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CC(85) 11th
Conclusions

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CABINET

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

THURSDAY 21 MARCH 1985

at 10.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Lord Hailsham of St Marylebone
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 Nicholas Edwards MP
Secretary of State for Wales

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

The Rt Hon Lord Young of Graffham
Minister without Portfolio

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

Mr John Gummer MP
Paymaster General

SECRETARIAT

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

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PARLIAMENTARY
AFFAIRS

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

Local
Government
Bill - A
"Voice for
London"

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Government would be tabling major amendments to the Local Government Bill for the Report Stage in the House of Commons the following week. They would deal with anti-avoidance measures recently approved by colleagues and the detailed operation of the guillotine would need to take full account of them. It was also highly desirable that there should be a discussion and vote during the Report Stage on a "Voice for London" so that subsequent proceedings in the House of Lords could be against the background of a clear Commons rejection of any such proposition. An amendment on the subject had been defeated in Committee by 23 votes but this might not be regarded as decisive by opponents in the House of Lords. The position was that no relevant amendment had yet been put down for Report; if this remained the position, it would be possible to argue that the absence of any amendment was itself an indication of the lack of strong feeling on the topic, but a decisive vote would be preferable.

The Cabinet -

Took note.

FOREIGN
AFFAIRS

Nigeria

Previous
Reference:
CC(85) 9th
Conclusions,
Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the trial in Lagos of two employees of Bristow Helicopters Limited had been adjourned, probably for as much as a month, following a successful request by their defence counsel for an interim order restraining proceedings and a plea of autrefois acquit. Counsel for the defence were adamant that this move was in the best interests of the defendants; but the conditions of their detention were at least as bad as had been feared and consular access to them continued to be denied. It had not yet been possible for the Foreign and Commonwealth Secretary's personal message to the Nigerian Foreign Minister, Dr Gambari, to be delivered and it might prove necessary to summon the Nigerian Acting High Commissioner in London instead. There was clearly a possibility that the Nigerian Government were establishing a political connection between the case of the two helicopter engineers and the future status of the exiled former Nigerian Minister for Transport, Mr Umaru Dikko. The families of the two British detainees were justifiably concerned over their situation. It would be essential to maintain pressure on the Nigerian authorities on behalf of the detainees. Discussions between Foreign and Commonwealth Office and Home Office officials on Mr Dikko's future were making good progress but the Home Secretary considered that he must give Mr Dikko an opportunity to present further evidence in support of his application for asylum in the United Kingdom. These affairs were making for some tension in relations with Nigeria, but did not so far seem to

be affecting trade: Nigeria continued to be an important market for British exports, which for the month of January 1985 amounted to nearly £100 million on fully secured terms.

Lebanon

Previous Reference: CC(85) 9th Conclusions, Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the security situation in Beirut, and particularly in West Beirut, had gone from bad to worse. There was still no news of the two British kidnap victims, Mr Geoffrey Nash and Mr Brian Levick. The Lebanese Government, and the United Nations Secretary-General had issued appeals for their release, and an approach to the Iranian Government was under consideration. Those members of the British community who were still in West Beirut had been advised to leave immediately, and advice against continued residence in other parts of the Lebanon still stood. There was, however, no immediate prospect of a requirement for assisted evacuation. Steps had been taken further to reduce the staff of the British Embassy in Beirut, from its present complement of 19 to the minimum of 6 which was considered essential to carry out its political and consular role.

Iran/Iraq

Previous Reference: CC(85) 9th Conclusions, Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the recently intensified land battle between Iran and Iraq appeared, once again, to have come to a temporary halt. There continued to be indications of the possible use of chemical weapons by Iraq; and the Iranians, for their part, had carried out attacks on Baghdad with ground-to-ground missiles, at least some of which they were thought to have obtained from Libya. The possibility that Iran might have such missiles at its disposal was disturbing. Iraq had declared Iranian air space to be an exclusion zone and, although local airlines were continuing to maintain flights, all British Airways flights had been cancelled. Less than 100 British subjects remained in Iran and about 1,400 in Iraq; there had so far been no reports of casualties in either community.

