

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

CC(85) 28th
Conclusions

COPY NO

84

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 3 OCTOBER 1985
at 10.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Viscount Whitelaw
Lord President of the Council

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

The Rt Hon Tom King MP
Secretary of State for Northern Ireland

The Rt Hon Lord Young of Graffham
Secretary of State for Employment

The Rt Hon Kenneth Clarke QC MP
Paymaster General

The Rt Hon Lord Hailsham of St Marylebone
Lord Chancellor

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade and Industry

The Rt Hon Douglas Hurd 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 John Biffen MP
Lord Privy Seal

The Rt Hon Norman Tebbit MP
Chancellor of the Duchy of Lancaster

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

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment

The Rt Hon John MacGregor MP
Chief Secretary, Treasury

SECRET

ALSO PRESENT

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr D F Williamson (Items 1 and 2)
Mr C L G Mallaby (Items 1 and 2)
Mr J B Unwin (Item 4)
Mr A J Wiggins (Item 4)
Mr A J Langdon (Items 3 and 5)
Mr R Watson (Items 3 and 5)

C O N T E N T S

Item	Subject	Page
1.	FOREIGN AFFAIRS	
	Fire at the Foreign and Commonwealth Office	1
	East-West Relations	1
	Middle East	2
	Uganda	2
	Aircraft Sales to Saudi Arabia	3
	South Africa	3
	International Monetary Matters	4
2.	COMMUNITY AFFAIRS	
	International Trade	5
	Intergovernmental Conference	5
	German Views on Trade and the Development of the Community	5
	Finance	6
	Tax Approximation	6
	Agriculture	6
	Fish	6
	Social Affairs	6
3.	HOME AFFAIRS	
	Inner Cities	7
	Unemployment	7
4.	PUBLIC EXPENDITURE SURVEY	9
5.	THE QUEEN'S SPEECHES ON THE PROROGATION AND OPENING OF PARLIAMENT	11

SECRET

FOREIGN
AFFAIRS

Fire at the
Foreign and
Commonwealth
Office

1. THE FOREIGN AND COMMONWEALTH SECRETARY said that rumours that the Foreign and Commonwealth Office had been destroyed by fire were greatly exaggerated. A fire had broken out early that morning in part of the office which was under reconstruction. The fire had quickly been brought under control, and disruption to the work of the office was insignificant.

East-West
Relations
Previous
Reference:
CC(85) 17th
Conclusions,
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that there was considerable activity in East-West relations. The Soviet Foreign Minister, Mr Eduard Shevardnadze, had held meetings in the previous week with the United States Secretary of State, Mr George Shultz, and then with President Reagan. At his own meeting with Mr Shevardnadze on 23 September, the Foreign and Commonwealth Secretary, referring to the recent expulsions of Soviet intelligence officers, had underlined that the United Kingdom wished for good bilateral relations with the Soviet Union but not at the expense of its national security. Mr Shevardnadze had sought to justify the Russian response. The meeting had therefore been cool at the outset but he and Mr Shevardnadze had gone on to discuss broader East-West issues. It was noteworthy that the Soviet Union was still showing interest in improving relations with the United Kingdom on trade and other matters. Mr Shevardnadze had again shown himself to be fluent, intelligent and charming; but there was no sign that he made a personal contribution to Soviet foreign policy comparable to that of the Party leader, Mr Mikhail Gorbachev.

The arms control proposal put by Mr Shevardnadze to President Reagan seemed from first reports to be skilfully designed both to safeguard existing Soviet positions and interests and to put new pressure on Western positions on arms control and to divide the Western alliance.

Mr Gorbachev was now visiting France. The French Government seemed likely to withstand Soviet attempts to divide the West on arms control. But it would not be easy, as time went by, to maintain Western cohesion. President Reagan's invitation to a meeting on 24 October of the Heads of State or Government of the seven countries participating in the Economic Summits, as a means of consultation before President Reagan's meeting with Mr Gorbachev on 19-20 November, seemed to have been ill-considered: it had not been well received by the French Government or by some of the smaller member states of the North Atlantic Treaty Organisation who were not represented at Economic Summits.

The Cabinet -

- 1. Took note.

