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CC(85) 31st  
Conclusions

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CABINET

CONCLUSIONS of a Meeting of the Cabinet  
held at 10 Downing Street on  
THURSDAY 7 NOVEMBER 1985  
at 10.30 am

SECRET

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 Nigel Lawson MP  
Chancellor of the Exchequer

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

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 Nicholas Ridley MP  
Secretary of State for Transport

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

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 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 John MacGregor MP  
Chief Secretary, Treasury

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ALSO PRESENT

The Rt Hon John Wakeham MP  
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong	
Mr D F Williamson	(Items 2-4)
Mr C L G Mallaby	(Items 2-4)
Mr J B Unwin	(Item 5)
Mr A J Wiggins	(Item 5)
Mr A J Langdon	(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.

FOREIGN  
AFFAIRS

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South Africa

Previous  
Reference:  
CC(85) 30th  
Conclusions,  
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that violence was continuing in South Africa. The South African Government had extended the powers of the police to detain persons during the emergency and the immunity of the police against public proceedings. Restrictions had been imposed on the activity of the media in the districts where the state of emergency applied. The British Government had been pressed to make representations to South Africa about the restrictions on the media, and the Foreign and Commonwealth Office had issued a statement in fairly mild terms. So far, only Mr Malcolm Fraser of Australia and Lord Barber of the United Kingdom had been formally nominated to the Commonwealth Eminent Persons Group, which had been established by the Commonwealth Heads of Government Meeting in October 1985. The nomination of Lord Barber had been widely welcomed. India appeared likely to nominate the former Foreign Minister, Mr Swaran Singh. It appeared that Mr Trudeau of Canada might be reluctant to be nominated.

Technological  
Co-operation  
in Europe  
(EUREKA)

THE FOREIGN AND COMMONWEALTH SECRETARY said that, accompanied by the Minister for Information Technology (Mr Pattie) he had attended a meeting in Hanover on 5-6 November on technological co-operation in Europe (the EUREKA initiative). The United Kingdom would be hosting a similar meeting in the first half of 1986. He had been impressed by the development of the EUREKA initiative, what had begun as a half-considered proposal by the French Government had become a method of putting the spotlight on the need for more effective exploitation of technology in Europe. The meeting had not been distracted by the question of public funding, since it had been made clear that EUREKA projects would be eligible under existing schemes. A good number of market-led co-operative projects between European companies had been announced at Hanover: British companies were involved in some of these projects, including those on micro-computers and industrial lasers. The meeting of private financiers from the participating countries which the United Kingdom had held earlier had contributed to keeping attention on practical projects of commercial application and on the need for the removal of barriers to the exploitation of the results. The United Kingdom contribution to the work - in particular that of the Chief Scientific Adviser (Sir Robin Nicholson) - had been positive. In discussion the view was endorsed that the development of the EUREKA initiative was going better than might have been expected and that the emphasis was being put on market-led projects and on greater competitiveness. It was also helpful that the United Kingdom would be in the driving seat over the following six months. It seemed that British companies, on which the individual decisions depended, would be getting a fair share of projects. It was also pointed out that, although the emphasis on private rather than public financing was

welcome, it was important that the companies concerned should not build up hopes of extra tax reliefs which could not be provided.

The Cabinet -

Took note.

3. The Cabinet had a brief discussion on Northern Ireland Affairs which is recorded separately.

NORTHERN IRELAND AFFAIRS

Previous Reference: CC(85) 30th Conclusions, Minute 5

4. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Intergovernmental Conference was going forward slowly. There would be a further Ministerial meeting on 11 November. The French President, Monsieur Mitterrand, and the Federal German Chancellor, Herr Kohl, would be discussing the issues at their meeting during the present week. By continuing to examine and question the various proposals without commitment on our part the United Kingdom had forced the French and Germans to indicate the limits of what they could accept in the Conference. The Germans, for example, could not accept the text which the President of the Commission, Monsieur Delors, had now put forward on monetary co-operation. He would be discussing the United Kingdom's position in the Intergovernmental Conference with his colleagues in the Sub-Committee on European Questions of the Defence and Oversea Policy Committee shortly.