Turks and Caicos Islands

Previous Reference: CC(85) 9th Conclusions, Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Chief Minister of the Turks and Caicos Islands, Mr Norman Saunders who was under arrest in Miami on charges of complicity in drug trafficking, had been expected voluntarily to resign his post but had not so far done so. In this he appeared to have been guided by the advice of his defence counsel, who thought that retention of his Ministerial title might be helpful at the bail hearing which was due to take place on 22 March. Mr Saunders might, nevertheless, be disqualified from remaining in office through his failure to attend meetings of the Executive Council. The security situation in the Islands remained quiet, and the states of readiness of the Royal Navy Caribbean guard ship and the Belize reinforcement group

had been relaxed. Reports during the previous week that the Governor of the Turks and Caicos Islands had suggested in a broadcast that Mr Saunders need not resign had been without foundation; the broadcast had been devoted only to an appeal for calm.

The Cabinet -

1. Took note.

Brazil

Previous Reference: CC(83) 30th Conclusions, Minute 2

THE LORD PRESIDENT OF THE COUNCIL said that he had just returned from a visit to Brazil where he had represented Her Majesty's Government at the inauguration of the new democratically elected Administration headed by President Tancredo Neves. He had been struck by the huge size of the country, comparable in area to the United States, and by the size and relative youth of its rapidly increasing population. Brazil's financial situation, and in particular the rate of inflation, was very worrying; but the economic potential of the country was vast. Those United Kingdom firms which were seeking to establish themselves in the Brazilian market realised that they could expect no quick returns but that in the longer term the commercial rewards could be considerable. There was widespread goodwill towards the new President who was regarded as the only politician capable of establishing the new democratic regime successfully. The operation which had prevented him, at the last minute, from attending the inaugural ceremonies had been a serious blow, and the prospects for his recovery were unclear: but the complex ceremonial arrangements had been carried out with impressive skill and efficiency. The Vice President, Senor Jose Sarney, who was temporarily in charge of the Government, was not generally trusted in view of his earlier defection from the military regime. Despite these uncertainties over the new leadership, however, financial circles in Brazil took an optimistic view of the country's economic future, which, given the considerable goodwill which the United Kingdom enjoyed there and the genuine Brazilian desire to improve Anglo-Brazilian relations, held out very significant opportunities for British industry and commerce.

The Cabinet -

2. Took note, with appreciation of the Lord President of the Council's successful conduct of his mission.

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COMMUNITY AFFAIRS

Enlargement of the Community
Previous Reference: CC(85) 9th Conclusions, Minute 3

3. THE FOREIGN AND COMMONWEALTH SECRETARY reported that the Council of Ministers (Foreign Affairs) was now into its fifth day of discussion and negotiation on the enlargement of the Community by the accession of Spain and Portugal. There was reasonable optimism that all the main points remaining in dispute with Spain and Portugal would be settled and that no negotiating issues - apart from the Greek link with integrated Mediterranean programmes - would need to be submitted to the European Council. The results of the latest rounds of the negotiations with Spain and Portugal looked good for the United Kingdom. British objectives seemed likely to be almost entirely achieved. In the fisheries sector Spanish fishing vessels would be completely excluded from the North Sea for a long period. Fishing restrictions in the Irish Box would be maintained, probably for ten years. On agriculture there remained substantial differences between Spain and the Community on fruit and vegetables, particularly because of the French interest, but both on these products and on potential agricultural exports to Spain the United Kingdom's position was met. He had again made quite clear the need to retain the term "British sherry", while making it clear that this was not a product for which there was expected to be significant demand outside the United Kingdom. On social affairs the United Kingdom and Spain had agreed on a text which satisfied British conditions in relation to Gibraltar. Discussion was continuing on how this text should be handled, since the Spanish did not want it to be included in the Treaty of Accession or in the public record. On the transitional financing arrangements for Spain and Portugal the President of the Commission, Monsieur Delors, had so far held firm on the view that this must be handled in line with the Greek model, which would ensure that the Fontainebleau mechanism applied.

Finance
Previous Reference: CC(85) 8th Conclusions, Minute 3

THE FOREIGN AND COMMONWEALTH SECRETARY reported that the United Kingdom had now persuaded the Germans to withdraw their reserve on a text of the revised own resources decision which would make available the United Kingdom's 1,000 million ecu abatement on ratification, even if the general increase in the Community's finances did not take place until 1986. A satisfactory settlement of these issues now seemed likely. It might be reached at the Council of Ministers (Foreign Affairs) which was in progress, but the reaction of all member states was not yet known. In discussion it was pointed out that the United Kingdom would need to remain firmly on the position that the United Kingdom would not complete the ratification of the revised own resources decision until the Community budget providing for the 1,000 million ecu abatement had been adopted.