Middle East
Previous
Reference
CC(85) 18th
Conclusions,
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Prime Minister's invitation to a joint Jordanian/Palestinian delegation to visit the United Kingdom had been a necessary step in the efforts to maintain forward movement on the peace initiative of King Hussein of Jordan. He had had talks in the previous week with King Hussein and with the United States Secretary of State, Mr George Shultz. The King had welcomed the Prime Minister's invitation to the delegation. Mr Shultz had also done so at this private meeting.

Meanwhile, there had been further incidents of violence and terrorism in the Middle East or relating to its problems. Israel had attacked the headquarters of the Palestinian Liberation Organisation near Tunis on 1 October. The United States reactions to this had been confused. The matter was now being debated in the United Nations Security Council. On 25 September there had been a bomb attack on the British Airways office in Rome. Responsibility had been claimed by the Revolutionary Organisation of Socialist Moslems, which had also claimed responsibility for the murder in 1984 of the British Deputy High Commissioner in Bombay and the British Council representative in Athens. Two British women had been abducted in Beirut on 26 September but the motives were not known and might not necessarily be political. He had spoken to the Foreign Minister of Syria and to representatives of the United Nations about the fate of Mr Alec Collett, the British subject held in Lebanon. There might be a possibility of obtaining information on his whereabouts.

In a brief discussion, it was noted that one of the four officials of the Soviet Embassy in Beirut, who had been kidnapped on 1 October, had been found dead on 2 October. This showed that terrorism was a threat to a very wide range of countries. Realisation of this fact might increase the possibility of international co-operation against terrorism. It might be appropriate for the Foreign and Commonwealth Secretary to send a message of condolence about the murder of the Soviet official in Beirut to the Soviet Foreign Minister.

The Cabinet -

2. Invited the Foreign and Commonwealth Secretary to consider sending a suitable message of condolence to the Soviet Foreign Minister.

Uganda

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Military Council set up after the coup in Uganda the previous July had been unable to establish control over areas in the west and south of the country held by the National Resistance Movement. Talks between the two sides were taking place under the chairmanship of President Moi of Kenya, with a view to the formation of a Government of national unity. It was impossible to say whether these talks would succeed. President Moi had said that if they did succeed, he would like the United Kingdom to help in the process of forming a united army in Uganda. The Foreign and Commonwealth Secretary said that he would be willing to look sympathetically at such a request,

provided that it was clear that the British role would involve neither the establishment of peace nor the keeping of peace. The United Kingdom had an interest in preventing the collapse of Uganda into civil war. It was interesting that British firms were already venturing back into the country.

In a brief discussion it was pointed out that it would be possible to build on the small British military team already in Uganda, as a means of helping a united Government. This would be an opportunity for influence which would be seized by some other country if the United Kingdom did not take it. Such a presence would also be able to help the British community in Uganda if there should be further troubles there in the future.

The Cabinet -

- 3. Took note.

Aircraft
Sales to
Saudi Arabia

THE SECRETARY OF STATE FOR DEFENCE said that there had been a satisfactory conclusion to negotiations with Saudi Arabia on the sale of military aircraft, notably the Tornado aircraft. This was the biggest export deal ever concluded by the United Kingdom in the defence field. The personal role of the Prime Minister in the negotiations had been crucial. As a result of this sale, the United Kingdom would play a central role in Saudi Arabia's defences for 20 years ahead. Saudi Arabia had thus departed in an important way from its reliance on the United States for the supply of arms. The revenue to the United Kingdom from the sale of spares for the aircraft and for support services would greatly increase the value of the deal above the £3-4 billion which had appeared in the media.

South Africa

Previous
Reference:
CC(85) 27th
Conclusions,
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the recent minor changes in the policies of the South African Government, regarding such matters as citizenship, had come too late and were having only a very limited effect in opening the way to a dialogue involving the black population. The decline in the international financial community's confidence in South Africa had forced the Government there to think more seriously about peaceful reform, and discussion was no doubt continuing within the Government

President Reagan had moved to pre-empt pressures in the United States Congress by taking limited steps concerning South Africa. The United States Secretary of State, Mr George Shultz, had assured the Foreign and Commonwealth Secretary that the United States would maintain its opposition to mandatory economic sanctions against South Africa and would veto any resolution to this effect in the United Nations Security Council. It was important to the United Kingdom that the case against mandatory economic sanctions should be as widely understood as possible.

