

CONFIDENTIAL

BV

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

COPY NO 76

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 14 APRIL 1988
at 10.30 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 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 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 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

CONFIDENTIAL

CONFIDENTIAL

SECRETARIAT

Sir Robin Butler
Mr R G Lavelle (Items 3 and 4)
Mr P J Weston (Items 3-5)
Mr A J Langdon (Items 1 and 2)
Mr N H Nicholls (Item 5)
Mr S S Mundy (Items 1 and 2)

C O N T E N T S

| Subject | Page |
|---|------|
| PARLIAMENTARY AFFAIRS | 1 |
| Local Government Finance Bill: Assistance Towards the Community Charge for Those on Low Incomes | 1 |
| HOME AFFAIRS | |
| Industrial Action in the Motor Industry | 3 |
| Industrial Action at P & O European Ferries | 4 |
| FOREIGN AFFAIRS | |
| Hijacking of Kuwaiti Aircraft | 4 |
| Afghanistan | 5 |
| Explosion in Pakistan | 5 |
| Anglo-Italian Summit | 6 |
| COMMUNITY AFFAIRS | |
| Agriculture Council 28-29 March | 6 |
| STATEMENT ON THE DEFENCE ESTIMATES 1988 | 6 |

CONFIDENTIAL

1. The Cabinet were informed of the business to be taken in the House of Commons in the following week.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the remaining stages of the Local Government Finance Bill were scheduled to occupy most of the Government time in the House of Commons during the following week and the subsequent Monday. Probably the most crucial single issue was the new clause moved by Mr Michael Mates, which would be considered during the first day of the Report Stage, on the following Monday. That new clause would provide a graduated system of community charges related to the charge-payer's liability to income tax. The normal community charge would be required from those paying income tax at the standard rate; those below the income tax threshold but beyond the limits of the taper of housing benefit proposed by the Government would only be liable to a community charge at 50 per cent of the normal rate; whilst higher rate income taxpayers would be liable to a community charge enhanced by 50 per cent. An arrangement of this kind was manifestly objectionable, both because of the glaring anomalies that would flow from it and because of the high administrative costs that would be incurred at any attempt to make it work. Nevertheless, Mr Mates's proposal was backed by a number of Government supporters. A few of these were implacable opponents of the community charge, but many of them had but a poor understanding of the issues involved, and no more than a vague feeling that the community charge bore too heavily on poorer people. He believed it was essential for the Government to detach as many as possible of its supporters from Mr Mates's proposition and he therefore proposed that further help with the community charge should indeed be offered to the less well off, but through the appropriate machinery, which was clearly an adjustment to the taper that determined the rate at which housing benefit was withdrawn from beneficiaries as their income increased. In the present financial year the rate of the taper (which naturally took account of assistance towards domestic rates rather than the community charge) was set at 20 per cent. He proposed, with the agreement of the Chief Secretary, Treasury, the Secretary of State for Scotland and the Secretary of State for Social Services, that this should be reduced to 15 per cent when the community charge was introduced. The reduced tapers would therefore apply from 1989-90 in Scotland and from 1990-91 in England and Wales. The effect of this would be to reach a very large number of the poorer people that Mr Mates's amendment was designed to help, but without the clear defects and anomalies inherent in Mr Mates's proposal, including its impact on higher taxpayers. If the Cabinet agreed his proposal, he would need to consider how best to present it in order to be most effective in detaching Government supporters from Mr Mates's amendment; he was at present disposed to think that the best course would be for him to hold a press conference later that day, following the meeting with the committee of Conservative backbench Members in environment affairs.

In discussion the following main points were made -

CONFIDENTIAL

CONFIDENTIAL

a. Liability to income tax, or to tax at the higher rate, was largely influenced by such matters as entitlement to allowances, and very often could not be determined within the year in question. Under Mr Mates's proposals, very slight changes in such matters (including, for example, mortgage interest rates) could have the effect of tipping charge-payers one way or the other between the proposed three bands. The proposal was, therefore, a tax trap of the worst kind and was totally unacceptable on that ground alone. The capricious impact of the proposals could have some especially startling effects on the somewhat better-off. For example, a charge-payer in Camden who came just within the higher income tax bracket would suddenly find that he and his spouse were, between them, liable for a single extra community charge payment equivalent to the full charge for that authority, currently estimated at about £750.

b. Quite apart from questions of principle about access to tax information, Mr Mates's scheme represented vast administrative problems. During the course of a radio interview that morning Mr Mates had asserted that he had been advised by Department of the Environment officials that the administrative aspects were manageable and that the problem was, rather, a political one, but that was not an accurate account of the analysis that officials had, in fact, given Mr Mates. The fact that his proposals had massive implications for tax administration was now emphasised by his need to put down a further amendment, designed to bring his new clause into order without a ways and means resolution. The effect of the latest amendment was to make the machinery dependent on self-certification by the charge-payer, without any system of verification.

c. It was insufficiently understood, both inside and outside Parliament, that the top 10 per cent of earners paid 15 times more towards the expenses of local government than did the bottom 10 per cent of earners. This fact did much to displace the assumptions on which Mr Mates's proposal rested, and the Government should take every opportunity to emphasise it.

