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Conclusions

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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 18 DECEMBER 1986
at 10.00 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 Nigel Lawson MP
Chancellor of the Exchequer

The Rt Hon Douglas Hurd MP
Secretary of State for the Home Department

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 Norman Tebbit MP
Chancellor of the Duchy of Lancaster

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

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment

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

The Rt Hon Kenneth Baker MP
Secretary of State for Education and Science

The Rt Hon Kenneth Clarke QC MP
Paymaster General

The Rt Hon John MacGregor MP
Chief Secretary, Treasury

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry

The Rt Hon John Moore MP
Secretary of State for Transport

ALSO PRESENT

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

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SECRETARIAT

Sir Robert Armstrong
Mr D F Williamson (Items 3 and 4)
Mr C L G Mallaby (Items 3-5)
Mr A J Langdon (Items 1 and 2)
Mr M J Eland (Items 1 and 2)

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PARLIAMENTARY
AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons following their return from the Christmas Adjournment on Monday 12 January.

Teachers' Pay
and Conditions
of Service

THE LORD PRESIDENT OF THE COUNCIL said that the Second Reading of the Teachers' Pay and Conditions Bill in the House of Lords would take place on Monday 12 January 1987. He hoped to be able to reach agreement with the Opposition that would allow progress of the Bill to be expedited so that Royal Assent might be secured in the week beginning 9 February 1987.

Previous
Reference:
CC(86) 41.1

THE SECRETARY OF STATE FOR SCOTLAND said that the Scottish teachers' unions had now informally agreed to a package on teachers' pay and conditions, the terms of which were acceptable to the Government. It was likely that the package would be formally agreed by the Scottish Joint Negotiating Committee the following day. This progress towards a resolution of the issue was most satisfactory.

The Cabinet -

Took note.

HOME AFFAIRS

Publication
of Evidence
in Support
of an
Application
to the
European
Regional
Development
Fund

2. THE PRIME MINISTER said that the Cabinet had discussed on 23 October the difficulties created by the publication of the United Kingdom Regional Development Programme that had been submitted to the European Commission. She had now received a full report on the process of preparation of this programme and the way in which it was made public. It was clear that those involved in the preparation of the programme concentrated on its main purpose of making a case for support from the European Regional Development Fund, and that only two of the ten Departments concerned took steps to make sure that the document was read with an eye to the fact that it was in due course likely to become public in this country. Part of the problem was that so many Departments were involved and that the material was so voluminous. She had drawn two general conclusions from the report. First, material being prepared for publication should be scrutinised for its political sensitivity, as well as for accuracy, comprehensiveness and clarity, bearing in mind the likely reception of the material by all the audiences that would read it. Second, responsibility for the final clearance of material for publication should not be devolved below a certain level and officials to whom such material was submitted for clearance should consider whether the content and sensitivity of the material required it to be cleared by a Minister. These conclusions applied both to material produced by a Department which it published itself and to material produced for incorporation in a publication by another Department.

Previous
Reference:
CC(86) 34.2

There was a further and deeper question as to whether it was necessary or justifiable to commit so much time and effort to the preparation of the programme for submission to the European Commission, and she believed that an approach should be put in hand to persuade the Commission to scale down their demands for information.

THE PRIME MINISTER, summing up a short discussion, said that the Cabinet agreed that material that a Department proposed to publish should normally be submitted for clearance to Ministers and should not be cleared for publication without reference to Ministers at a level lower than Grade 3. Material for publication should also be cleared with the Department's chief press officer. Material for Ministerial clearance should be submitted with a note on anything in it which seemed likely to be politically sensitive and difficult. The Cabinet also agreed that the amount of paper demanded by the European Commission in the context of the Regional Development Fund was altogether excessive, and that an approach should be put in hand to persuade them to scale down their demands.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of the discussion.
2. Invited the Secretary of the Cabinet to draw departments' attention to the arrangements decided for scrutinising departmental publications, and to arrange for an approach to the European Commission to be put in hand, as indicated in the Prime Minister's summing up.

