The New Zealand Government's attempt to mitigate the problem by offering to make its own determination of whether or not a naval vessel was carrying nuclear weapons clearly did not offer a satisfactory or acceptable solution.

Arab/Israeli
Relations

THE FOREIGN AND COMMONWEALTH SECRETARY said that the agreement between King Hussein of Jordan and the Palestine Liberation Organisation, in the person of Mr Yasser Arafat, was intended to improve the prospect for peace negotiations; although a step in the right direction, it was nevertheless replete with ambiguities and very fragile. There had to be considerable scepticism concerning its chances of success, and encouragement for it should therefore be cautious. The proposal by President Mubarak of Egypt for talks between the Arabs and the United States may have gone beyond King Hussein's original intentions. Israel's reaction to these moves had so far been mild but there were no grounds for excessive optimism or for any initiative by the European Community. It was necessary to recognise the difficulty posed by Syria's negative posture and to continue to prevent, if possible, any further deterioration in the situation on the West Bank.

The Cabinet -

Took note.

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3. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Council of Ministers (Agriculture) on 25-26 February had reached agreement on changes in the Community arrangements for wine in implementation of the decisions taken by the European Council in Dublin. There would be an effective guarantee threshold, operated through compulsory distillation at low prices. There would also be measures to grub up vineyards; and a restrictive price policy would be maintained. This should lead to a reduction in Community expenditure on the wine regime, and the cost of the measures themselves should be up to £200 million below the earlier estimates. On milk the Council of Ministers had now agreed to a permanent change in the quota system, permitting mixed businesses some facility to exchange quotas between wholesale and retail supplies; this had been a United Kingdom objective and this decision was very satisfactory. The Council had also agreed on certain other changes in the milk quota system, which were likely to have the effect of removing any liability in the present year on dairies in Northern Ireland to pay levy. This also was welcome. The Republic of Ireland, arguing that the statisticians had miscalculated the entitlement, had pressed in the Council for an increase in the milk quota but had failed to achieve this. They would no doubt return to the question in the agricultural price-fixing negotiations but the United Kingdom's opposition had been made clear. On the environment the United Kingdom's initiative had now resulted in a proposal by the Commission within the agricultural structures package.

In discussion of the milk situation it was pointed out that there would be some cases of serious hardship because of the operation of the quota system, particularly where dairy farmers had been planning on longer term expansion. The appeals on difficult cases had now been almost completed and decisions should be given by mid-March. It might be desirable to deal with a limited number of very difficult cases by taking some more production out under the outgoers scheme and redistributing it to the hard cases; this question, however, could be examined only when the results of the appeals and the full facts were available. It was important so to present the latest decisions affecting the levy liability this year for dairies in Northern Ireland that producers elsewhere in the United Kingdom did not wrongly assume that this had been at their expense. In discussion on the revised wine regime, it was pointed out that there could be an adverse impact on the industrial alcohol industry. This could be a continuing problem until the planned change did achieve the better balance in the wine market. It should also be borne in mind that some member states were expressing support for apparently expensive ethanol production from grain. In discussion of the environmental initiative the progress made was welcomed; it would now be necessary to translate this into action within the United Kingdom.

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Enlargement
of the
Community

THE FOREIGN AND COMMONWEALTH SECRETARY said that little progress had been made on the enlargement negotiations or, in view of the German position, on own resources at the Council of Ministers (Foreign Affairs) on 18-20 February. The Council would be meeting again that afternoon and in an extended session in March.

The Cabinet -

took note.

Previous
Reference:
CC(85) 4th
Conclusions,
Minute 4

INDUSTRIAL
AFFAIRS

Coal
Industry
Dispute

4. 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.

Previous
Reference:
CC(85) 6th
Conclusions,
Minute 4

Industrial
Action by
Teachers

Previous
Reference:
CC(85) 5th
Conclusions,
Minute 1

THE SECRETARY OF STATE FOR SCOTLAND said that the strike action by Scottish teachers was a matter of increasingly serious concern. Although only three Scottish Education Authorities were unaffected by the action, the main focus was on the constituencies of all eight Scottish Ministers. In his own constituency and that of his Parliamentary Under Secretary of State, Mr Allan Stewart, children had been receiving only two days' education per week since Christmas. With the public examinations only a few weeks away, the action threatened serious damage to the prospects of the children concerned. Because the action was deliberately very selective, and its costs were spread over the whole teaching force in Scotland, there was no financial pressure on the teachers to end the strike. Nor was any clear way open for resolving the dispute; and if the action were simply discontinued, the widespread disaffection of the teachers would remain.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that teachers in England were equally discontented. The performance of the schools left a great deal to be desired, and the Government were putting pressure on them to do better, despite a social climate in which there was less parental support and the children were more unwilling to learn. He saw the introduction of some form of assessment of teachers' performance, combined with more and better in-service training, as the key to an improvement in the situation; some limited improvement in pay for those who were shown to be good teachers would need to be introduced over a

period of time consistently with the narrow financial constraints within which the education service worked. The pressing need for better teaching standards had to be accepted both by the teachers and by the wider community, while at the same time teachers' unrealistic expectations about pay had to be reduced. The introduction of new examinations in 1988 would increasingly facilitate the identification of inadequate teachers; if agreement could not be reached on the introduction of teacher assessment procedures, such procedures might need to be imposed by Government regulation.

