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CC(86) 201  
Conclusions

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CABINET

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

THURSDAY 16 JANUARY 1986

at 9.30 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 Lord Hailsham of St Marylebone  
Lord Chancellor

The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign and  
Commonwealth Affairs

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

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer

The Rt Hon Douglas Hurd 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 Peter Walker MP  
Secretary of State for Energy

The Rt Hon George Younger 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 Fowler MP  
Secretary of State for Social Services

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

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 Lord Young of Graffham  
Secretary of State for Employment

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

The Rt Hon Kenneth Clarke MP QC  
Paymaster General

The Rt Hon John MacGregor MP  
Chief Secretary, Treasury

The Rt Hon Malcolm Rifkind MP  
Secretary of State for Scotland

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ALSO PRESENT

The Rt Hon John Wakeham MP  
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong  
Mr D F Williamson (Items 3 and 4)  
Mr C L G Mallaby (Items 3-5)  
Mr J B Unwin (Item 6)  
Mr A J Langdon (Items 1 and 2)  
Mr R Watson (Items 1 and 2)  
Mr D R C Christopher (Item 6)

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MEMBERSHIP OF  
THE CABINET

1. The Cabinet welcomed the Secretary of State for Scotland as a new member, following the recent Ministerial changes.

PARLIAMENTARY  
AFFAIRS

2. The Cabinet were informed of the business to be taken in the House of Commons in the following week and that the date for the Budget, to be announced that day, would be 18 March.

Rate Support  
Grant Debates

Previous  
Reference:  
CC(85) 26th  
Conclusions,  
Minute 1

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he and his Ministerial colleagues in the Department of the Environment would be making vigorous efforts to maintain support for the Government when the motions on the Rate Support Grant Reports were debated on 20 January. Numerous meetings had been arranged with members of Parliament and delegations from local authorities, mainly from the shire counties. It was inherent in the present local government arrangements that the high resource areas, which included many shire counties, would especially stand to suffer when the rate of central Government grant was reduced. The latest settlement, however, had such severe effects on areas such as Hertford and Surrey that he doubted whether another such settlement in 12 months' time would be supportable.

In discussion it was pointed out that the differing effects on local authorities were produced by a combination of the level of aggregate Exchequer grant and the methodology for distribution. Under the present arrangements there were extraordinary variations between the treatment of different authorities, and many authorities under Conservative leadership that had loyally responded to the Government's calls for control of spending were deeply depressed to find that the grant system seemed to operate so as to punish rather than reward them.

THE PRIME MINISTER, summing up the brief discussion, said that what underlay the problem was still the urge of local authorities to spend at high levels. The reduced spending to which rate-capped authorities were now accommodating themselves showed what could be achieved. The Government had been faced year after year with the acutely difficult problem of a distribution formula which operated to the disadvantage of its supporters. It was essential that more defensible results should be achieved in the next year.

The Teachers' Dispute  
Previous Reference  
CC(85) 29th  
Conclusions,  
Minute 1

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE reported that the National Union of Teachers had withdrawn from talks being organised by the Advisory Conciliation and Arbitration Service. It was noted that the Ministerial Group on Teachers' Pay had the dispute under continuing review. It was suggested that the dispute was an issue of such importance that it should be brought to Cabinet at an appropriate time.

THE PRIME MINISTER, summing up a brief discussion, said that the teachers' pay disputes in England and Wales and Scotland were due to be discussed shortly at a meeting of Ministers under her chairmanship. She would arrange for the subject to be put on the agenda for discussion by the Cabinet thereafter.

The Cabinet -

Took note.