Unemployment
Figures

THE SECRETARY OF STATE FOR EMPLOYMENT said that he would be announcing that day the seasonally adjusted "headline" figure for unemployment had fallen by 20,000. This was the first year since 1973 when unemployment had been lower as than at the start of the year. Job vacancies had also increased again. His own view was that unemployment would probably continue to fall, but he did not expect it to go below a total of 3 million by summer or autumn 1987, and nothing should be said to encourage reports that the Government might entertain such hopes.

In discussion, it was noted that the fall in unemployment had on this occasion taken place across the country, including Northern Ireland. Moreover, the figures for long-term unemployed and for unemployed young people had begun to fall.

The Cabinet -

3. Took note.

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FOREIGN
AFFAIRS

United States

Previous
Reference:
CC(86) 40.3

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the affair concerning United States arms sales to Iran and the diversion of money to the Contra rebels in Nicaragua was still receiving great attention in the United States, though the position of the United States President seemed to have strengthened recently. There would be further sensational reports in the media if suggestions were confirmed that Lieutenant Colonel Oliver North, formerly of the White House staff, had used some of the money from arms sales to support right wing candidates in the recent elections to the United States Congress. Meanwhile, the United States Secretary of State, Mr George Shultz, had been able at the meeting of the North Atlantic Council on 11 and 12 December to give an effective demonstration that the United States Administration intended to maintain business as usual.

North
Atlantic
Council
Meeting

THE FOREIGN AND COMMONWEALTH SECRETARY said that the meeting of Foreign Ministers of the members of the North Atlantic Treaty Organisation (NATO) on 11 and 12 December had issued a communiqué which, like the communiqué from the meeting of NATO Defence Ministers a few days earlier, had upheld the position on arms control which the Prime Minister had set out in her statement following her meeting with the United States President at Camp David on 15 November. This represented the best outcome on arms control that the Allies could have achieved in the wake of the meeting at Reyjavik between the United States President and the General Secretary of the Communist Party of the Soviet Union. The North Atlantic Council (NAC) had also made clear the concerns of the Alliance about the imbalance of conventional forces in Europe and the need for arms control in this field. There might nevertheless be some people among the European Governments who hankered for the visionary idea discussed between the United States and Soviet leaders at Reyjavik of abolishing nuclear weapons within ten years. Indeed, Mr Shultz himself did not seem entirely to have abandoned this idea. At the NAC meeting, he had reaffirmed the United States commitment to Europe, saying that this involved three obligations: to maintain a surviveable strategic force able to strike the Soviet Union, to maintain credible United States forces in Europe and to consult closely with the European Allies on policy matters.

Suriname

THE FOREIGN AND COMMONWEALTH SECRETARY said that considerable upheaval was taking place in the small South American state of Suriname. The left wing dictatorship was faced by growing insurrection. The United Kingdom had minimal interests in Suriname; the few United Kingdom citizens there were included in United States evacuation plans which would be put into effect if necessary. The United Kingdom had supported the Netherlands in an approach to the United Nations Secretary-General about evidence of widespread atrocities during the troubles in Suriname.

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Republic of
South Africa

Previous
Reference
CC(86) 41.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Government of the Republic of South Africa had imposed new restrictions on the media and undertaken widespread arrests. The State President, Mr P W Botha, seemed to be in a very intransigent mood. In a South African raid on Swaziland on 12 December, two people had been killed and four abducted; those abducted had included two Swiss citizens who had quickly been released.

Zimbabwe and Zambia had not yet enacted the sanctions declared at the Commonwealth Review Meeting on South Africa in August 1986. They had come to see the economic effects that would result for themselves, and they recognised that Swaziland, Botswana, Lesotho and Mozambique could not introduce sanctions, and that Kenya was against them. There were now reports, however, that Zimbabwe and Zambia might make a move towards the interruption of air links with South Africa in the near future. The nature of the move might be influenced towards moderation by President Moi of Kenya. There would be a South African response to such a move, but it might not be an unrestrained one.

