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CABINET

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

THURSDAY 21 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 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 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

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Sir Robin Butler  
Mr R T J Wilson (Item 5)  
Mr R G Lavelle (Items 3 and 4)  
Mr P J Weston (Items 3 and 4)  
Mr A J Langdon (Items 1 and 2)  
Mr G Monger (Item 5)  
Mr S S Mundy (Items 1 and 2)

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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 SOCIAL SERVICES said that the debate on the following Wednesday on an Opposition motion on housing benefit would be a heated and difficult occasion. He would consider its handling with his colleagues most closely concerned.

The Cabinet -

1. Took note.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Local Government Finance Bill was due to have its Third Reading in the House of Commons the following Monday. Two of the most important remaining votes on the Bill would be on the transitional arrangements for the national non-domestic rate (NNDR) and on new powers to restrain local authorities' ability to enter into barter transactions. He believed that the Government's proposals on both issues should be broadly welcomed by Government supporters. On the transition to the NNDR he proposed that the Bill should provide enabling powers for a ceiling to be set to the annual increase to which a ratepayer was subject, with a lower ceiling for small businesses. He did not propose to specify at this stage what the ceiling should be. It would not, in fact, be possible for this level to be set on a clear basis of factual evidence until further information was available about the likely results of the forthcoming revaluation of non-domestic rates, and that position was fully accepted by the Confederation of British Industry. The process of adjusting to an up-to-date valuation of rates that were assessed on the basis of rental values would clearly need careful management, since rents had generally tended to be high in areas where rates were low and the combined effect of high rents and rates could be very marked. The Bill currently provided for a five year transitional period, and he had accepted the case for a further transitional period thereafter. He considered it important that the Government should not allow long delays in non-domestic rate revaluation to build up again in future. As for the control of barter arrangements, which would be included in new clauses that he would be moving the following Monday, he would be able to make it clear that the Government recognised that the Government's proposed controls could be relaxed for deals in process and some categories of barter transactions. He believed that this would go far to commend the controls to Government supporters.

In discussion, it was suggested that in the longer term there was a case for ending revaluations since differences in rateable values were offset by corresponding differences in capital values. In the short term it was recognised that revaluation was necessary to remedy

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disparities between regions and between service and manufacturing industries.

THE PRIME MINISTER, summing up a short discussion, said that it remained essential that the Government should demonstrate the fullest possible support for the Local Government Finance Bill. The Secretary of State for the Environment should resolve the details of the proposed restriction on local authority barter transactions with the Chief Secretary, Treasury, and she should be kept in touch with what was proposed.

The Cabinet -

2. 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.

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2. THE SECRETARY OF STATE FOR DEFENCE said that the Defence and Oversea Policy Committee (OD) had that morning agreed that the United Kingdom should participate in the full development of the four-nation European Fighter Aircraft (EFA), subject to final confirmation that the Federal Republic of Germany (FRG), Spain and Italy, our partners in the project, intended to proceed also. This would be an extremely expensive project, but OD had concluded, after very careful consideration, that it was necessary to develop an agile fighter such as EFA in order to counter the future threat from Soviet bombers escorted by long-range agile fighters; and that all of the possible alternatives were either more expensive or had an unacceptably lower capability.

The Cabinet -

1. Endorsed the conclusions of the Defence and Oversea Policy Committee that the United Kingdom should participate in full development of the European Fighter Aircraft, subject to final confirmation that the FRG, Spain and Italy intended to do likewise.



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(88) 13.2

THE SECRETARY OF STATE FOR EMPLOYMENT said that the industrial dispute at Jaguar's Coventry plant had been settled earlier that week following the endorsement by the workforce, by a majority of about two to one, of plans to increase production there. The deal would generate increased productivity at no increased cost to the company and was an important step in the plan to bring productivity at Jaguar into line with that at Mercedes Benz and at BMW.

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THE SECRETARY OF STATE FOR EMPLOYMENT said that seamen employed by P & O European Ferries at Dover who had been taking strike action had been given until the previous evening to accept an improved pay offer by the company. The company had reported that around 50 per cent of the workforce of some 1800 people had accepted the offer. P & O management would be meeting representatives of the National Union of Seamen (NUS) that day and a mass meeting of the workforce had been arranged for the following day. There appeared to be two courses of action open to the company: either they could seek to persuade the NUS and the port committee at Dover that the revised offer had been effectively accepted with a view to an orderly return to work by the existing workforce, or, perhaps more likely, they could seek to run the ferries with those of the existing workforce who had accepted the offer together with new recruits trained to operate the ferries. The latter course was bound to provoke an hostile reaction from trades unions. The P & O management were determined to stand firm against the NUS's demands.

THE SECRETARY OF STATE FOR TRANSPORT said that, under the Merchant Shipping Act 1970, any new crew agreements required his authorisation. In order to minimise the risk of judicial review, he was consulting the trades unions about the new agreement which P & O had proposed. The consultation period ended on the following Monday, following which he would need to consider the unions' representations.