FOREIGN AFFAIRS  
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People's Democratic Republic of South Yemen

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the outcome of the power struggle taking place in the People's Republic of South Yemen could not yet be predicted. The protagonists in the fighting were two factions within the left wing regime in that country; the present rulers were less pro-Soviet than their opponents. The Soviet Ambassador was hoping to mediate between them. Reports of the execution of four members of the regime had not been confirmed. The President, Mr Ali Nasser, appeared to be alive and still in place. There were a number of Soviet and French citizens in Aden and about 100 United Kingdom citizens and 150 Commonwealth citizens for whose interests the British Embassy was responsible. The British Embassy had been damaged and communications with it were difficult. Food and especially water were in short supply at the Embassy. There had been no reports of casualties to United Kingdom citizens. The Embassy were in touch with the French and Soviet Embassies, inter alia on the question of possible evacuation of foreigners from the country. Evacuation could not be undertaken against physical opposition. As to means of evacuation, the airport at Aden was damaged and the road to North Yemen was very difficult. Evacuation by sea would probably be a more practical possibility, provided that helicopters from Her Majesty's ships could be flown to the shore at Aden. A Hercules aircraft of the Royal Air Force was six hours away at Akrotiri, and another could be made available from Lyneham. A Royal Naval patrol would reach the Aden area that evening. HMV Britannia was about six hours' sailing time away. French and Soviet vessels were in reach. The resources for evacuation were therefore available but the questions of the necessity and the timing of any evacuation remained to be answered. It was a worrying situation.

In a brief discussion, it was agreed that it was preferable to keep HMV Britannia in reach of Aden. Although she had no helicopters, it was possible that a vessel of this nature would be more acceptable for an evacuation operation than a warship. Moreover, her departure from the area at a time when she might be needed for evacuation might well be

criticised. The question of the modalities of an evacuation required further consideration in the light of what would be practicable.

Middle East  
Previous  
Reference:  
CC(85) 33rd  
Conclusions,  
Minute 3

THE FOREIGN AND COMMONWEALTH SECRETARY said that his visit to Oman, Saudi Arabia and Kuwait from 11 to 15 January had been useful. On the Arab/Israeli problem, he had encountered the familiar Arab tendency to ask others to try to do something to achieve progress. He had reassured Ministers in the three countries that the resignation of Mr Heseltine as Secretary of State for Defence would not affect the United Kingdom's firm adherence to the agreements to supply Tornado aircraft and Hawk trainer aircraft. He had found a very friendly attitude to the United Kingdom and his impression was that British exports were doing reasonably well in these large and difficult markets.

THE FOREIGN AND COMMONWEALTH SECRETARY had found that all three countries shared the British desire to prevent or control international terrorism. They had themselves suffered from it. But they had felt constrained to give support to Colonel Qadhafi, the President of Libya, in the face of a perceived threat of American retaliation against Libya after the terrorist incidents on 27 December 1985 at Rome and Vienna airports. They did not support Colonel Qadhafi because they liked him or feared him, but because of their commitment to solidarity among Arab countries. It was ironic that the Arab countries were unable to unite on the question of the Arab/Israel dispute but could unite in support of Colonel Qadhafi's unacceptable behaviour.

In discussion of the price of oil, the Foreign Minister of Saudi Arabia, Prince Saud, and the Oil Minister of Kuwait, Shaikh Ali Khalifa, had been pessimistic about the prospects. The latter had predicted a drastic fall in oil prices unless both the members of the Organisation of Petroleum Exporting Countries (OPEC) and the other oil producers curtailed their production. The Foreign and Commonwealth Secretary had explained British policy: his interlocutors had understood the policy but had not been convinced that it was right. He had not been pressed to agree to an institutionalised dialogue between OPEC and other oil producing countries. He had, however, agreed that informal contacts should be maintained between the Saudi Arabian Minister for Petroleum and Mineral Resources, Shaikh Yamani, and the Department of Energy.

In a short discussion, it was noted that a misleading report about the Government's contacts with Shaikh Yamani had appeared in the press. It would be important to conduct any such contacts discreetly, if they were to be of value.

Southern  
Africa

Previous  
Reference:  
CC(86) 1st  
Conclusions,  
Minute 3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the restrictions imposed by South Africa along the border with Lesotho were creating increasing difficulties for Lesotho. Shortages were developing and there were signs of political instability and mounting tension. The Government had put pressure on South Africa to proceed by diplomatic means rather than border restrictions. The South African Government's reply had been that they intended to maintain the restrictions until she had seen the results of a meeting of a new Security Committee which had been established between the two countries. Meanwhile, the level of violence in South Africa had somewhat diminished; but the prospects remained uncertain.