Anglo Soviet
Relations

THE FOREIGN AND COMMONWEALTH SECRETARY said that the British Ambassador in Moscow, Sir Bryan Cartledge, had called on the General Secretary of the Communist Party of the Soviet Union, Mr Mikhail Gorbachev, on 15 December to convey the Prime Minister's reply to a message about arms control. The call, which had lasted 1½ hours, had been the first by a British Ambassador on a Soviet leader since 1963. It established the important principle of reciprocity of access for Ambassadors, though this would not be easy to maintain. Mr Gorbachev's remarks to Sir Bryan Cartledge had shown his respect for the Prime Minister as a figure in international relations. The main Soviet message had been dissatisfaction with the position of the United Kingdom and France regarding nuclear arms control since Mr Gorbachev's meeting with the United States President at Reyjavik. Mr Gorbachev had used some vigorous expressions in making his points, and Sir Bryan had responded effectively. There had been no sign in Mr Gorbachev's remarks of concessions from known Soviet positions. But it was healthy that a lively dialogue was taking place between the United Kingdom and the Soviet Union.

International
Monetary
Fund

THE CHANCELLOR OF THE EXCHEQUER said that the Executive Board of the International Monetary Fund (IMF) would that day choose a new Managing Director to succeed Monsieur Jacques de Larosière. There had been two candidates for this position, which traditionally was occupied by a European. But after a "straw poll", in which he had received only 28 per cent of the votes, the Finance Minister of the Netherlands, Mr Onno Ruding, had decided to withdraw. The new managing director of the IMF would therefore be Monsieur Michel Camdessus, the present Governor of the Bank of France. This would mean that three major international

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posts - the Managing Directorship of the IMF, the Secretary Generalship of the Organisation for Economic Cooperation and Development and the Presidency of the Commission of the European Community - would continue all to be held by Frenchmen. Mr Ruding's disappointing result in the "straw poll" had been caused by changes of position by the Anglophone African countries and by Saudi Arabia. Most of the European members of the Fund would have preferred Mr Ruding. Monsieur Camdessus did not have the calibre or strength of his predecessor. The departure of Monsieur de Larosière, and that of Mr Paul Volcker from the chairmanship of the American Federal Reserve Board in 1987, would remove two most effective leaders at a time when the difficulties concerning international debt problems were likely to become even more intense.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

Agriculture

4. THE FOREIGN AND COMMONWEALTH SECRETARY said that the agreement which had been reached in the Agriculture Council at its session on 13-16 December, under the chairmanship of the Minister of Agriculture, Fisheries and Food, was the most important reform ever achieved in the operation of the common agricultural policy. The result was a very remarkable achievement by the Minister of Agriculture, Fisheries and Food and by all his team. The difficult negotiations on milk and beef had been brought to a conclusion. It would be necessary to ensure that the decisions now taken were followed through and that during 1987 further attention was also given to the cereals sector. Furthermore, the fact that the Council had respected the invocation of the Luxembourg compromise by the Republic of Ireland at one stage on the complicated negotiation on beef showed that the Luxembourg compromise retained its value and, despite this, an agreement had still been reached in the end.

The Cabinet -

1. Recorded its warm appreciation of the successful efforts of the Minister of Agriculture, Fisheries and Food as Chairman, the Minister of State, Ministry of Agriculture, Fisheries and Food (Mr Gummer) representing the United Kingdom and their official team in achieving substantial reform of the operation of the common agricultural policy at the meeting of the Agriculture Council on 13-16 December.

Fisheries

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had just received a report that the Fisheries Council, again under the chairmanship of the Minister of Agriculture, Fisheries and Food, had reached a satisfactory agreement on total allowable catches and quotas for 1987.

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Trade
Relations
with the
United States
and Japan

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Foreign Affairs Council on 15-16 December had received a report from the Commission on the negotiations under article XXIV.6 of the General Agreement on Tariffs and Trade (GATT) with the United States about the effect of the accession of Spain and Portugal on certain United States exports to those countries. The present deadline for a settlement was 31 December 1986 and no settlement was in sight. The Foreign Affairs Council had agreed that negotiations should continue; had suggested an extension of the deadline to the end of January 1987; and had reaffirmed that the Community would respond with retaliatory action if the United States unilaterally imposed restrictions on Community exports. It was important to maintain the firm stance if the negotiations were to be brought to a successful conclusion.

In discussion it was said that the United States might not agree to an extension of the deadline. If so, the Community would clearly have to respond to any United States action, but should do so in a measured way. In due course it might be necessary to consider whether binding arbitration might be proposed but this question did not arise immediately.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he had had a further meeting with the Japanese about their response to the Community demand for removal of discriminatory elements in the Japanese tax structure on alcoholic drinks. He was doubtful whether the Japanese offer would be satisfactory and, if this proved to be so, the action under the GATT should be pursued.