COMMUNITY AFFAIRS

Inter-governmental Conference

Previous Reference: CC(85) 30th Conclusions, Minute 3

Trade with the United States: Steel

Previous Reference: CC(85) 30th Conclusions, Minute 3

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that on his recent visit to Washington he had made very clear to the United States Secretary of Commerce, Mr Baldrige, and the United States Trade Representative, Mr Yeutter, the particular importance to the United Kingdom of exports of semi-finished steel products and also of structural steel. The agreement, however, on restraint on Community exports of steel to the United States, which had now been reached at referendum between the United States and the Commission, was not satisfactory, in particular because it did not provide sufficient assurances on semi-finished steel products. The United Kingdom's position was fully reserved. We had immediately brought pressure to bear both on the Commission and on the United States to ensure that the

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necessary assurances were obtained. In the near future no United States company could provide the semi-finished slab steel which the British Steel Corporation planned to export to its United States partner at Tuscaloosa. There were some signs that Mr Yeutter would be ready to reach an agreement which would largely protect the increasing United Kingdom exports to the Tuscaloosa plant. In discussion it was pointed out that the United States should not take for granted British support on trade issues when difficulties of this kind arose.

The Cabinet -

Took note.

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5. The Cabinet considered a memorandum by the Lord President of the Council (C(85) 26) about the 1985 Public Expenditure Survey.

THE LORD PRESIDENT OF THE COUNCIL said that at their meeting on 11 July the Cabinet had decided that the public expenditure planning totals should be £139.1 billion for 1986-87, £143.9 billion for 1987-88, and £148.2 billion for 1988-89, and invited the Chief Secretary, Treasury to pursue bilateral discussions of expenditure programmes with the Ministers responsible. On 3 October the Chief Secretary, Treasury reported progress. The Prime Minister had invited him to be the Chairman of the Ministerial Group on Public Expenditure (MISC 120) to consider and make recommendations on those issues which had not been resolved. The Group's recommendations were set out in C(85) 26, which also gave brief descriptions of the policy implications of the agreements reached bilaterally between the Chief Secretary, Treasury and the spending Ministers. He wished to express his thanks to the other members of the Group and to the Chief Secretary, Treasury and spending Ministers for their hard work and co-operation.

MISC 120 had reached agreement with the spending Ministers about the recommendations to be put to the Cabinet on all the outstanding programmes except housing. Following extensive discussion in the Group, the Chief Secretary, Treasury and the Secretary of State for the Environment had been able to reach agreement on the recommendations for the housing programme; MISC 120 endorsed that agreement, which had been reached too late to be incorporated in his memorandum. The recommendations on housing provided for net additions to the total programme of £197 million, £177 million and £157 million respectively for the three Survey years. The Secretary of State for the Environment would be able to find room, within these net changes, for a substantial increase in expenditure on renovation of public sector housing; the Secretary of State would make every effort to ensure that the provision made for renovation was actually spent by local authorities in the way the Government intended. MISC 120 recognised that the proposed settlements on the individual programmes would require the Ministers concerned to take difficult political decisions; this was particularly the case with the programmes which were the responsibility of the Secretary of State for Social Services. In making the difficult, but necessary, judgments about priorities, they had been concerned that the established arrangements for the apportionment of public provision to the different parts of the United Kingdom represented a serious constraint on their work; they therefore recommended that a new assessment of need for such provision should be undertaken covering all parts of the country, to serve as a basis for decision making in future public expenditure rounds.

THE CHIEF SECRETARY, TREASURY said that thanks to the efforts of the Group it had been possible to present to the Cabinet a broadly successful outcome to the 1985 Public Expenditure Survey. The recommendations for the individual programmes produced a total outcome not far from the previously agreed public expenditure planning totals; and where increases above baseline were proposed - for example on health, law and order, housing renovation, roads, science and the aid

programme - this reflected an appropriate assessment of social and political priorities. On the basis of the figures presented in C(85) 26, together with the subsequently agreed proposals on the housing programme and the changes to the social security figures resulting from the latest projections of the number of claimants and the take-up of benefits, there were gaps to be bridged of about £½ billion, £¾ billion, and £¾ billion respectively for the three Survey years. It was essential that there should be no change in the published public expenditure planning totals; but the latest estimates suggested that receipts from special sales of assets were likely to amount to some £¾ billion in each of the three Survey years, and this would reduce the gap to £¼ billion in each of the first two years (and eliminate it completely in the third year). The remaining gap could be covered by adjustments to the Reserve, which would then stand at £4½ billion, £6¼ billion and £8 billion respectively for the three Survey years. Such figures were higher than had been shown in previous years, and it was appropriate to leave a larger margin for the most distant years when possible claims for additional public expenditure could less clearly be foreseen. For example, there were bound to be substantial claims for additional local authority current expenditure, where the figures shown for the programme were constant in cash terms for the three years, while the social security figure for 1988-89 was provisional pending the conclusions of the current Review. For the current year, it appeared that the Reserve of £5 billion would be fully spent, in substantial measure because of additional demands following the end of the miners' strike; it was very important that the planning total should not be exceeded, and every effort should be made to avoid further claims. For the future years the provision for the Reserve was realistic rather than generous, and there would remain a constant need for the tightest control over claims on the Reserve.