d. About 7 million people were currently estimated to be eligible for housing benefit in 1990. The effect of the Secretary of State for the Environment's proposal would be to increase the amount of benefit available to about 2.7 million of these people, and to make about an additional 1 million people eligible for benefit. The cost of his proposal would be about £115 million-£130 million. Mr Mates's defective proposals would, in contrast, cost in excess of £300 million.

e. Although the Secretary of State for the Environment's proposal was clearly the right way of tackling the problem, it would need to be carefully presented so as to avoid any apparent conflict with the social security reforms that had recently been brought into effect. In particular, the present proposal did not affect the capital cut-off for housing benefit, on which much recent criticism

CONFIDENTIAL

CONFIDENTIAL

had concentrated, and it would be necessary to present the proposed increased number of beneficiaries in a way that did not impair the Government's commitment to reduce the dependency culture.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed the Secretary of State for the Environment's proposal that the taper for housing benefit should be reduced from 20 per cent to 15 per cent in Scotland and in England and Wales to coincide with the introduction of the community charge. The Cabinet also authorised the Secretary of State for the Environment to announce the full details of this decision later that day, if he judged this to be tactically necessary. Although there was probably a fairly widespread acceptance that Mr Mates's amendment presented various practical difficulties, a greater effort was now needed to expose the true nature of Mr Mates's proposals as a capricious tax trap. It would also be important to stress both the scale of extra assistance that was now to be made available through the appropriate machinery, and the extent of the differential contribution that higher earners already made to local authority expenditure, through taxation. It would be important not to say anything at this stage about the way in which the money for the decision should be found, since this could only be considered as part of the decision about the overall Exchequer grant for the years in question. Finally, a Minister should always be present when Members of Parliament were invited to discuss sensitive matters of public policy with officials.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of the discussion and invited the Secretary of State for the Environment to proceed accordingly.

2. THE SECRETARY OF STATE FOR EMPLOYMENT said that workers at Jaguar's Coventry plant were threatening to take strike action from the following Monday over plans to increase production there. Negotiations between the Jaguar management and the trade unions had until recently appeared to be deadlocked but there were now indications that fresh talks might be initiated. A separate industrial dispute was developing over plans by Jaguar and GKN Sankey to secure a single union agreement for a new factory they proposed to open early the following year at Telford which would create 400 new jobs building car bodies for Jaguar. Union opposition to single union agreements put at risk the prospects of new jobs, as had been demonstrated by the decision of Ford the previous month to drop their proposal to open a factory at Dundee. The Trades Union Congress had shown themselves to be totally ineffectual in seeking to resolve inter-union disputes over single union agreements.

HOME
AFFAIRS

Industrial
Action in
the Motor
Industry
Previous
Reference:
CC(88) 12.2

CONFIDENTIAL

CONFIDENTIAL

THE SECRETARY OF STATE FOR TRANSPORT said that the strike action by members of the National Union of Seamen employed by P & O European Ferries at Dover was now in its eleventh week. A number of seamen had second jobs and the current industrial action accordingly had the potential to run for a good deal longer. However, further developments, including a mass meeting of the workforce, could be expected over the following weekend.

The Cabinet -

Took note.

3. THE FOREIGN AND COMMONWEALTH SECRETARY, said that the group Islamic Jihad, who were the kidnapping and extortion arm of the terrorist organisation Hizbollah, were almost certainly responsible for the hijacking on 5 April of a Kuwaiti Airlines Boeing 747 en route from Bangkok to Kuwait. Imad Mughniyah, brother-in-law of one of the 17 convicted terrorists serving prison sentences in Kuwait, was believed to be directing the operation of the hijacking. Hizbollah and Islamic Jihad looked to Iran for guidance. Although there was no clear evidence of collusion by Iran with the hijackers, there were reports that when the aircraft had been at Mashhad in Northern Iran extra hijackers and explosives or weapons had gone on board. The release on 6 and 7 April of all the British subjects among the passengers aboard had been very fortunate.

Once the hijacked aircraft had reached Cyprus, the attention of the press and public, and the fact that the aircraft had been in full public view, had adversely affected the handling of the incident. It was regrettable that it had been permitted to refuel and depart from Cyprus. But since the full facts of the negotiations had not yet emerged, it was premature to indulge in recriminations.

Algeria, to which the hijacked aircraft had flown from Cyprus, had a long history of acting as "brokers" in incidents of this kind, as they had done between the United States and Iran over the episode of the American Embassy hostages in 1979 and in the negotiations between France and Iran. The Government had warned the Algerian Government of their responsibilities to extradite or prosecute hijackers. The team negotiating with the hijackers included Kuwaitis and representatives of the Palestinian Liberation Organisation as well as Algerians. The latter had begun to blame Kuwait for intransigence: there was no sign of the Kuwaitis yielding and their resolution had been firm throughout. It was not known how matters would finally turn out and it was not appropriate for Britain to make detailed public comments beyond recalling that British policy was not to strike deals with terrorists and that international obligations must be respected. There was full support for this from British press and public opinion.