The following further points were made in discussion -

a. Central Government which bore most of the cost of the provision of schools had no managerial control over what went on in them; and the customers had neither freedom of choice nor any interest in minimising the costs of the service. Teaching and non-teaching costs per pupil varied far more widely as between Local Education Authorities (LEAs) than the underlying circumstances warranted. If some more effective central managerial control could be imposed, perhaps on the French model, this might be helpful in defusing financial pressures within the education service and in reducing the extent of the problem of local authority finance.

b. Effective counter-measures should be prepared against selective action by teachers. A number of English LEAs were preparing to impose pay deductions in respect of teachers' refusal to undertake certain duties on grounds of breach of contract. The teaching unions would not be willing to bear the financial consequences of an all-out strike.

c. Concentration of action on Ministers' constituencies was a very serious matter. Although the preliminary advice given by the House authorities was that this action was directed against Ministers in respect of their Ministerial responsibilities and not in their capacity as Members of Parliament, and therefore did not represent a breach of privilege, the pressure depended for its effectiveness on the fact that the Ministers concerned were members for their particular constituencies.

THE PRIME MINISTER, summing up the discussion, said that the industrial action by teachers was a very serious matter: teachers were not justified in taking action damaging to the interests of their pupils. In condemning such action Ministers should however acknowledge the contribution being made by many good teachers in difficult circumstances. The Secretary of State for Education and Science, in consultation with other Ministers with educational responsibilities, should consider further the Government's policy towards teachers in relation both to the current dispute and to the longer term. The Lord Privy Seal, in consultation with the Attorney General should consider

whether there were further legal and other arguments which could be put to the House authorities on the possibility that industrial action concentrated on Ministers' constituencies might involve a breach of Parliamentary privilege.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of the discussion.
2. Invited the Secretary of State for Education and Science, in consultation with other education Ministers to consider the Government's policy towards teachers and to report to the Prime Minister and other Ministers concerned in due course.
3. Invited the Lord Privy Seal, in consultation with the Attorney General, to consider further the question of Parliamentary privilege on the lines indicated in the Prime Minister's summing up.
5. The Cabinet considered a memorandum by the Lord President of the Council (C(85) 5) setting out the recommendations of The Queen's Speeches and Future Legislation Committee (QL) for the 1985-86 legislative programme and for advance places for the 1986-87 legislative programme.

THE LORD PRESIDENT OF THE COUNCIL said that the next Session of this Parliament was the last in which the Government could expect to introduce controversial legislation unshadowed by the possibility of a General Election. QL had therefore proposed a heavy programme of 33 Bills, many of significant size and controversiality, which would carry forward the Government's major objectives. A programme of this size would certainly create problems of Parliamentary management, but the Committee felt that these could be coped with provided that the programme was not increased further by the inclusion of other major Bills. If the Cabinet wished to include other items, something of equivalent weight must be deleted. The proposal for a Housing Bill presented a particular problem. When QL had discussed the programme, there had been no policy agreement on proposals to deregulate the private rented sector but, at their meeting the previous day, the Home and Social Affairs Committee were in general agreement with the revised proposals and had recommended that they be given a place in the 1985-86 programme. This would, however, be a large and controversial Bill and if it was to be added to the programme there must be an equivalent deletion. As far as advance places for 1986-87 were concerned QL had recommended Bills on Criminal Justice, Copyright and Petroleum and it would be possible to add one or two further Bills to this list. Finally, the Lord President emphasised the importance of ensuring that

LEGISLATIVE
PROGRAMME
1985-86 AND
1986-87

Bills were ready at the beginning of the Session if at all possible and that they should receive Ministers' personal attention at all stages of preparation.

The following points were raised in discussion -

- a. The work which was being done on deregulation and the removal of burdens from businesses would almost certainly require a Bill in the next Session, although it was too early to say what it would contain. Deregulation was at the heart of the Government's policy, and if necessary, less worthwhile Bills would have to be sacrificed. On the other hand, it might be possible to deal with many of the points emerging from the review either in Bills already in the programme, in a Finance Bill or by secondary legislation.
- b. It was necessary, for the balance of the programme, to include some short and relatively uncontroversial Bills, such as Latent Damage.
- c. The Social Security Bill was a very important element in the programme, but there must be serious doubts about its timing. The size of the Bill would depend on the outcome of the reviews of social security and the policy decisions taken as a result.
- d. Policy on the Nationalised Industries Bill was far from settled and much of its impact on the privatisation programme could be achieved without legislation. On the other hand, it had been agreed that the proposals should be put out to consultation and it seemed likely that this would produce some common ground. The Bill was in the mainstream of Government policy.
- e. Policy on the Royal Dockyards Bill was far from settled even in outline. The next stage was to consult on the basis of two main options and if this went well, the Bill might still be a candidate for 1985-86.
- f. The Merchant Shipping Bill was needed to halt the decline of the British shipping industry. It had had a place in the present Session's programme but had had to be dropped because of pressure on Parliamentary Counsel's resources. Although the industry would be disappointed not to see the Bill, it would be a suitable candidate for 1986-87.
- g. Dog licences now cost significantly more to collect than was raised in revenue. Legislation was needed urgently and the lack of it would be severely criticised. Nonetheless it could not be accommodated in what was a very tight programme.
- h. On Housing, the proposals now put forward would result in complete deregulation of new lettings in the private rented sector but would increase public expenditure as a result of increased housing benefit payments. Such an increase would be in marked contrast to the Government's general approach to housing benefit