Environment:
Vehicle
Emissions

Previous
Reference:
CC(85) 9th
Conclusions,
Minute 3

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that in the Council of Ministers (Environment) on 20-21 March agreement had been reached on all the important principles of a Community position on stricter emission standards for cars. The United Kingdom's objectives, in particular that the standards for medium cars should be capable of being achieved without three-way catalytic converters, had been achieved. The dates of application and the precise definition of the standards remained to be resolved in a high-level group. The German fiscal incentives would be reduced to a level which was substantially below the cost of equipping a car with a catalytic converter. In view of the agreement, the issue would not go to the European Council. The Foreign and Commonwealth Secretary's contacts with the President of the Commission, Monsieur Delors, and with the French Foreign Minister, Monsieur Dumas, had borne fruit. The Commissioner responsible for the environment, Mr Clinton Davis, had been more helpful than at the last Council. There had, however, been a need for very hard bargaining in order to achieve this result, which reflected much credit on the Parliamentary Under Secretary of State, Department of the Environment (Mr Waldegrave). In discussion it was said that the agreement was certainly a good deal less bad than had been feared. It was regrettable, however, that the attitude and actions of the Federal German Government had made it necessary to handle this issue in the Community by these means: it was not the best way forward. On the other hand, it was pointed out that there was concern in the United Kingdom about the effect of vehicle emissions and, now that an agreement had been reached, it should be presented positively.

Channel
Fixed
Link

THE SECRETARY OF STATE FOR TRANSPORT said that the guidelines on the conditions which would need to be met by any fixed link across the English Channel between the United Kingdom and France had now been completely agreed with the French. It was intended to publish them on 3 April. In discussion it was pointed out that this was potentially an exciting project, and it was important that the guidelines and any statement should be timed to make a good impact on public opinion.

Dooge
Committee

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Committee on Institutions under the chairmanship of Mr Dooge, which had been established by the European Council at Fontainebleau, had now completed its report for the European Council on 29-30 March. The Prime Minister's representative on the Committee, the Minister of State, Foreign and Commonwealth Office (Mr Rifkind), had held firmly to the United Kingdom's position on controversial issues such as the powers of the European Parliament and had enhanced respect for the arguments which we were advancing. When the report was published it would become clear that the views of other Community Governments were closer to those of the United Kingdom than might appear from the positions taken by some non-Government representatives in the Committee itself.

The Cabinet -

Took note.

INDUSTRIAL
AFFAIRS

Civil
Service
Pay
Negotiations

4. THE SECRETARY OF STATE FOR EMPLOYMENT said that an application was to be made in the courts that day for an injunction restraining the Civil and Public Services Association (CPSA) from calling a strike of their members on 1 April without a ballot. The other Civil Service unions were complying with the law, and holding ballots before calling for any action, but the CPSA appeared determined to pursue a deliberate policy of defying the law. In these circumstances the Government could hardly avoid making use of the powers of the 1984 Act, under which they should have a very strong case. Further consideration would need to be given to the possibility of parallel action in Scotland, given the differences between the English and Scottish legal systems. In some Departments the departmental trade union representatives were asking to meet the Minister in charge of the Department to make representations on the general pay claims. Negotiations with the Civil Service unions on the general pay claims were a matter on which the Treasury took responsibility. Departmental Ministers who met their trade union sides in response to their requests should listen to the views of union branches in their Department, but should avoid any negotiation or substantive discussion of issues.

The Cabinet -

Took note.

ROYAL
AIR
FORCE
BASIC
TRAINER

5. The Cabinet considered a memorandum by the Secretary of State for Defence on the choice of a new Basic Trainer for the Royal Air Force (RAF) (C(85) 7).

