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Conclusions

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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 2 JULY 1987

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 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 Lord Havers
Lord Chancellor

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

The Rt Hon Peter Walker MP
Secretary of State for Wales

The Rt Hon George Younger MP
Secretary of State for Defence

The Rt Hon Norman Fowler MP
Secretary of State for Employment

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 Trade and Industry

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

The Rt Hon Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster

The Rt Hon John MacGregor MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Paul Channon MP
Secretary of State for Transport

The Rt Hon John Moore MP
Secretary of State for Social Services

The Rt Hon John Wakeham MP
Lord Privy Seal

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

The Rt Hon John Major MP
Chief Secretary, Treasury

ALSO PRESENT

The Rt Hon David Waddington QC 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 and 4)
Mr A J Langdon (Items 1 and 2)
Mr S S Mundy (Items 1 and 2)

C O N T E N T S

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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 and that, subject to the progress of business, the House would rise for the Summer Adjournment on Friday 24 July until Wednesday 21 October.

Lloyd's

THE CHANCELLOR OF THE EXCHEQUER said that the Finance (No. 2) Bill, which would be published the following day, would include provisions on Lloyd's markedly different from those which had been lost at the Dissolution. As he had foreshadowed in his Budget Speech, these had been the subject of full consultation with Lloyd's. Although a considerable measure of agreement had been reached with Lloyd's on the terms of the revised clause, there were now some signs that they were seeking to back away from this. He was giving this his close personal attention and would be seeing the Chairman of Lloyd's the following day.

HOME AFFAIRS

Today
Newspaper

2. THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he had given his consent the previous day to the takeover by News International plc of the Today newspaper. He had been satisfied that Today was not economic as a going concern, and the Fair Trading Act 1973 provided in respect of newspapers that, in such circumstances, he was not obliged to refer a proposed takeover to the Monopolies and Mergers Commission. As things stood, consideration by the Monopolies and Mergers Commission of the proposed takeover of a newspaper would probably take around three months; in many cases this was likely to mean that a decision to refer would have the effect of preventing the take-over from going ahead, whatever its merits or demerits. He would shortly circulate to colleagues proposals for providing for an accelerated procedure.

Teachers'
Pay and
Conditions

Previous
Reference:
CC(87) 19.2

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that he would be seeing the National Union of Teachers and the National Association of Schoolmasters and the Union of Women Teachers later that day. They would use the occasion to press him to establish new machinery for settling teachers' pay and conditions in time for the next pay round. He would make clear to them that there was no prospect of this and that instead the interim advisory committee would be responsible for advising on the 1988 settlement. He would circulate to colleagues shortly a draft Green Paper setting out proposals for a permanent machinery for determining teachers' pay and conditions.

Civil Service
Industrial
Action:
Value
Added Tax
Repayments

Previous
Reference:
CC(87) 21.2

THE CHANCELLOR OF THE EXCHEQUER said that there had been complaints from some companies that Value Added Tax (VAT) repayments were continuing to be delayed as a result of industrial action by Civil Service unions, while at the same time the Inland Revenue were demanding the prompt payment of PAYE contributions. Following the suspension of industrial action by the Society of Civil and Public Servants, computer operators at Shoeburyness, who were responsible for processing VAT, had now returned to work. Repayments of VAT had been made a top priority and he expected the backlog to be cleared shortly.

THE PRIME MINISTER, summing up a brief discussion, said that urgent consideration should be given to the possible establishment of emergency arrangements to help companies suffering from cash flow problems as a result of industrial action by Civil Service unions.

Insider
Dealing

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that Mr Geoffrey Collier, the former joint head of securities at Morgan Grenfell, had pleaded guilty the previous day to charges of insider dealing and had been sentenced to twelve months' imprisonment suspended for two years and a fine of £25,000. The sentence had been criticised by some Opposition members as inadequate, but the line the Government should take was that sentencing was entirely for the courts, subject to the maximum penalties laid down by Parliament. The Criminal Justice Bill included proposals to increase the maximum penalty for insider trading from two to seven years' imprisonment.

Child Abuse

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that a team of four members of his Social Services Inspectorate had begun an investigation the previous day following the recent controversy concerning alleged child abuse cases in Cleveland. In addition, the Regional Health Authority would be reporting to him early the following week. It appeared that Cleveland Social Services Department had not been following his Department's guidelines on child abuse cases. He would probably need to establish an inquiry into the matter, but he intended to limit the scope of such an inquiry to the Cleveland cases rather than into child abuse generally. There might be pressure to bring forward the Child Care and Family Services Bill which he currently hoped to introduce in the following Session.

Sizewell

THE SECRETARY OF STATE FOR ENERGY said that there would be a hearing in the High Court on Monday 6 July at which Friends of the Earth would seek leave to proceed with their application for judicial review of the decision to construct a pressurised water reactor at Sizewell. If they succeeded, they would attempt to represent the decision as a victory.

even though the substance of the decision on Sizewell would not have been addressed. In that event, he would seek an expedited hearing with a view to the matter being settled by the end of that month.

The Cabinet -

Took note

FOREIGN
AFFAIRS

Republic
of Korea

Previous
Reference:
CC(87) 20.4

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the President of the Republic of Korea, Mr Chun Doo Hwan, had announced his agreement to the release of political prisoners and to direct elections to choose his successor as President. This change of position on the part of the President was a surprising and encouraging development.