CONFIDENTIAL

It had been interesting that, when he had visited Canada on 27 and 28 September, the Foreign and Commonwealth Secretary had found greater understanding than before of the case for stopping short of mandatory sanctions against South Africa.

A package of measures concerning South Africa had been drawn up by the member states of the European Community, and the United Kingdom after full consideration had gone along with them. Half the measures on the list were positive ones, such as support for black trades unions or development of the Code of Conduct for firms from the European Community which operated in South Africa. Some of the other measures, such as a ban on arms sales and on new collaboration in the civil nuclear field, were already part of British policy. One of the additional measures - the cessation of oil exports to South Africa - would not in practice affect the United Kingdom, since the Government's guidelines for companies operating in the North Sea already precluded the export of crude oil to South Africa. Another measure - the termination of the exchange of military attachés with South Africa - was one which the United Kingdom would not of its own accord have taken at the present time. It might have been taken later as a mark of disapproval, for instance of another South African military raid into a neighbouring state. But Ministers had decided that this was a step which the United Kingdom could take together with other members of the European Community, since the maintenance of solidarity with the Community was important to our international position regarding South Africa, and in particular to our resistance to mandatory economic sanctions. Pressure for mandatory economic sanctions would persist but it should be possible to resist it at the Commonwealth Heads of Government Meeting (CHOGM) on 16-22 October on the basis of present British policies and the Government's repeatedly stated desire to see the early end of apartheid. There might also be discussion at CHOGM of some positive initiative by Commonwealth countries, perhaps concerning a contact role in relation to South Africa.

International
Monetary
Matters

THE CHANCELLOR OF THE EXCHEQUER said that there had been a meeting in New York on 22 September of the "Group of Five", consisting of the Finance Ministers of the United States, United Kingdom, France, the Federal Republic of Germany and Japan. This had been presented in the media as an emergency meeting called at very short notice, but in fact it had been in preparation for six weeks, and for once no information had leaked beforehand. The Group had agreed that the dollar was over-valued and that they would, if necessary take action in the foreign exchange markets to bring down its value. In the ten days since the meeting, the dollar had fallen by 3 per cent against the pound, 7 per cent against the Deutschmark and over 10 per cent against the yen. This was a satisfactory outcome. The United States Administration had been concerned that some of the many protectionist Bills before Congress could secure a two-thirds majority in Congress and thus not be subject to a Presidential veto. The Administration had wanted to take some initiative to show that it was seriously trying to tackle the trade

CONFIDENTIAL

problems of the United States, in order to stem the tide of protectionism. There were some signs that the action to bring down the value of the dollar had reduced the chances that protectionist Bills would gain a two-thirds majority.

The Cabinet -

4. Took note.

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that there had been further discussion in the Council of Ministers (Foreign Affairs) on 1 October of Community trading relations with the United States and of the need to help the United States' authorities to resist protectionist pressure there. This was in line with the action recently agreed by the Finance Ministers of the United States, the United Kingdom, France, the Federal Republic of Germany and Japan, on which the Chancellor of the Exchequer had already reported. It was important also that it should be understood that protectionism could give rise to direct damage to United States interests in Europe.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the next meeting of the Intergovernmental Conference at Ministerial level would be on 21-22 October. In the meantime the preparatory group at official level was examining the proposals by the Federal Republic of Germany and working documents by the Commission.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he had had useful discussion with Ministers of the Federal Republic of Germany on 30 September. In particular, the Federal German Economics Minister, Herr Bangemann, had taken a very satisfactory line on world trade issues, and had shown a considerable degree of support for the United Kingdom's position on the need to complete the Community's internal market. Herr Bangemann had also stressed the importance which the Federal German Government attached to improving the role of the European Parliament in Community decision-taking.

COMMUNITY AFFAIRS

International Trade

Inter-governmental Conference
Previous Reference: CC(85) 27th Conclusions, Minute 3

German Views on Trade and the Development of the Community

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

Finance

THE CHANCELLOR OF THE EXCHEQUER said that the Council of Ministers (Budget) on 17-18 September had established a preliminary draft Community budget for 1986 which respected the budgetary discipline guidelines. This has now been sent to the European Parliament which would no doubt make additions and amendments. Although the present position was as satisfactory as could be expected, there could be difficulties when the budget came back to the Council of Ministers from the European Parliament.