Uganda

Previous  
Reference:  
CC(86) 1st  
Conclusions,  
Minute 3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the ceasefire in Uganda between the Government forces and the National Resistance Movement was still holding, but there had been very little headway in the implementation of the peace agreement reached on 17 December 1985. Kenya, and President Moi personally, appeared to be disappointed that the United Kingdom would not participate in a force to monitor the implementation of the agreement. They had never been given grounds to expect such participation. The United Kingdom had offered a team of military advisers and some training for a new national army, if it could be established; and in addition was now offering a contribution in cash or material towards logistic back-up for a monitoring operation and diplomatic support in seeking other contributions of this kind.

Soviet  
Proposals on  
Arms Control

THE FOREIGN AND COMMONWEALTH SECRETARY said that the General Secretary of the Communist Party of the Soviet Union, Mr Mikhail Gorbachev, had launched a package of proposals on arms control which largely represented existing Soviet positions, including insistence on an end to the United States Strategic Defence Initiative. But the package included some elements which at least were presentationally new, such as the elimination of all nuclear weapons by 1999 and the extension by three months after the end of 1985 of the unilateral Soviet moratorium on nuclear weapons tests. Mr Gorbachev's proposals were likely to have considerable public impact and the Government should not appear to dismiss them out of hand. He would be proposing as soon as possible a draft reply to the message of 14 January from Mr Gorbachev to the Prime Minister, in which the Soviet proposals had been set out.

The Cabinet -

Took note.

COMMUNITY  
AFFAIRS

Community  
Budget for  
1986

Previous  
Reference:  
CC(85) 37th  
Conclusions,  
Minute 3

4. THE CHANCELLOR OF THE EXCHEQUER said that the President of the European Parliament had signed a Community budget for 1986 which was in the view of the United Kingdom and other member states illegal because it contained figures higher than those agreed by the Council of Ministers. The Commission was expected to implement it. This gave rise to three questions. First, it had been necessary for the Council of Ministers to decide whether it should launch an action against the European Parliament - and possibly also against the Commission - in the European Court of Justice. The Council of Ministers had now agreed to start an action against the European Parliament. Secondly, individual member states should decide whether to buttress the Council's action by launching actions in the European Court of Justice on their own account. Thirdly, member states had to decide whether in the meantime they would pay a full contribution or a lower figure. Legal advice had been taken and there had also been consultations with other member states, including the Netherlands which now held the Presidency. He considered that the United Kingdom should launch an action in the European Court of Justice against the European Parliament in order to buttress the Council's action. The Federal Republic of Germany, France, the Netherlands and possibly Luxembourg might take similar action. The advice he had received was that, in order to maximise the chances of success in the Court action and to avoid potential interest payments, the United Kingdom should contribute at the full rate in the interim: this would need the approval of the United Kingdom Parliament. The decision of the President of the European Parliament to sign the Community's 1986 budget without the agreement of the Council of Ministers was a major issue, and the Government's prime objective must be to succeed in challenging it in the European Court of Justice. If the European Parliament could simply add to the Council's agreed figures in this way, there would be a serious loss of control by member states.

The Cabinet -

Took note.

NORTHERN  
IRELAND

Previous  
Reference:  
CC(86) 1st  
Conclusions,  
Minute 5

5. THE SECRETARY OF STATE FOR NORTHERN IRELAND said that the unionist parties in Northern Ireland had arranged for "dummy" candidates, all bearing the name of Peter Barry, to stand in the four constituencies where unionists would otherwise have been unopposed in the by-elections due to take place on 23 January. Some rather worrying opinion polls were being published. One suggested that a significant majority in Northern Ireland thought that the role accorded to the Irish Government under the Anglo-Irish Agreement was more than consultative. A large number of Roman Catholics and a majority of Protestants appeared to think that the Agreement would lead to an increase in violence in Northern Ireland. He would seek in his public statements to put the findings of the polls into proper perspective. Meanwhile, in the Anglo-Irish Intergovernmental Conference, the Irish Government had been pressing hard for changes in Northern Ireland which were sought by the Social Democratic and Labour Party (SDLP). There had been leaks about