Iran/Iraq
War

Previous
Reference:
CC(87) 21.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the draft resolution sponsored in the United Nations Security Council by the five permanent members, which called for an end to the Iran/Iraq war, was now being shown more widely to other Governments. It was not yet clear how far the Soviet Union and China would maintain their support for the draft resolution. The question what the exercise could achieve remained open; while a ceasefire was the main goal, other useful purposes might be served.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

Agricultural
Price
Settlement

Previous
Reference:
CC(87) 20.5

4. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that agreement had been reached on the price fixing in the Agriculture Council on 30 June-1 July. The continued blocking of the proposed tax on oils and fats by the United Kingdom and some other member states in the European Council had been helpful, since it had made apparent that this element was no longer in the package. The settlement produced smaller savings than we had hoped for. The package was, however, firmly pointed in the right direction. It could give rise to savings of about 130 mecu (£90 million) in 1987 and about 600 mecu in 1988 (£420 million). The reductions in support were significant; support for cereals would be reduced by about 10 per cent and for oilseeds by about 14 per cent and a limit had been put on the guarantee for soya. For United Kingdom farmers the result was satisfactory. The change in the green pound,

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which would benefit farmers, was greater than the green rate changes in France and the Republic of Ireland. For United Kingdom consumers the effect on the Retail Price Index would be minimal.

European
Council,
29-30 June

THE PRIME MINISTER said that the European Council on 29-30 June had been difficult. The United Kingdom was concerned that there should be strict budgetary discipline over Community spending. Nine member states, however, were net beneficiaries from the Community budget. The Federal Republic of Germany, which was the biggest contributor, supported budgetary discipline in principle but did not practise it if it would give rise to difficulties for German farmers. At the meeting of the European Council on 29-30 June good guidelines had been produced on budget discipline. There had also, however, been a premature attempt to get agreement on a text which would have instructed the Council to adopt a new ceiling, expressed as a percentage of the Community's gross national product, on the Community's own resources. There had also been an attempt to get agreement that every element of the current agricultural over-spending should be carried into a revised base for the financial guideline for agriculture. The United Kingdom had not therefore been able to accept the conclusions. The decision of the Chairman of the Council, Monsieur Martens, to curtail discussion on important points had not been helpful. He had allowed, however, long and repeated exchanges of view on the proposed oils and fats tax and on monetary compensatory amounts. The United Kingdom and other opponents of the proposed tax on oils and fats had successfully resisted it. Some member states had sought to play down the likely effects of the proposed tax on developing countries and on the consumer, although these effects would be real. She remained concerned that the member states blocking the proposed tax should continue to stand together. On monetary compensatory amounts on agricultural products, a very technical paper incorporating elements agreed between France and the Federal Republic of Germany had been presented at short notice to the European Council. Most member states had been ready to accept this, including the authorisation for some national aid in the Federal Republic of Germany, with little or no discussion. It had been agreed, however, that the revised arrangements for future monetary compensatory amounts would be reviewed by 1 July 1988. The European Council had also discussed and given guidance on some questions relating to the 1987 budget, although the Chairman had indicated before the meeting that this would not be raised. On future financing, she remained concerned about the prospects for the meeting of the European Council in Copenhagen in December. On the one hand, the United Kingdom was committed to considering an increase in the ceiling to 1.6 per cent value added tax. On the other hand, although all member states accepted strong guidelines on control of agricultural and other spending, it would be difficult for other member states to muster the resolve to achieve the necessary measures at

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the European Council in December. We could not simply increase the Community's resources without agreement on an effective budgetary discipline.

In discussion the following points were made -

- a. A key issue was to ensure that the elements of budgetary discipline should be enforceable. The existing arrangements on agricultural spending contained the possibility of exceeding the guideline in exceptional circumstances. It would be worth considering whether, in exceptional cases where exceeding the guideline proved unavoidable, the additional cost might fall on national budgets.
- b. The agreement of the other member states at the European Council to strong guidelines on budgetary discipline and on the need for continued reform of the operation of the common agricultural policy was a step forward. Preparation was in fact going ahead broadly on the lines we wanted. The United Kingdom would now be tabling its own ideas on budgetary discipline and agricultural stabilisers.
- c. Discussions would be strongly influenced by elections elsewhere in the Community. The Federal German Government was already much concerned by the forthcoming election in Schleswig-Holstein. The Presidential election in France the following spring was beginning to cast a shadow. There would also be an election, probably in November, in Denmark, which held the Presidency and would at that time be preparing the European Council.
- d. The United Kingdom had made a start in the process of achieving reform of the operation of the common agricultural policy. The decisions on milk and beef in December 1986 showed that it could be done. There was a genuine possibility of getting the surpluses under control, which must be steadily pursued.

Air Transport
Liberal-
isation:
Application
to Gibraltar

THE SECRETARY OF STATE FOR TRANSPORT said that the Community had almost succeeded in achieving the package of measures on the liberalisation of air traffic and fares, to which the United Kingdom attached much importance. Eleven member states had accepted the package at the Transport Council on 30 June. Spain had refused it because it applied to Gibraltar. Without going back on the application of the package to Gibraltar, the United Kingdom had put forward various ideas which might have made it possible for Spain to accept. These had all been refused. For the present, therefore, the air transport reforms were stalled. It was not yet clear whether the Commission would put forward the package again under the provisions of the Single European Act, which came into

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force on 1 July, or would seek to bring some airline practices before the European Court of Justice.

The Cabinet -

Took note.

Cabinet Office

2 July 1987

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