Tax
Approximation

THE CHANCELLOR OF THE EXCHEQUER said that at the informal meeting of Finance and Economic Ministers on 21-22 September, a Vice-President of the Commission, Lord Cockfield, had made a strong statement of the Commission's view on the need for approximation of indirect taxes within the Community. Ministers, stressing the very great political problems, had decided to arrange a discussion of these problems at a later date.

Agriculture

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the informal meeting of Agriculture Ministers on 23 September had discussed the Commission's paper on perspectives for the common agricultural policy. He would be submitting a paper to his colleagues about this.

Fish

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that at the Council of Ministers (Fisheries) on 27 September he had resisted, with the help of the French and the Belgians, an unsatisfactory proposal on the limit for fish for human consumption caught as a by-product of industrial fishing for Norway pout. As a result the decision had been deferred until November.

Social
Affairs

THE SECRETARY OF STATE FOR EMPLOYMENT said that he had attended an informal meeting of Social Affairs Ministers on 24 September. He had found them still interested in a number of proposals which the United Kingdom did not support, such as paternity leave.

The Cabinet -

Took note.

CONFIDENTIAL

HOME
AFFAIRS

Inner Cities
Previous
Reference:
CC(85) 27th
Conclusions,
Minute 4

3. THE SECRETARY OF STATE FOR THE HOME DEPARTMENT said that the recent disturbances in Brixton (South London) and Toxteth (Liverpool) had been on a much smaller scale than in 1981. The lessons learnt then in terms of police equipment and tactics had proved their worth. There would always be criticism of police methods, from both directions, but the new procedures to investigate allegations against the police had helped. The results of the inquiries now in hand, such as that of the Assistant Chief Constable of West Yorkshire into the shooting of a black woman in Brixton, might, however, produce their own problems. He was keeping in touch with ethnic minority community leaders, some of whom were finding it difficult to operate in the face of hostility from Labour controlled councils.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the position in Liverpool provided a good example of what happened when political extremists secured control of a local council with inner city problems. The militants in Liverpool were becoming increasingly isolated (the Bishops in Liverpool had made forthright criticisms of them in a recent article in The Times), but there could be no guarantee that they would lose power at the next Election. The financial position of Liverpool City Council had been alleviated by the agreement of a consortium of mainly Japanese banks to lend the Council £30 million. On the other hand, the National Union of Teachers had taken the Council to court over the issue of redundancy notices. Current estimates were still that the Council would run out of money in December, but there could be no question of changing the Government's strategy. Press coverage of Liverpool had become much more favourable to the Government.

The Cabinet -

1. Took note.

Unemployment

THE SECRETARY OF STATE FOR EMPLOYMENT said that the unemployment figures for September would show a fall in the seasonally adjusted figures of 3,000. This was the second fall in the last four months. The unadjusted figure, however, which would be the one in the headlines, showed an increase of 106,000, because of school-leavers coming on to the register for the first time. Vacancies had increased by 15,000. The effects of the Community Programme were only just starting to work through, and would continue to increase the number of jobs. The Budget changes in National Insurance contributions had not yet come into effect; they too could be expected to increase the number of jobs.

THE PRIME MINISTER said that further attention should be given to publicising the changes in National Insurance contributions so as to make employers aware of the new opportunities which they presented.

The Cabinet -

2. Took note.

CONFIDENTIAL

3. Invited the Ministers concerned to consider whether and how employers could be further reminded of the Budget changes in National Insurance contributions and their implications.

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

PUBLIC
EXPENDITURE
SURVEY

Previous
Reference:
CC(85) 24th
Conclusions,
Minute 4

4. The Cabinet considered a memorandum by the Chief Secretary, Treasury (C(85) 23) reporting progress in the Public Expenditure Survey 1985 (PES).

THE CHIEF SECRETARY, TREASURY said that in accordance with the Cabinet's conclusions at their meeting on 11 July he had engaged in bilateral discussions of expenditure programmes with the Ministers responsible. C(85) 23 reported the position that he had reached. Although progress had been made, and settlements reached on a number of programmes, the overall picture was still one of very substantial overshoots of the planning totals previously agreed by the Cabinet. Moreover the picture shown in Annex A to his paper understated the difficulty of the position, in that he was still some way from achievement of the objective for the totality of nationalised industries' External Financing Limits agreed in July by the Ministerial Sub-Committee on Economic Affairs, whereas success in this objective had been assumed in the presentation of the figures to Cabinet. It had been clear from the outset that excesses over baseline would have to be accommodated on some programmes, in the light of developments on inflation, interest rates and agricultural prices; the inevitable consequence of this was that reductions below baseline would be needed on other major programmes. It might be helpful to set up a small group of Ministers to consider the outstanding issues and report to the Cabinet.

