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CC(85) 13th  
Conclusions

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CABINET

CONCLUSIONS of a Meeting of the Cabinet  
held at 10 Downing Street on  
THURSDAY 18 APRIL 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 Peter Walker MP  
Secretary of State for Energy

The Rt Hon George Younger MP  
Secretary of State for Scotland

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 Michael Jooling MP  
Minister of Agriculture, Fisheries and Food

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

The Rt Hon Lord Young of Graffham  
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 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 Tom King MP  
Secretary of State for Employment

The Rt Hon Peter Rees QC MP  
Chief Secretary, Treasury

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



ALSO PRESENT

The Rt Hon John Wakeham MP  
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong  
Mr D F Williamson (Items 2-4)  
Mr B G Cartledge (Items 2-4)  
Mr C J S Brearley (Item 1)  
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.

Mr Speaker

THE PRIME MINISTER said that the Speaker of the House of Commons had been taken ill with mumps. The Cabinet would wish to send a message of sympathy.

The Cabinet -

1. Instructed the Secretary of the Cabinet to convey to Mr Speaker their sympathy and their best wishes for a speedy recovery.

County  
Council  
Elections

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that local elections for the shire counties would take place on Thursday 2 May. Colleagues would wish to have this in mind in considering the timing of announcements during the next few weeks. He would circulate to colleagues copies of the speech he had made the previous week on the local government finance studies.

House of  
Lords

THE PRIME MINISTER said that the Cabinet would wish to congratulate the Lord President of the Council on the successful outcome of the House of Lords debate on the Second Reading of the Local Government Bill.

THE LORD PRESIDENT OF THE COUNCIL said that nonetheless he envisaged that there would be significant difficulties during the remaining stages of the Bill in the House of Lords, in particular on a "Voice for London" which was likely to be debated in Committee just before the shire county elections. It remained possible that some amendments would be carried against the Government during the passage of the Bill through the House of Lords which would have to be reversed in the House of Commons subsequently.

The Cabinet -

2. Took note.

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FOREIGN  
AFFAIRS

Iran/Iraq

Previous  
Reference:  
CC(85) 11th  
Conclusions,  
Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Secretary General of the United Nations, Mr Perez de Cuellar, was continuing to be diligent in promoting his plan to achieve a settlement of the conflict between Iran and Iraq. His prospects of success had not, however, improved and the most recent reaction from the Iranian regime to his proposals had been very unforthcoming.

Arab/Israel  
Relations

THE FOREIGN AND COMMONWEALTH SECRETARY said that the United States Assistant Secretary of State, Ambassador Richard Murphy, was now following up, in a series of visits in the region, the initiatives of King Hussein of Jordan and President Mubarak of Egypt which were directed towards the opening of direct negotiations between Jordan, Israel and the Palestinians. There appeared to be a general disposition among the parties involved to move forward, although there could as yet be no great optimism about the outcome. Israel's capacity to make a positive contribution to the peace process was being seriously diminished by the deteriorating situation in the Lebanon.

Southern  
Africa

THE FOREIGN AND COMMONWEALTH SECRETARY said that, against the disquieting background of disturbances and shootings in the African townships in South Africa, the South African Government was nevertheless taking definite steps along the road to political change, for example, in its announcement of an end to the ban on racially mixed marriages. The American Secretary of State, Mr George Shultz, had publicly reaffirmed, as the Western response to these developments, the need further to encourage change without violence, to maintain economic links with South Africa and to pursue the political dialogue with the South African Government. This was clearly the right approach. The South African Government had also announced, on 15 April, its decision unilaterally to withdraw its troops from Angola; this was likely to increase the pressure for a withdrawal of Cuban troops as well, but the situation on the Angola/Namibia border was likely to remain uneasy. The South African Government was expected to respond imminently to the proposals put forward by the Multi-Party Conference in Namibia, which enjoyed only minimal black support, for a transitional administration to take over from the South African Administrator General. The South African response was unlikely to be helpful and the British Government, together with the other Western Governments represented in the Contact Group with the exception of France, had urged the South Africans to do nothing which would be in conflict with the provisions of the United Nations Security Council's Resolution No 435.