In discussion it was said that other recent contacts with the Japanese had shown a risk that they might consider that the recently announced order by All Nippon Airways for the Airbus allowed the Japanese Government to be less forthcoming on opening up the Japanese market in other respects. This would need to be resisted.

Employment

THE PAYMASTER GENERAL said that the Social Affairs Council had now agreed on an action programme on employment in terms which were wholly satisfactory to the United Kingdom. The Commission would be putting forward proposals in relation to long term unemployment, training, small businesses and deregulation. The work would be carried forward by the Belgian and Danish presidencies in 1987. An important result would be that the Social Affairs Council would no longer be devoting its attention to the earlier unsatisfactory proposals on excessive protection for employees.

In discussion it was said that some trade union interests in the Community had been opposed to the new approach. It was very satisfactory that it had now been adopted.

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Transport

THE SECRETARY OF STATE FOR TRANSPORT said that the Transport Council on 15-16 December had taken a step forward on the liberalisation of road haulage. On aviation there had been a modest advance; there had been a unanimous position in favour of some action on airline capacity and greater support for the United Kingdom position on easing the conditions applicable to cheaper fares, with both the Federal Republic of Germany and Belgium attacking the French position on this point. The Council had reached an important agreement on the liberalisation of shipping, adopting all the measures under discussion with the exception of that on cabotage. The Council would return to this point under the Belgian Presidency. British shipping interests were pleased with the result and the General Council of British Shipping had sent a warm letter in support of it.

The Cabinet -

- 2. Took note.

United Kingdom Presidency of the Council of Ministers

THE PRIME MINISTER said that, at the conclusion of the United Kingdom Presidency, the Cabinet would wish to congratulate the Foreign and Commonwealth Secretary for the successful handling of the United Kingdom Presidency as a whole and all colleagues who, with their officials, had carried the extra responsibilities to a satisfactory conclusion.

The Cabinet -

- 3. Took note, with approval, of the Prime Minister's conclusion.

AIRBORNE EARLY WARNING AIRCRAFT

5. The Cabinet had before them a note by the Secretary of the Cabinet (C(86) 24) covering three memoranda by the Secretary of State for Defence (OD(86) 20, 21 and 22), and the minutes of a meeting of the Defence and Oversea Policy Committee (OD) on the previous day (OD(86) 9th Meeting), which had also discussed the choice of an airborne early warning aircraft; as well as a letter from the Managing Director of The General Electric Company PLC (GEC) to the Prime Minister dated 17 December, and a draft for a statement by the Secretary of State for Defence in the House of Commons.

THE PRIME MINISTER said that OD on the previous day had agreed to recommend to Cabinet the proposal set out in the memoranda by the Secretary of State for Defence.

THE SECRETARY OF STATE FOR DEFENCE said that an efficient airborne early warning capability was essential to the nations's security, since it would enable the Royal Air Force (RAF) to respond in time to a threat from aircraft or missiles approaching the United Kingdom. Ground radars

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were inadequate, since their range was limited to 50 miles. The Nimrod system, produced by GEC, presented significant advantages: it was British, it was cheaper than the American alternative and the Government had already spent a great deal of money on its development. GEC recognised that it did not meet the RAF's requirement at present but claimed that it would do so by 1989. It was, however, the unanimous view of the military and technical experts in the Ministry of Defence (MoD) that Nimrod would not attain the standard before the mid-1990s, if then. By 1989 the production of the alternative United States system, the Boeing E-3A, would probably have closed down and no alternative would be available. It would be wrong to take the risk that the RAF might not receive an adequate system.

The Managing Director of GEC had called on the Prime Minister and on the Secretary of State for Defence himself. The Company had asked to see the MoD's assessments of Nimrod or at least that independent assessors should be appointed and a decision delayed while they produced a report. But the MoD's assessments had been undertaken by highly qualified people and had been based on the same information as the assessments by GEC.