THE CHANCELLOR OF THE EXCHEQUER said that the results of the 1985 Public Expenditure Survey would be published as part of his Autumn Statement on 12 November. This Statement would include the latest economic forecast for 1986, of which he gave the Cabinet a summary account. It would not, however, include any figure for the "implied fiscal adjustment" in his 1986 Spring Budget; the margins of error, for example through the effect of exchange rate changes on oil revenues, were such that no meaningful figure could be produced. So far as public expenditure was concerned, figures for each programme would be given for each of the three Survey years rather than, as hitherto, for the year immediately ahead only. It was important that departmental Ministers should be ready at the same time to present the results of the Survey as they affected their own programmes in a positive way; and it would be up to Departments rather than the Treasury to answer any detailed questions about any of the programmes.

In discussion the following main points were made -

- a. If the impact of asset sales and nationalised industries' financing were excluded from the figures, the resulting aggregate for 1979-80 was £2½ billion below the planning total. For the current year, the comparable aggregate would be £1.2 billion above

the planning total, and by the end of the Survey period, it was projected to be £4 billion above the planning total. Although the privatisation programme could be expected to continue at a high level, for which the Government should take credit, receipts from asset sales could not be maintained at present levels indefinitely, with the implication that either programmes would eventually have to be cut back or taxation levels increased.

b. Apart from the contribution privatisation made to the better functioning of the market economy, it was reasonable for the Government to realise some of its assets in order to create new houses, hospitals, roads, etc. It was also reasonable for the Government to take credit for the improvement achieved in nationalised industries' finances. On the basis of the results of the 1985 Survey, the public expenditure planning total gross of receipts from asset sales would be broadly constant in real terms from 1985-86 to 1988-89, and steadily declining as a proportion of the Gross Domestic Product.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet thanked the Lord President of the Council and the other members of MISC 120 most warmly for their work. It had been an outstanding achievement that every programme had been settled without reference to the Cabinet. The Cabinet approved all the recommendations for the individual programmes, both those agreed bilaterally with the Chief Secretary, Treasury and those agreed in MISC 120, as set out in Annexes B to L of C(85) 26; they also endorsed the agreement reached by the Chief Secretary, Treasury with the Secretary of State for the Environment on the housing programme. The resulting figures for 1986-87, 1987-88 and 1988-89 would appear in the Chancellor of the Exchequer's Autumn Statement, to be published on Tuesday 12 November; more detailed figures for each programme in each year would appear in the 1986 Public Expenditure White Paper. At the same time the Cabinet confirmed the Government's adherence to the agreed public expenditure planning totals of £139.1 billion for 1986-87 and £143.9 billion for 1987-88, and agreed that the total for 1988-89 should be set at £148.7 billion, as noted in paragraph 4 of C(85) 26. Care should be taken to co-ordinate the presentation of the Government's decisions in the most positive way, taking credit for the additions above baseline on the programmes to which the Government attached the highest priority, but at the same time emphasising that firm control of public expenditure had been maintained. Each Department should prepare a presentation of its own programme consistently with this general approach. So far as the current year was concerned, it was essential that the Reserve should not be overspent; all Ministers should make every effort to restrain expenditure on their programmes, to ensure that this objective was achieved. The Cabinet were not ready to reach a decision on the proposal for a fresh assessment of the need for public provision in each part of the United Kingdom. Questions from the media about the outcome of the Cabinet's discussion would be answered by saying that the Cabinet had concluded its annual review of public expenditure, the results of which would be published in the Autumn Statement on 12 November, and had



confirmed that expenditure would be held to the previously published totals for 1986-87 and 1987-88 and would be broadly the same in real terms in 1988-89.