There were also difficulties in the establishment of running cost limits for the Civil Service in 1986-87. Cabinet had previously agreed that the objective should be to keep the aggregate overall increase $\frac{1}{2}$ per cent below the projected rate of inflation, which would imply an increase of 4 per cent between the current financial year and the next. The sum of Departments' bids showed an overall increase of 7 per cent, and although part of this could be attributed to special factors it was essential that every effort be made to reduce it. He looked to those of his colleagues with whom he had not yet reached agreement on running cost limits to do all they could to help him in this. Although there could be some awkwardness in departmental Ministers resisting demands for information about assumptions, particularly about pay, made in determining the running cost limits, the alternative would be to revert to a 3 per cent pay assumption and give up the advantages of the more flexible control of Departments' housekeeping expenditures which the new arrangements would provide.

THE PRIME MINISTER, summing up a brief discussion, said that it was absolutely essential for the Government to live within the public expenditure totals the Cabinet had already agreed. Public expenditure was 9 per cent higher in real terms now than when the Government entered Office in 1979, and 3 per cent higher as a percentage of the Gross Domestic Product (GDP). Tax revenue was over 5 per cent higher as a percentage of GDP. Provided the Government could stick to the planning totals already agreed, there was now a prospect that these adverse trends could be reversed. Hard decisions would need to be taken in the context of the current PES in order to avoid excesses over the baseline which would otherwise increase year by year. On running costs, the Chief Secretary, Treasury's proposals for the establishment of

limits covering both pay and non-pay elements in Departments' domestic expenditures were on balance endorsed. So far as the departmental programmes were concerned, she 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 outstanding issues arising from the 1985 PES. The Group would need to take a very firm line in pressing for restraint on expenditure, and Ministers should be ready to take hard decisions on their future programmes in order to avoid continuing disagreements having to be brought before Cabinet. The greatest care should be taken to avoid stimulating discussion in the press of the issues to be considered by the Group; attempts by Departments (including the Treasury) to pursue these issues in the columns of the press could only damage the public reputation of the Government. It could, however, be made known, in response to inquiries from the media, that the Cabinet had considered a report from the Chief Secretary, Treasury about progress with the 1985 PES, and that a small Group of Ministers had been established, as in previous years, to make recommendations to the Cabinet about outstanding issues.

The Cabinet -

1. Endorsed the arrangements proposed by the Chief Secretary, Treasury for the establishment of limits for each Department's Civil Service running costs.
2. 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 issues arising from the 1985 Public Expenditure Survey.
3. Agreed that the response to inquiries from the media about the setting up of such a Group should be as described by the Prime Minister in her summing up.

CONFIDENTIAL

THE QUEEN'S
SPEECHES ON
THE PROROGA-
TION AND
OPENING OF
PARLIAMENT

5. The Cabinet considered a memorandum by the Lord President of the Council (C(85) 22) 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(85) 22 had been prepared by The Queen's Speeches and Future Legislation Committee (QL) on the basis of suggestions put forward by colleagues. There were, so far as he knew, no outstanding substantive issues: any drafting points should be referred to the Secretary of the Cabinet.

In discussion, the following points were made -

- a. The Prorogation Speech should include a reference to the earthquake in Mexico, and the assistance which the United Kingdom were providing.
- b. Slight amendments to the Opening Speech were necessary to clarify the references to trade negotiations in paragraph 5 and to certain points on Scottish legislation. These had already been notified to the Secretary of the Cabinet.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the draft Speeches attached to C(85) 22, subject to the points made in discussion, to any further drafting points that might be suggested, and to any changes that might be necessitated by last-minute developments. The Secretary of the Cabinet should now prepare revised versions for her to submit to the Queen for approval.

The Cabinet -

1. Subject to the changes agreed in discussion, approved the draft Speeches attached to C(85) 22.
2. 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.

Cabinet Office

3 October 1985

CONFIDENTIAL

CONFIDENTIAL