The customer must ultimately decide which product to purchase. His conclusion was that the risks to British and NATO security in continuing with Nimrod were unacceptable. The Government should decide to cancel the contract for Nimrod and conclude negotiations with Boeing to purchase six E-3A airborne early warning aircraft, with an option to buy two more within six months. Six of these aircraft would just be adequate to fulfil most of the United Kingdom's share of the NATO requirement for airborne early warning capability. The money to buy the E-3A's would be found from the existing allocations of the Defence Budget; the decision whether to take up the option to buy two more of the aircraft would be taken in the light of further study of the budgetary implications.

In discussion, the following points were made -

- a. The arguments for purchasing E-3A aircraft set out in the Secretary of State for Defence's memoranda were extremely strong. The RAF must be provided with reliable equipment which met the requirement.
- b. The United Kingdom's existing airborne early warning capability, which consisted of Shackleton aircraft with detection equipment of very old design, was of very little use against a threat from modern fast aircraft or from missiles. In addition, the Shackleton aircraft might not remain useable over the period until Nimrod aircraft of adequate performance became available, assuming that ever happened.
- c. The Secretary of State for Defence would say, in any statement announcing the purchase of E-3A's, that the cost would

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be met within the Defence Budget. The difficult question whether the money could be found within that budget for an additional two E-3As would be a matter for the Secretary of State for Defence.

d. Boeing had offered a contractual obligation to place orders in this country worth 130 per cent of the cost to the Government of buying E-3A's. Boeing's record in carrying out obligations to make offset purchases was very good. The orders they would place in this country would include high technology work. Some of the orders would create jobs in the regions, and not only in the more prosperous areas of the country.

e. The Secretary of State for Employment would be ready to issue, after an announcement by the Secretary of State for Defence, a statement showing that the effect of switching from Nimrod to E-3A's on employment in this country would at worst be neutral and could be positive.

f. The presentation of a decision to buy E-3A's would be very important. The Secretary of State for Defence would make a statement that day in the House of Commons, immediately after Question Time. He would then give a press conference and would record interviews for television and radio. He would be available to speak in a debate in the House of Commons that evening, if one were held. He would write a letter to all Members of Parliament about the decision and would provide speaking notes for the use of all Ministers.

g. In presenting a decision, the Government should refrain as far as possible from criticising GEC. References should be made to the Company's high standing as a supplier of other systems to the MoD, and to the high volume of that business.

h. The Government would be asked why a decision to abandon Nimrod had not been taken sooner. A possible reply would be that the Government had been reluctant to abandon the possibility of buying British. There would be suggestions that the management of the project by the MoD as well as GEC had not been satisfactory. The Secretary of State for Defence could admit this, and could say that the MoD would not nowadays enter into a contract or management arrangements of the types that had applied in this case.

i. A decision by France to buy the E-3A was probable, particularly since a demonstration of Nimrod to the French Ministry of Defence on the previous day appeared to have been unsuccessful. The Government could point out publicly that such a decision by France could somewhat reduce the cost of the E-3A to the United Kingdom. It would be desirable to warn GEC, when they were informed of the Cabinet's decision, not to refer to the demonstration on the previous day since it would not be in the Company's interest for the negative impressions of the French customer to become known.

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In discussion of the draft of the Secretary of State for Defence's statement, various amendments were suggested, including that simple language should be used and expressions capable of misrepresentation should be avoided. The point should be made that the contract with Boeing would denominate the price of E-3A's in sterling.

THE PRIME MINISTER, summing up the discussion, said that, despite the advantages of purchasing a British system, the risks of renewing the contracts with GEC on Nimrod were too great. The RAF must be assured of getting equipment to the required standard as soon as possible. The Cabinet agreed that six Boeing E-3As should be purchased, with an option to buy two more within six months. The costs would be found from the existing provisions for defence. The Secretary of State for Defence's statement in the House of Commons that afternoon should be amended in the light of the discussion. Ministers should as far as possible avoid criticising GEC. They should be guided by the Secretary of State for Defence's statement and the briefing material which he would provide. Ministers appearing on television and radio in the coming days should ensure that they were fully briefed.

The Cabinet -

Invited the Secretary of State for Defence to announce that day that six Boeing E-3A airborne early warning aircraft would be purchased, with an option to buy two more within six months.

Cabinet Office

18 December 1986

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