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the work of the Intergovernmental Conference and some public claims that points favouring the SDLP had been agreed when in fact they had not. The purpose of the Irish Government was obviously to boost the chances of the SDLP in the forthcoming by-elections. It was to be hoped that these Irish tactics would cease after the by-elections, since they complicated the work of the Intergovernmental Conference.

It was possible that moderate people in Northern Ireland were beginning to realise that unionists could not say "No" to everything. Such tendencies were appearing in the commercial community and in the Ulster Farmers Union. But unionists were very divided on the course they should take after the by-elections. After being re-elected Members of Parliament from the Democratic Unionist Party might leave the House of Commons again once they saw that the Government would not alter or withdraw the Anglo-Irish Agreement. But Members of Parliament from the Official Unionist Party would probably wish to stay in the House of Commons. The vacuum which could appear in unionist policy could be dangerous.

The Cabinet -

Took note.

CHANNEL FIXED  
LINK

6. The Cabinet considered a note by the Secretary of State for Transport (C(86) 3) about the Channel Fixed Link. Their discussion and the conclusions reached are recorded separately.

Previous  
Reference:  
CC(85) 35th  
Conclusions,  
Minute 1

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16 January 1986

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LIMITED CIRCULATION ANNEX

CC(86) 2nd Conclusions, Minute 6

Thursday 16 January 1986 at 9.30 am

CHANNEL FIXED  
LINK

The Cabinet considered a note by the Secretary of State for Transport on the Channel Fixed Link (C(86) 3).

Previous  
Reference:  
CC(85) 35th  
Conclusions,  
Minute 1

THE SECRETARY OF STATE FOR TRANSPORT said that since the last meeting of the Economic Affairs Sub-Committee of the Ministerial Steering Committee on Economic Strategy he had explored the possibilities of collaboration between the various promoters and had concluded that such collaboration, at least until a clear choice had been made, was not possible. He had also had further talks with the French Government to see if he could persuade them to change their position. Channel Expressway (CE) had reviewed their cost estimates and by increasing their contingency provision from 25 per cent to 50 per cent of total costs had brought their estimates closer to those of the assessors. They had also proposed boring a pilot tunnel from the French side to test the feasibility of 12 metre tunnels in the strata on that side of the Channel. The French maintained their preference for EuroRoute but would be prepared to accept the Channel Tunnel Group (CTG) as a fallback. The British Government had rejected EuroRoute as being unfinanceable and posing severe environmental difficulties, and had been pressing for a bored tunnel drive-through scheme. On transport grounds he continued to prefer CE which he believed was financeable and would be profitable for the promoter. He accepted, however, that it was unrealistic to insist on CE in the light of French opposition. He therefore wished to alter the recommendation he had put to Cabinet in his note in favour of a decision to allow the financial markets to decide between CTG and CE. This would take the pressure off the Government for a decision, keep open the drive-through option, and go some way to meet public concern that the Government was being rushed into a decision by the French. The Government's financial consultants on this matter, Schroder Wagg, regarded it as feasible to put together within two to three months a prospectus on both schemes which could then be put to potential investors as a basis for a judgment. In the meantime at the meeting in Lille on 20 January the Prime Minister and President Mitterrand would be able to announce that the two Governments had definitely decided to proceed with a bored tunnel link but would leave it to the financial markets to decide between the two possible options.

Negotiations on two issues continued: with the French the management, procurement arrangements and revenue sharing between British Rail (BR) and Société Nationale des Chemins de Fer (SNCF); and with the promoters (particularly CTG) the minimum acceptable period of exclusivity for the Concession Agreement (he was proposing a period until 2020) together with conditional provisions for the further development of the link to provide or improve drive-through capacity. Continued confidentiality would assist these negotiations.

