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CABINET

CONCLUSIONS of a Meeting of the Cabinet  
held at 10 Downing Street on  
TUESDAY 1 MARCH 1988  
at 10.00 am

P R E S E N T

The Rt Hon Margaret Thatcher MP  
Prime Minister

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 Mackay of Clashfern  
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 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 John MacGregor MP  
Minister of Agriculture, Fisheries  
and Food

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

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 President of the Council

The Rt Hon The Lord Belstead  
Lord Privy Seal

The Rt Hon Cecil Parkinson MP  
Secretary of State for Energy

The Rt Hon John Major MP  
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon David Waddington QC MP  
Parliamentary Secretary, Treasury

The Rt Hon Peter Brooke MP  
Paymaster General

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SECRETARIAT

Sir Robin Butler  
Mr R T J Wilson (Item 2)  
Mr R G Lavelle (Item 3)  
Mr P J Weston (Item 3)  
Mr A J Langdon (Items 1 and 2)  
Mr S S Mundy (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.

Employment  
Bill

THE LORD PRIVY SEAL said that the Employment Bill would begin its Committee Stage in the House of Lords in the following week. Lord Wyatt of Weeford had indicated that he intended to table amendments to tighten up the powers available to the independent scrutineers who would oversee the conduct of statutory ballots for elections and for political funds. He understood that the Secretary of State for Employment would decide in the light of the debate whether or not to support the amendments at a later stage.

The Cabinet -

Took note

HOME AFFAIRS

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Rover Group

2. The Cabinet considered a memorandum by the Secretary of State for Trade and Industry (C(88) 4) and a draft Parliamentary Statement on proposals by British Aerospace plc for negotiations for the purchase of the Government's shareholding in the Rover Group. Their discussion and the conclusions reached are recorded separately.

Social  
Services  
Committee  
Report on  
Resourcing  
the National  
Health Service

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the Social Services Committee's Report on resourcing the National Health Service (NHS) would be published later that day. The Report, which was a confused and incoherent piece of work, argued that the Government should commit itself to the full funding of NHS pay awards for 1988-89; that resources should be allocated to allow NHS services to grow by 2 per cent in 1988-89; and that the Government should make good sums that the Committee perceived as shortfalls in funding in past years and the present one. The Committee's comments on funding in the present year were partly due to their misinterpretation of evidence put to them by his Department. He proposed to make a short announcement that day, pointing to the resources that the Government had in fact found for the NHS, clarifying some of the Report's misunderstanding and making it clear that the Government would in due course reply fully to the Report in the normal way.

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THE SECRETARY OF STATE FOR ENERGY said that the National Reference Tribunal (NRT) had considered the dispute between the National Association of Colliery Overmen, Deputies and Shotfirers (NACODS) and British Coal (BC) at the weekend, and were expected shortly to announce their findings, which were binding on both sides. It seemed likely that the NRT fundings would be less directed at pay than at other conditions of service. In the meantime, BC had withdrawn the re-rostering arrangements that had been introduced at the height of the dispute and NACODS had called off the ban on overtime working.

The Cabinet -

Took note.

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the objective of the North Atlantic Treaty Organisation (NATO) Summit in Brussels on 3 March would be to reaffirm the unity of the Alliance. There was no difficulty over the central principles underlying NATO strategy in respect of both defence and arms control. But there could be problems with the Federal Republic of Germany (because of internal coalition factors) over what note to strike about the need to keep NATO nuclear and conventional forces up-to-date, although he was hopeful that these could be successfully circumvented. Equally, there was room for disagreement with the Federal Republic over the sequence of the arms control agenda. Earlier NATO Ministerial meetings at Reykjavik and Stavanger had usefully made clear that after the conclusion of an intermediate range nuclear forces agreement the priorities for arms control negotiations should be strategic nuclear weapons, chemical weapons and conventional forces. Only after that should the question of possible reductions in short range nuclear forces be addressed. It was important that the sixteen democratic governments comprising the Alliance should come to clear conclusions at the NATO Summit on these force modernisation and arms control questions.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the recent demonstrations and public protests in Yerevan reflected traditional Armenian nationalism within the Soviet Union directed in particular toward Turkic Azerbaidjan. In the present case the demonstrators were calling for transfer of territory from Azerbaidjan to Armenia. The Politburo in Moscow had despatched a strong group of the Soviet leadership to talk to the Armenians on the spot, much as they had done in the face of previous expressions of nationalist sentiment elsewhere in the Soviet Union. Demonstrations in Yerevan had now been temporarily suspended, pending consideration at the level of the General Secretary of the Communist Party of the Soviet Union, Mr Mikhail Gorbachev. Conceding an alteration of the relevant territorial boundaries would be likely to lead to more trouble by outraging the Azerbaidjanis. A note

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likely outcome was a compromise giving more recognition to the social, economic and cultural interests of Armenians. Should this fail to satisfy the demonstrators and were public protest to be resumed, a hard line might well have to be imposed by the Soviet leadership. These demonstrations, which had received little publicity within the Soviet Union, would give no comfort to the proponents of perestroika and glasnost. Whatever the outcome, events had strengthened the critics of Mr Gorbachev.

Middle East

Previous

Reference:

CC(87) 31.3

THE PRIME MINISTER said that she and the Foreign and Commonwealth Secretary would be seeing later in the day the United States Secretary of State, Mr George Shultz, who was passing through London en route for Brussels direct from his shuttle diplomacy in the Middle East. There would be a separate meeting with King Hussein who was also in London the same day. She had the impression that things might be moving in the Arab/Israel dispute. The situation of the Israeli Prime Minister, Mr Yitzhak Shamir, was now different from what it had been before the recent outbreak of violence in the occupied territories. This was an example of a conscript army acting in support of the civil power and being unable to observe necessary restraints. She recalled that Israeli forces had ultimately been obliged to withdraw from Lebanon.