CONFIDENTIAL

CONFIDENTIAL

When the current incident was over, there would be some lessons to be learned for the future. For example, it was important to be able to sanitise the immediate environment of a hijacked aircraft from press and media attention. Public speculation made any kind of intervention to end a hijacking very difficult and the numerous press and media references to the possible involvement of the British Special Air Service had been unhelpful. It was nevertheless a modest achievement that the American media had not publicised the fact that one of the passengers (who had been among those released at Larnaca) was a dual United States/Egyptian national with an American passport in his possession.

THE FOREIGN AND COMMONWEALTH SECRETARY said that an agreement was due to be signed that day at Geneva providing for the withdrawal of Soviet troops from Afghanistan to begin on 15 May and to be completed within nine months. The Soviet Foreign Minister, Mr Eduard Shevardnadze, had said privately in Washington during March that withdrawal might in fact be completed ahead of that deadline. There was no formal agreement on the question of continuing Soviet military support for the Afghan regime in Kabul and reciprocal Americans rights with respect to the Afghan Resistance. But there would be side letters which in effect provided that if the Soviet Union were to continue supplying arms to the regime, the United States would be able to match such supplies to the Mujahideen on a symmetrical basis.

No doubt some people would say that the agreement was less than ideal. This should not be allowed to obscure the fact that after eight years the Soviet Union had been brought to admit having made a major mistake, no matter how much the General Secretary of the Communist Party of the Soviet Union, Mr Mikhail Gorbachev, would seek to embellish the presentation of withdrawal. There was no Western interest, before Soviet troop withdrawal was completed, in harping unduly on future government arrangements in Kabul, since this would only serve to hand back the political initiative to the Soviet Union. The important thing was to allow conditions to evolve in which the Afghan people were free to choose their own Government for themselves. He would be making a public statement later that day welcoming the agreement and announcing a pledge of further substantial British aid for the Afghan refugees. In short, the best should not be allowed to become the enemy of the good. The aim must be to persuade the Soviet Union to apply the lessons of Afghanistan and to be guided by comparable realism in other parts of the world.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the explosion of an ammunition depot on 10 April situated between Islamabad and Rawalpindi had resulted in around 100 announced deaths with some 1,100 people injured. The cause was not known. Mishandling of explosives may have

CONFIDENTIAL

been responsible but a Pakistan Minister had said that sabotage could not be ruled out. Since the depot had stored munitions destined for the Afghan Resistance there might be consequences for the continuing flow of supplies to them.

Anglo-Italian
Summit

THE FOREIGN AND COMMONWEALTH SECRETARY said that it had been agreed with the Italians to postpone the Anglo-Italian Summit scheduled for 20 April. The Prime Minister, Signor de Mita, had only just succeeded in forming a new Government and would be unlikely to secure votes of confidence in the Italian Parliament before that date. How long the new Government would last was unclear. Signor Andreotti remained Foreign Minister.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

Agriculture
Council
1-29 March

4. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD reported that at its meeting on 28-29 March the Agriculture Council had resolved outstanding points on the stabiliser texts including the conclusion of a deal on wine which was tougher than we had earlier ourselves been envisaging. The texts had now been forwarded to the European Parliament for opinions prior to formal adoption. It seemed that the Parliament's opinion on the wine stabiliser would not be delivered until after the rest. Serious negotiations were unlikely to take place on the Commission's price fixing proposals, including agri-monetary issues, until after the French elections.

The Cabinet -

Took note.

STATEMENT ON
THE DEFENCE
ESTIMATES
1988

Previous
reference:
C(87) 13.4

5. The Cabinet considered a memorandum by the Secretary of State for Defence (C(88) 6) on the Statement on the Defence Estimates 1988.

THE SECRETARY OF STATE FOR DEFENCE said that the Statement underlined the continuity and stability of British defence policy with appropriate emphasis on both nuclear and conventional forces. It recorded the decisive conclusion of the domestic debate on Trident and reviewed our security concerns in the wake of the 1987 Treaty on Intermediate Nuclear Forces. It stressed the need for an effective nuclear element in NATO strategy; and in its focus on the Warsaw Pact conventional and chemical threat it reflected NATO's arms control priorities. The figures on Warsaw Pact forces had been agreed with the Secretary General of NATO to

CONFIDENTIAL

ensure consistency with NATO assessments. The Statement once again warned of the need for difficult decisions to match priorities to the available resources, but also stressed the steps being taken to achieve better value for money. The presentation would be further improved that year by the addition of coloured photographs. A popular version, free of charge, was also envisaged; there had been no criticism of this the previous year. He proposed to issue the Statement on 17 May.

In discussion, it was noted that the treatment of the Soviet threat and of Soviet military doctrine was especially effective.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the draft Statement on the Defence Estimates 1988, subject to any further detailed drafting amendments which should be forwarded to the Secretary of State for Defence by 18 April.

The Cabinet -

Invited the Secretary of State for Defence to agree with colleagues any final drafting changes and arrange for the issue of the Statement on the Defence Estimates 1988, together with a popular version thereof, on 17 May.

Cabinet Office

14 April 1988

CONFIDENTIAL