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Anglo-Soviet  
Relations

THE FOREIGN AND COMMONWEALTH SECRETARY said that an announcement would be made later that day of the expulsion from the United Kingdom of an Assistant Military Attache in the Soviet Embassy and of a senior member of the staff of the London office of the Soviet airline Aeroflot. They would be required to leave the United Kingdom within seven days. A further three members of the Service Attache staff of the Soviet Embassy were being required to leave within four weeks, but these additional expulsions would not be publicised unless the Soviet Government retaliated against the British Embassy in Moscow. Finally, three Soviet Service Attaches who had previously served at the Soviet Embassy in London were being forbidden to return, and the United Kingdom's North Atlantic Treaty Organisation allies would be informed of their permanent exclusion. The purpose of these measures was both to meet the serious concern of the Security Service over the increasingly aggressive conduct and tactics of agents of the Soviet military intelligence service (GRU) and, at the same time, to make it clear to the Soviet Government that the current improvement in the climate of bilateral political relations implied no weakening in the United Kingdom's determination to safeguard its security. The matter was being handled in a manner designed to minimise its political impact.

Foreign and  
Commonwealth  
Secretary's  
Visit to the  
German  
Democratic  
Republic,  
Czechoslo-  
vakia and  
Poland

THE FOREIGN AND COMMONWEALTH SECRETARY said that during his visits, from 8 to 13 April, to the German Democratic Republic, Czechoslovakia and Poland, he had been struck by the unanimity of all three regimes in their support of the Warsaw Pact's current approach to East/West relations and arms control. In all three countries, his interlocutors had echoed the recent statements and proposals, of the General Secretary of the Communist Party of the Soviet Union, Mr Mikhail Gorbachev; and close contact between his three host Governments during the course of his tour had been reflected in the progressive development of the counter-arguments put to him when he had argued the Western position on, for example, the strategic imbalance in Europe. Despite this, the style in which the East Europeans had conducted their dialogue with him had been less wooden than before and they had demonstrated a genuine disposition to recognise the particular contribution made by the United Kingdom to the revival of a wider dialogue between East and West: this clearly owed much to the Prime Minister's visit to Hungary in February 1984 and to Mr Gorbachev's visit to Britain in December 1984. There was evidently a significant fund of goodwill to the United Kingdom in all three countries; in Czechoslovakia and Poland this theme that their peoples and the British people had fought side by side for the ideals expressed in the Helsinki Final Act had made some impact. In Poland, for example, the areas of contact had been different. In Poland, for example, the Polish Prime Minister, General Jaruzelski, had dealt almost perfunctorily with questions of arms control, putting the most emphasis on Poland's internal economic problems and evincing his regime's desire to gain international respectability. It had been clear from the talks, however, that the Polish leadership lacked sufficient insight into the nature of their country's economic difficulties to devise effective solutions to them. The Foreign and Commonwealth Secretary said that he

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had emphasised the connection between Western perceptions of the Polish regime's approach towards human rights issues and the prospects for normalising political and economic relations. He had made contact at high level with the Catholic Church both in Czechoslovakia, with Cardinal Tomasek, and in Poland, with Cardinal Glemp: from both, his initiative had met with a very warm response. In Warsaw he had visited the grave of the late Father Popieluszko at the Church of St Stanislaw Kostka; this had been an exceptionally moving occasion, attended by a huge crowd of ordinary Poles, but not by Polish officials who, although forewarned of his intentions, had demonstrated their disapproval of his contacts with representatives of opposition groups by boycotting a reception at the British Embassy. The Foreign and Commonwealth Secretary said that, in general, his three visits in Eastern Europe had confirmed his view of the importance of seeking further to improve the dialogue between East and West.