In discussion the following points were made -

- a. There were difficulties involved in asking the financial markets to decide the choice of scheme. What the mechanics of such consultation might be was obscure. The result might be marginal and not necessarily in accord with public preference. It would be very difficult - if indeed it was possible - to introduce a hybrid Bill in Parliament covering both options including related provisions for land acquisition and other factors specific to each scheme. This would result in prolonged and intensive lobbying by the interested parties, and the Government would still be left at the end of the day to make a choice, while giving an undesirable impression of indecisiveness in the meantime. Public opinion would see this as a choice to be made by Government.
- b. To fail to make a decision now would lead to postponement of the construction of the link and to a major row with the French, with implications for the United Kingdom's wider interests. A commitment had been given to an announcement of the choice within a specific timetable and it should be adhered to. Anything else would give an impression of indecision.
- c. While the CTG scheme might have some risks of industrial action because of its reliance on a single mode of transport, a drive-through tunnel dependent on the maintenance of ventilation and other services would be no less immune from industrial action. The risks with the CTG scheme would be diminished if it could be arranged that BR and SNCF were responsible only for trains and not for vehicle shuttle traffic through the tunnel, and that there was only one union for those employed on the shuttle, with which CTG could enter into agreements designed to minimise the risks of disruption as a result of industrial action.
- d. Although all the proposed schemes were vulnerable to terrorism and sabotage, CTG, by operating trains which did not stop in the tunnel, was potentially the safest.
- e. Although public preference currently appeared to favour a drive-through scheme, the fundamental uncertainties of CE's proposal - its costs, and ventilation and tunnelling problems - raised serious doubts about its financeability. The likelihood of delays and queuing on entry, and the strain of a 30-mile drive through the tunnel, might well also reduce its attractiveness to travellers as compared with the rail shuttle, whose carrying

capacity (a maximum 4,000 cars an hour) was expected to be substantially greater. There was also a possible conflict of interests given Mr Sherwood's ownership of British Ferries. Of the two schemes CE, because of its uncertainties, was the most likely to involve future Governments in public guarantees of expenditure.

THE PRIME MINISTER, summing up the discussion, said that the choice before the Cabinet was whether to accept the proposal from the CTG now or to postpone a decision. The effect of postponing a decision now could well be to postpone the construction of a Channel Fixed Link for a very long time. In view of the Government's commitment to facilitate the construction of a Channel Fixed Link and to choose a scheme within a specific timetable, the difficulties involved in leaving the final decision to the financial markets, the satisfactory nature of the CTG's proposal and the likelihood of its acceptance by the French, and the high degree of geological, technical and financial uncertainty inherent in CE, the Cabinet agreed that the CTG should be invited to construct and operate the Channel Fixed Link. This would itself represent a major achievement and would, of course, continue to be subject to the scheme being privately financed with no Government guarantees. The Secretary of State for Transport should therefore continue his negotiations with the French to secure the best possible terms for BR's involvement and with CTG to secure the minimum acceptable period of exclusivity for the Concession Agreement and for the firmest possible commitment to the future development of a drive-through facility. The decision should be presented in as positive a light as possible, emphasising the historic nature of the decision and the advantages which CTG offered. It was important for the success of the remaining negotiations that the confidentiality of the Cabinet's decision should be maintained, if necessary until she and President Mitterrand made the final announcement of their joint decision in Lille on 20 January.

The Cabinet -

1. Agreed that the Channel Tunnel Group-France Manche should be chosen to construct the Channel Fixed Link on the basis of the proposals which they had submitted.
2. Invited the Secretary of State for Transport to continue his negotiations with the French Government and the Channel Tunnel Group accordingly, as indicated in the discussion and in the Prime Minister's summing up.

SECRET

3. Took note that, if agreement was reached with the French Government on this basis, the Prime Minister and the President of the French Republic would announce the decision at their meeting in Lille on 20 January 1986.

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17 January 1986

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