The Cabinet -

Took note.

Cabinet Office

1 March 1988

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CABINET

LIMITED CIRCULATION ANNEX

CC(88) 8th Conclusions, Minute 2

Tuesday 1 March 1988 at 10.00 am

Rover Group

The Cabinet had before them a memorandum by the Secretary of State for Trade and Industry (C(88)4) and a draft announcement to Parliament that British Aerospace plc (BAe) had been given, until the end of April, an exclusive right to negotiate on the acquisition of the Government shareholding in Rover Group.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that since the sale of the commercial vehicle subsidiaries of the Rover Group (RG) to DAF in the previous year the Group's Chairman, Mr Graham Day, had been reviewing the options for the return to the private sector of the remaining RG businesses. These were principally Austin Rover and Land Rover. Until recently it had appeared that the prospects of selling these businesses, whether by flotation or through sale to institutions, within an acceptable timeframe were remote, but BAe had recently made an unsolicited approach to him, declaring a serious interest in acquiring the whole of the issued share capital of RG and seeking to open negotiations for the purchase of the Government shareholding. BAe were, however, insistent that they would be ready to enter into such formal negotiations with the Government only if they were granted exclusivity of negotiation for a fixed period. In view of the difficult history of the matter, he had agreed with BAe that the Government would be prepared to deal with them on an exclusive basis, but only until the end of April, after which the Government would naturally be free to examine alternative options. A number of important matters remained to be settled. In particular, BAe had been looking for a Government cash injection that would make a worthwhile contribution to the working capital needs of the acquired businesses over and above what was required to write off all debt and related liabilities of RG and he had, in reply, stressed the need for the Government to emerge with a deal which was publicly defensible and which the EC Commission would approve under state aid rules. He had also made it clear to BAe that a mechanism would be required to ensure that they did not dispose of either Austin Rover or Land Rover for a period of at least 5 years from completion of any purchase. Without such a provision, BAe would be free to look for a profit in on-selling the businesses to other trade buyers. BAe would wish to continue the collaboration with Honda that RG presently enjoyed and, subject to the Cabinet's agreement, steps would be taken to make

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sure that the right people in Honda were informed of the announcement: he believed that Honda would, in fact, continue their co-operation, but during a visit to Japan in the following week he proposed to emphasise to the Honda management that the Government would also welcome this. Subject to satisfactory resolution of the points he had mentioned, he was satisfied that the BAe proposals would provide a sound solution for the return of RG to the private sector, without encountering monopoly problems or the distrust of foreign interests that had been manifested on previous occasions. The proposals had the great advantage of offering an assured future to RG's component manufacturers, and to their network of distributors and dealers. Links between the aerospace and motor industries existed in a number of other countries, and worked well. For all these reasons he believed that RG's acquisition by BAe represented the best way forward, but if the negotiations should fail, the Government would be free to look at offers from elsewhere. Parliament and the Stock Exchange would need to be informed before detailed formal negotiations could commence, and he sought the Cabinet's agreement to an announcement later that day on the lines of the draft circulated with C(88)4.

In discussion the following main points were made -

- a. After BAe, the companies most likely to show an interest in RG were probably Ford and Volkswagen. Both these possibilities raised difficulties. Acquisition by Ford might well raise monopoly problems, whilst acquisition by Volkswagen would threaten RG's dealers, distributors and component suppliers.
- b. The main cause for anxiety was whether BAe's management was itself sufficiently robust to take on the notorious management demands of RG. On the other hand, Mr Graham Day's grasp of RG had been notably firm and competent, and BAe were proceeding on the basis that he would remain available to them.
- c. Both BAe and RG were defence contractors but, subject to the ability of the BAe management to cope with the acquisition, there was no reason to question the proposals on defence grounds.
- d. The Secretary of State for Trade and Industry had taken legal advice and was satisfied that there was no legal impediment to the proposed exclusive negotiating period, or to concluding a deal with BAe during that period provided that any alternative bids were properly considered before a final decision was taken. In making the decision, there would be a wide range of factors to be taken into account, as well as the price obtained for the Government's shareholding.
- e. The statement to be made in Parliament should bring out the fact that after the end of April the Government would naturally be free to examine alternative options.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Secretary of State for Trade and Industry should

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negotiate with BAe for the sale of the Government shareholding in RG during an exclusive negotiating period up to the end of April, as set out in C(88)4. In view of the clear undertakings given on previous occasions, Parliament should be informed before the matter was taken any further. The Secretary of State for Trade and Industry and the Chancellor of the Duchy of Lancaster should therefore make an announcement that afternoon on the lines of the draft attached to C(88)4, subject to the points made in discussion, in particular the fact that after the end of April the Government would be free to examine alternative options. She regretted that, because of the extreme market sensitivity of the information and the lack of secure communication links, it would not be possible to notify the Secretary of State for Employment, who was in Los Angeles on Government business, about the statement before the time when it was made. It was extremely important that the Government spokesmen in both Houses should not be drawn significantly beyond the bare notification in the draft statement, for fear of prejudicing subsequent developments. It would not be necessary to submit a proposed deal to Parliament before it was concluded with BAe and no commitment to the contrary should be given.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of the discussion and invited the Secretary of State for Trade and Industry and the Chancellor of the Duchy of Lancaster to make announcements that afternoon in each House of Parliament, as the Prime Minister had indicated.

Cabinet Office

2 March 1988

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