The Cabinet -

1. Took note.

Prime Minister's Tour of South East and South Asia; and Visit to Saudi Arabia 3-14 April

THE PRIME MINISTER, in an account of her visits to Malaysia, Singapore, Indonesia, Sri Lanka, India and Saudi Arabia, said that in Malaysia the physical elegance and material well-being of the capital, Kuala Lumpur, testified to Malaysia's status as a newly industrialised rather than developing country. Her principal host, the Malaysian Prime Minister, Dr Mahathir, had proved, as expected, a difficult interlocutor: his speech at the banquet in her honour on 5 April had included what amounted to a diatribe against the Commonwealth. The British High Commission had subsequently told her, however, that had representatives of other members of the European Community been present, they too would have come in for their fair share of discourtesy. The Prime Minister said that her visit had nevertheless served to remove the main bones of contention between the British and Malaysian Governments: she had offered to extend, for 1986-87, the special fee support scheme for Malaysian students in the United Kingdom, and the dispute over air services had been resolved by granting an additional flight to London by Malaysian Airline System (MAS) in return for the Malaysian Government's withdrawal of a discriminatory tax advantage for MAS passengers. The Prime Minister said that Dr Mahathir's equivocal attitude towards the United Kingdom and the Commonwealth was evidently not shared by all his Ministers, by whom, as by the Malaysian people as a whole, she had been most warmly welcomed. The British contribution to the virtual elimination of Communist influence from Malaysia was clearly recognised, as was the British contribution to such projects as the Kedah Dam, which she had visited. Excessive capital expenditure had taken its toll of the Malaysian economy, which had implications for future bilateral trade; but the visit had served to remove outstanding obstacles to the satisfactory development of United Kingdom/Malaysian relations.



THE PRIME MINISTER said that, during her short visit to Singapore, she had been impressed by the bold scale of the public works programme over which Prime Minister Lee Kuan Yew's Government had presided. Lessons applicable to the United Kingdom could perhaps be drawn from these efforts.

THE PRIME MINISTER said that the main conclusion which she had drawn from her entire Asian tour was that Britain should devote much more attention to Indonesia, and particularly to the development of United Kingdom-Indonesian trade. There was great goodwill towards the United Kingdom in this vast country of 160 million people and no post-colonial legacy to complicate relations. The Prime Minister said that she had been impressed by the achievement of President Soeharto in giving national unity to a conglomeration of many islands and by his regime's success in developing the economy, in which agricultural production had been nearly trebled and self-sufficiency in rice achieved. Under the direction of the Minister for Research and Technology, Dr Habibie, Indonesia had also made progress in advanced industrial technology, including the production of helicopters and light aircraft. The Prime Minister said that, despite Indonesia's evident interest in developing trade with the United Kingdom and desire to purchase, for example, the Rapiers ground-to-air missile defence system, British aid to Indonesia at present amounted to only £30 million and no soft loans were available. Given that the Government's first priority must be to generate profitable business which could create jobs in the United Kingdom, consideration should be given to placing a greater emphasis in British aid policy to countries such as Indonesia at the expense, if necessary, of less economically healthy aid recipients.

THE PRIME MINISTER said that she had noted from her visit to Sri Lanka that the United Kingdom appeared to have reaped few political or commercial dividends from its considerable aid effort there. In particular, the grant of £113 million of British aid for the Victoria Dam, which she had commissioned during her visit, had been followed only by a request for further aid for a hydro-electro project and by a disappointing response to representations concerning the 10 per cent limit imposed by the Sri Lankan Government on the share for British merchant ships of westward bound cargoes out of Colombo. The Prime Minister said that President Jayewardene, although well disposed and a man of independent judgment, was burdened by the intractable problem of Tamil separatism and terrorist activity which the elected representatives of the Tamil community refused publicly to condemn. The people of Sri Lanka were notably pro-British: but the country was impoverished and the Tamil problem overshadowed all else.