The Cabinet -

1. Endorsed the Prime Minister's expression of thanks to the Lord President of the Council and the other members of MISC 120.
2. Approved the recommendations in Annexes B to L of C(85) 26.
3. Endorsed the agreement on the housing programme reported by the Lord President of the Council.
4. Agreed that the response to questions from the media, and the public presentation of the Cabinet's decisions, should be as described by the Prime Minister in her summing up.

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7 November 1985

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LIMITED CIRCULATION ANNEX

CC(85) 31st Conclusions, Minute 3

Thursday 7 November 1985 at 10.30 am

NORTHERN  
IRELAND  
AFFAIRS

Previous  
Reference:  
CC(85) 30th  
Conclusions,  
Minute 5

THE FOREIGN AND COMMONWEALTH SECRETARY said that he and the Secretary of State for Northern Ireland had on the previous day had a useful meeting with the Deputy Prime Minister of the Irish Republic, Mr Dick Spring, and the Irish Foreign Minister, Mr Peter Barry. This meeting had gone reasonably well. Both Governments were moving towards final decisions on an Anglo-Irish Agreement. The Irish Government were expected to take their decision on the following Tuesday, 12 November. During the meeting on the previous day the Secretary of State for Northern Ireland had left the two Ministers from the Irish Republic in no doubt of the importance attached by the British Government to improved co-operation against terrorism. The Secretary of State for Northern Ireland had obtained assurances that the Irish Government would take seriously their obligations in this regard under Article 9(a) of the draft Agreement and had secured a strengthening of the passage on this subject in the draft communiqué for an Anglo-Irish Summit. The Foreign and Commonwealth Secretary and the Secretary of State for Northern Ireland had pressed the Ministers from the Irish Republic on the question of early Irish signature of the European Convention on the Suppression of Terrorism, as distinct from a mere announcement of their intention to accede to the Convention. The Ministers from the Irish Republic had said that there could be constitutional difficulties for them in signing the Convention some time before their Government would be in a position to ratify it, but that they would consider the matter. In discussion of the proposed Intergovernmental Conference and its Secretariat, there had been agreement that these bodies would be located in Belfast or certainly in Northern Ireland. But it had been possible to bring home more clearly than before to the Ministers from the Irish Republic that there were practical difficulties and important security difficulties and that it might not be right for the first meeting of the Intergovernmental Conference to take place in Belfast or for the Secretariat to be established there very soon after an Agreement entered into force.

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that, in the meeting on the previous day, he had made clear to the Ministers from the Irish Republic that he would continue to press, after conclusion of an Agreement, for increasing co-operation against terrorism. The Irish side were sensitive to anything which seemed to suggest that improvement in cross-border security required action only on their side. This

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difficulty could be circumvented by referring to the improvement of security co-operation. The security dangers in holding the first meeting of the Intergovernmental Conference in Belfast or in the early establishment of the Secretariat there had been made very clear to the Irish Ministers. The Irish side continued to try to enhance the status of the Secretariat. It was symptomatic that the London correspondent of the Irish Times, in an interview on the British Broadcasting Corporation's Radio 4 that morning, had said that the new Ministerial body, ie the Intergovernmental Conference, and the Secretariat would "oversee" Northern Ireland policy.

In discussion the following points were made -

- a. There would be a difficult period with the media until the Agreement was concluded. Once that had happened, the Government could point to the terms of the Agreement in order to correct misunderstanding and misrepresentation.
- b. Meanwhile, Ministers would continue to make clear, in the face of rumour and misrepresentation, that there would be no change regarding responsibility for decisions in Northern Ireland. The Prime Minister's remark, made recently in the United States, that decisions in Northern Ireland would be taken by the United Kingdom and decisions in the South by the Republic could be repeated.
- c. Total misrepresentation of the proposed Agreement, as in the remark on radio by the London correspondent of the Irish Times about the Intergovernmental Conference and the Secretariat overseeing policy in Northern Ireland, was most unwelcome. It was for consideration whether private representations should be made to the Irish Embassy.

The Cabinet -

Confirmed its invitation to the Prime Minister, the Foreign and Commonwealth Secretary and the Secretary of State for Northern Ireland to report to the Cabinet, before conclusion of the Agreement, on further changes in the texts secured in the final stage of negotiation with the Irish Government.

Cabinet Office

7 November 1985