and would additionally be criticised because the money would in fact be going to private sector landlords. The disadvantages would emerge very quickly and before the General Election, whereas the long-term advantages would materialise slowly. On the other hand, the private rented sector was declining quickly and urgent action was needed to save it. Revival of the sector had been party policy for the whole period of Government and supporters would not understand continuing inaction. The cost of the addition to housing benefit resulting from the policy had been assessed at £8 million in 1986-87, £38 million in 87-88 and £51 million in 88-89 (all figures for England only). The Secretary of State for the Environment had agreed to a transfer of half of these amounts from his public expenditure allocation to that of the Secretary of State for Social Services, the remainder being found by the Treasury.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet broadly agreed with the programme proposed by QL and listed in Annex A to C(85) 5. There was also a good case for legislation to remove burdens on businesses and to deregulate the private rented sector if policy issues could be resolved. It was also possible that a Bill on the Royal Dockyards might be justified if the policy could be settled in good time. The position would therefore require to be reviewed as policy on these issues became more certain. For the present it would be preferable to proceed with the programme suggested by QL. Further discussion should take place on the possibility of deregulating the private rented sector without incurring any additional public expenditure costs. The Cabinet also agreed with the proposals from QL for the 1986-87 Session, with the addition of a Banking Bill. QL should look further at the possibility of awarding a fifth place in 1986-87.

The Cabinet -

1. Approved the legislative programme for 1985-86 proposed in Annex A of C(85) 5, subject to the point about uncertainty mentioned by the Prime Minister in her summing up.
2. Invited the Secretary of State for the Environment, the Secretary of State for Wales, the Secretary of State for Social Services and the Chief Secretary, Treasury to consult further about the public expenditure costs of deregulating the private rented sector.

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3. Approved advance places in the legislative programme for 1986-87 for the Bills proposed in Annex A of C(85) 5 and a Banking Bill, and invited The Queen's Speeches and Future Legislation Committee to consider awarding a fifth place in the 1986-87 legislative programme.

Cabinet Office
28 February 1985

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SECRET

Sir Robert Armstrong (Bound Volume)

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CABINET

LIMITED CIRCULATION ANNEX

CC(85) 7th Conclusions, Minute 4

Thursday 28 February 1985 at 10.00 am

INDUSTRIAL
AFFAIRS

Coal
Industry
Dispute

Previous
Reference:
CC(85) 6th
Conclusions,
Minute 4

THE SECRETARY OF STATE FOR ENERGY said that the efforts the previous week of the General Secretary, Mr Willis, and other leading representatives of the Trades Union Congress (TUC) to find a formula to end the coal dispute had been rebuffed by the National Union of Mineworkers (NUM). Mr Willis had made it clear that he saw no further prospect of worthwhile negotiations. This had been helpful in accelerating the return to work. More than 7,500 miners had given up the strike in the first four days of that week. The percentage of NUM members not on strike was now comfortably over 50 per cent. Members of the National Association of Colliery Overmen, Deputies and Shotfirers were working at most pits outside South Wales. Even in that area, where the strike had so far remained most solid, there had been a rapid increase in the numbers returning to work that week. Over a million tonnes of coal had been moved for the first time during the previous week and it was expected that this high level of movement would be maintained; increasing amounts were being carried both by rail and sea. A meeting was taking place that day of the NUM's National Executive Committee but, despite pressure from several areas, it was unlikely to recommend a return to work. A possible outcome was a renewal of the request for an inquiry by the Advisory, Conciliation and Arbitration Service but it was unlikely that this would bear fruit. As the return to work proceeded, and particularly if there was an organised return to work in particular pits or areas, the National Coal Board (NCB) would be increasingly faced with the question of dismissal of those found guilty of criminal or disciplinary offences. It was for NCB management to exercise judgment case by case but it was unlikely that any serious offenders would remain in employment.

THE PRIME MINISTER, summing up the discussion, said that it was important to continue to dispel any impression that further negotiations might be in prospect. The NCB had made it clear that the document presented to the NUM the previous week by the TUC was the NCB's last word on the main issues of the dispute.

The Cabinet -

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

Cabinet Office

1 March 1985

SECRET