THE PRIME MINISTER, in an account of her short visit to New Delhi, said that it had become clear from her discussion with the Indian Prime Minister, Mr Rajiv Gandhi, that he had virtually decided not to proceed with the Indian Government's purchase of Westland W-30 helicopters. The Prime Minister had told him that, since the contract had been agreed on the basis of comprehensive evaluation tests, it would be essential for the Indian Government to state clearly, in writing, the respects in which the Westland design had failed to meet the Indian specification.



The Prime Minister said that she had discussed with representatives of Westland's, in New Dehli, the complaints which the Indian side had raised; these were new to them. She had therefore handed over to Mr Gandhi, before her departure, a letter reaffirming her request for a full written statement setting out the Indian allegations of shortcomings in the Westland design; and the Indians had been promised a full operational demonstration of the Westland W-30 helicopter on the route for which it had been designed. The prospects for the successful conclusion of the contract nevertheless remained uncertain.

THE PRIME MINISTER said that, during her short visit to Saudi Arabia on her return journey to the United Kingdom, she had been received with great cordiality and, despite the brevity of her stay, elaborate ceremonial. King Fahd, in a lengthy exposition on the situation in the Middle East, had shown that he appreciated the objectives of Ambassador Murphy's diplomatic activity and that he was also aware of the United Kingdom's ability to exert a helpful influence on United States policy.

The Cabinet -

- 2. Took note.

THE CHIEF SECRETARY, TREASURY reported that at the Ministerial meeting of the Organisation for Economic Co-operation and Development in Paris the United States had stressed their anxiety on protectionist pressures and the importance of a new round of trade negotiations under the General Agreement on Tariffs and Trade. On the trade round the European Community's response had not been as constructive as we might have wished. On mixed credits there had been some progress towards greater transparency. In the general economic discussion there had been a strong emphasis on counter-inflation and on more efficient labour markets. The United States had offered to act as host for a conference on monetary issues but it was not clear whether anything would come of this.

The Cabinet -

- 3. Took note.

3. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that it was possible that a Presidency compromise on agricultural prices would be put forward in the Council of Ministers (Agriculture) on 22-23 April, but it was unlikely that decisions would be reached. As the German position remained crucial, it could well be that no decisions would be taken until after the local election in North Rhine-Westphalia on 12 May. The recent replacement of Monsieur Rocard, who had resigned by

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Organisation for Economic Co-operation and Development

COMMUNITY AFFAIRS --- Agriculture



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Monsieur Nallet as the French Minister of Agriculture was also a factor. The first indication of Monsieur Nallet's own attitude seemed to be helpful.

Terrorism

THE HOME SECRETARY reported that he had reached agreement with the Italian Minister of the Interior on further co-operation against terrorism.

The Cabinet -

Took note.

ECONOMIC  
AFFAIRS

4. THE SECRETARY OF STATE FOR EMPLOYMENT said that figures on earnings and on employment had been published the previous day. The annual rate of growth in earnings was down from 7.5 per cent to 7.25 per cent. This was probably the result of a reduction in overtime working and could at least partly be explained by reductions in police overtime following the end of the miners' strike. On employment the figure for new jobs created during 1984 was 343,000. This was an encouraging figure even though many of the new jobs were part-time or for women; the United Kingdom was one of the few countries in Western Europe with more people at work at the end of the year than at the beginning. He was still concerned about the extent of fraud in the unemployment benefit system and was proposing to mount a major investigation, probably in the Reading and Slough area. There was some evidence that, despite an unemployment level of 8-10 per cent, vacancies there could not be filled. He had also instituted a system of twinning towns in low unemployment areas with those in high unemployment areas whereby vacancies in the former were advertised in the latter. At present, this twinning was restricted to Aylesbury and Newcastle and to Milton Keynes and South Shields.