THE SECRETARY OF STATE FOR DEFENCE said that there had been intense competition for the replacement of the Jet Provost. The Ministry of Defence's original estimate of the cost of 130 aircraft had been over £190 million; the price quoted by the lowest tenderer was in the event just over £120 million on the same basis. At the closing date of the competition the Short's Tucano had a price advantage of 10 per cent on a firm price basis (ie with the supplier taking all the risks of inflation) over the British Aerospace (BAe) PC9. In addition the running costs of the Tucano were estimated to be £9 million lower over the life of the aircraft than those of the PC9, in terms of net present value. BAe had offered a further price reduction after the closing date for the competition, but the Short's tender remained the lowest. The RAF would prefer the PC9, whose performance was superior to the Tucano's specification; but they accepted that the Tucano's performance fully met the specification, and had no doubts about the use in the aircraft of

the new Garrett engine, which although as yet untried in the Tucano should improve its performance. Leaving aside price and running cost considerations, the choice between the Short's and BAe aircraft was fairly finely balanced: both aircraft would provide broadly comparable amounts of additional employment in areas of high unemployment; the prospect of a rather larger number of export sales of the PC9 was balanced by the relatively higher United Kingdom content in exports of the Tucano. Whichever aircraft was chosen, there was a risk of some adverse impact on trade and foreign relations with the country associated with the losing contender - Switzerland in the case of the PC9 and Brazil in the case of the Tucano. The contract was relatively much more important to Short's than to BAe; annual expenditure during the life of the contract would correspond to about 20 per cent of the Ministry of Defence's current annual spend with Short's, as against about 2 per cent of the Ministry of Defence's current annual spend with BAe. The Government was determined to pursue better value for money by increasing competition for defence contracts, and there would now need to be very strong grounds for rejecting the lowest tender in this competition: he therefore recommended that the RAF should purchase the Short's Tucano.

THE SECRETARY OF STATE FOR SCOTLAND said that there were important arguments in favour of the choice of the BAe PC9. It was the better aircraft; it promised more in the way of additional United Kingdom employment, in areas where unemployment was at a level comparable with, or even higher than, that in Northern Ireland; if the PC9 were chosen there was a real prospect of Pratt and Whitney installing a facility in Scotland to service their light engines used all over Western Europe; the PC9 and the Hawk together made an attractive package for export sales to foreign air forces; and Switzerland was a far better and financially stronger industrial partner than Brazil. There was very great interest in Scotland in the destination of the RAF contract, and there would be great disappointment there if the Tucano were chosen.

In the ensuing discussion, the importance of preserving the integrity of the competition process for defence contracts was generally acknowledged. The following further points were made -

- a. Whichever aircraft was chosen, there were likely to be some Central Government payments of regional assistance towards the establishment of industrial facilities, within the total programmes already agreed. These payments should not affect the decision.
- b. There was a real risk of losing sales to the Swiss armed forces of Land Rovers and the Hawk Trainer. There were, however, signs that the Swiss might not go ahead with the Land Rovers purchase, whatever the decision on the RAF Basic Trainer; and it would not be possible to allow considerations of this kind to determine the decision in the RAF Trainer case consistently with the operation of genuine competition for United Kingdom defence contracts. Nevertheless it would be important to give the Swiss

Government the earliest possible notice of a decision in favour of the Tucano, in order to minimise the damage to prospects for future defence sales and industrial collaboration.

c. Although there were prospects of defence sales to Brazil over the next ten years at least as great as those to Switzerland, the limit on Export Credits Guarantee Department cover for exports to Brazil was already exhausted, and Brazil's ability to repay remained in serious doubt. If substantial export orders were secured for the Tucano, the possibility should be explored that the cash generated in the United Kingdom for Brazil should be applied to the purchase by Brazil of other United Kingdom military equipment (eg the Westland Lynx).

d. The decision needed to be taken into account in the preliminary prospectus for the forthcoming sale of BAE shares, which was to be published at the beginning of April. This being so, there would be advantage in making the announcement as far as possible in advance of the publication of BAE's financial results on 26 March. This pointed to an immediate statement, preferably on 21 March.

e. If the decision were in favour of the Tucano, the Government should nevertheless continue efforts to make sales of defence equipment to Switzerland, whose decisions were likely in the end to be guided by strictly economic and financial considerations. Similarly every effort should be made to attract the Pratt and Whitney engine servicing facility to Scotland.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet recognised the merits of the BAE PC9, and the advantages its purchase would bring. But the competition had been fairly won by the Short's Tucano, and it would not be possible to set aside the results of that competition without severe damage to the Government's policy of seeking through competition to achieve better value for money in defence purchasing. The Cabinet therefore endorsed the Secretary of State for Defence's recommendation that the Short's Tucano should be chosen as the RAF Basic Trainer, and agreed that the decision to this effect should be announced as soon as possible.

The Cabinet -

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

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2. Invited the Secretary of State for Defence to announce the decision to purchase the Short's Tucano without delay.

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Cabinet Office

21 March 1985

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