In discussion the following points were made -

a. The increase in new jobs was even more encouraging when viewed over a longer period. There had been an increase of 613,000 in the period since March 1983. It was unfortunate that the impact of such news was lost in the unemployment figures; every opportunity should be taken to increase the emphasis on employment rather than unemployment and on the positive steps that were being taken, many of which were spelt out in the White Papers published since the Budget.

b. There was an increasing amount of evidence that attitudes towards employment at the lower end of the income range had changed as a result of increasing familiarity with the benefit system. Claimants were now more sophisticated in operating the system and

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in securing the maximum benefit from it, and there was anecdotal evidence that benefit income was often topped up by income earned in the "black economy". There were some 1.3 million long-term unemployed, many of whom could only expect to secure low-paid work. As their benefit income might approach 90-95 per cent of their possible earnings, there was little incentive for them to look for work, even in those areas where it was readily available. It was perhaps significant that half a million of the long-term unemployed were in London and the South East. Experience in the United States of America had shown that changes in the form of benefit after a fixed period of time often had considerable impact on individuals' decisions about employment. There might be some argument for introducing such an approach into the British system, or even going further to provide opportunities for manual employment for those who would otherwise remain unemployable. Extra staff might also be justified to police the benefit system. But such measures were likely to prove much more acceptable against a background of falling unemployment.

c. Whilst changed attitudes to receipt of benefit and to low-paid employment were probably a nationwide phenomenon, it had to be recognised that regional differences in unemployment rates had a significant effect. Jobs which would attract no applicants in the South East, for example, were the subject of considerable competition in Merseyside or the North East. Any measures to increase the attraction of low-paid employment must take account of this factor.

d. One of the reasons for regional variations in employment might be the increased centralisation of investment decision making in London and the South East. But this had been going on for many years and Government policies could and should play only a limited role in encouraging investment in particular locations. The same concentration in the South could be observed in the location of Government Departments, for example, the Ministry of Defence had a very large preponderance of establishments in the South as compared with the North. The Government could have a direct impact by taking firm but difficult decisions in this area.

THE PRIME MINISTER, summing up the discussion, said that it would be useful for Ministers to have a further discussion on the issues which had been raised, in particular the extent to which the operation of the benefit system acted as a disincentive to seek employment. For this, further information would be needed about the structure and distribution of the income of the unemployed as compared with their likely income levels in employment. New proposals to help regional imbalances, such as twinning, should also be explored further. In the meantime it was important to put over the wide range of relevant action which the Government was taking and which had been set out in the sequence of White Papers on employment and other issues published since the Budget. The forthcoming launch of an all-party group on employment might provide further opportunities to explain how the Government was already tackling this issue.



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 the Secretary of State for Employment, to discuss with the Chairman of the Social and Economic Research Council what further work might be done to improve information in this area.
3. Invited the Secretary of State for Employment, in consultation with the Secretary of State for Social Services and the Minister without Portfolio, to prepare material for further discussion, including relevant information on levels of benefit and their relationship to earnings at different levels and in different areas of the country.

The Dollar

THE CHIEF SECRETARY, TREASURY reported that the dollar had recently strengthened slightly against sterling and other currencies, perhaps in anticipation of a figure rather better than had at one time been expected for the growth in American Gross Domestic Product in the first quarter of 1985. Sterling had fallen that morning to \$1.26 but had strengthened in relation to other European currencies.

The Retail Price Index

THE SECRETARY OF STATE FOR EMPLOYMENT said that it was expected that the March figure for the Retail Price Index (RPI) to be published the following day, would show a rise in the index, as a result of a number of factors, including rises in the prices of petrol, fruit and vegetables, and clothing and footwear. A rise in the RPI by the middle of the year had of course been predicted in the Chancellor of the Exchequer's Budget Speech, and that month's rise should be seen and presented in that context. It was too early to predict the timing and extent of the downturn in the trend which had also been predicted by the Chancellor of the Exchequer: much would depend upon the timing of changes in mortgage interest rates.

The Cabinet -

Took note.

Cabinet Office

18 April 1985