Harland and  
Wolff

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that Mr Ravi Tikkoo had announced highly ambitious plans to build the world's largest cruise ship at Harland and Wolff shipyard in Belfast. It was clear that the project would not be viable without extremely large subsidies from the Government. The announcement had been a blatant attempt to force the Government's hand into providing the necessary subsidies and he had ensured that his Department had given no encouragement to the idea that the Government would be prepared to agree to this. Any suggestion that more relaxed criteria for subsidy were being applied to Harland and Wolff than to British Shipbuilders would provoke deep resentment from shipbuilding regions in Great Britain. However, the issue would need sensitive handling in view of the very high rate of long-term unemployment in Belfast.

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The Cabinet -

2. Took note.

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Previous  
Reference:  
(88) 13.3

3. THE FOREIGN AND COMMONWEALTH SECRETARY, said that the hijacking of the Kuwaiti Airlines Boeing 747 on 5 April had ended on 20 April in Algeria with the release of the passengers and the disappearance of the hijackers. The Kuwait Government appeared to have stood firm in resisting concessions. The Government would now explore through the International Civil Aviation Organisation, the European Community and the Summit of the Seven leading industrialised countries the possibilities for more effective concerted action against aircraft hijacking. Given the likely reluctance of some of Britain's partners to agree to serious steps against Algeria under the terms of the Bonn Declaration, these efforts were likely to concentrate on practical measures such as the security of airports like Bangkok, ways to prevent hijacked aircraft from moving between countries and the handling of the media during hijacking incidents.

In discussion, it was noted that the escape of those responsible would encourage future hijacking incidents. But interrupting normal air services as a sanction against countries which colluded with or made concessions to hijackers was unlikely to be effective unless widespread international support from other Governments was achieved, which had not hitherto been the case. Further efforts needed to be made to persuade third world countries to accept the obligations of The Hague Agreement. Kuwait deserved praise for having remained firm throughout. The fact that the whereabouts of the hijackers since they left the Boeing 747 on 20 April had been kept secret might reflect a fear that any aircraft made available to them to leave Algeria might be intercepted, as had happened on an earlier occasion to the hijackers of the ship "Achille Lauro".

Persian Gulf  
Previous  
Reference:  
CC(87) 31.3

THE FOREIGN AND COMMONWEALTH SECRETARY reported that following the damage to the United States frigate "Samuel B Roberts" which struck a mine in the Persian Gulf on 14 April suffering 10 casualties, the United States had made a measured response against Iran in exercise of its rights of legitimate self-defence. The result had been the most substantial clash involving United States forces in the history of the current conflict. United States naval forces had destroyed two Iranian oil platforms and had crippled two Iranian frigates as well as one patrol boat and a number of smaller craft. The Iranian reaction had been swifter and more extensive than expected. In the course of their attack against a United States operated oil platform, the Hong Kong-registered British-owned tanker "York Marine" had also been attacked, fortunately without casualty. Dutch and Belgian minesweepers had played a part in helping the Royal Navy clear the remainder of the



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mines from the area. The fortuitous timing might help in persuading the Netherlands and Belgium that their naval presence in the Gulf was useful and should be continued. Meanwhile, Iraq appeared to have recaptured at least part of the Fao Peninsula. The United States were now attempting to draw a line under the recent actions against Iran. But the overall situation was unpredictable. Current military activity would not make it any easier to secure implementation of United Nations Security Council Resolution 598 on which discussions continued in New York.

In discussion, it was pointed out that if as expected the new Belgian Government to be formed within the next few weeks were to be of centre-left complexion, Belgium might find it difficult to keep a naval contribution in the Gulf and her attitude to defence more generally might become equivocal.

Political  
situation in  
Denmark

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Prime Minister of Denmark, Mr Poul Schluter, had called a general election for 10 May, following a resolution on 14 April in the Danish Parliament which might preclude visits to Danish ports by ships carrying nuclear weapons. This resolution appeared to call into question the continued Danish commitment to the North Atlantic Treaty Organisation. He and the Secretary of State for Defence had made it clear on 19 April that this resolution could have serious consequences for British ship visits, because the Government were not willing to alter the standard policy of neither confirming nor denying whether nuclear weapons were carried. It was by no means clear that Mr Schluter would win the election.

THE SECRETARY OF STATE FOR DEFENCE added that the 13,500 troops of the United Kingdom Mobile Force, which were committed to Denmark in transition to war, could not be sent or exercised there if Royal Navy ships could not enter Danish ports.

Arab/Israel  
dispute

Previous  
reference:  
C(88) 11.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the killing of Mr Abu Jihad, the Second in Command to Mr Yasser Arafat in the Palestinian Liberation Organisation (PLO), at his home in Tunis on 16 April had been a well prepared operation. Although Abu Jihad's reputation was by no means blameless, it was thought that he had been recently attempting to organise the current Palestinian campaign in the occupied territories on a non-violent basis. Tunisian allegations of Israeli responsibility for the killing were unproven, but Israel had made no serious effort to deny these. There had been a backlash in the occupied territories and a feeling of renewed solidarity with the PLO. Twenty five Palestinians had been killed on 16 April and further Palestinian retaliation was likely. Even if Yasser Arafat were to succeed in keeping down the temperature among his supporters, the overall effect on the peace process would not be good and the prospect for current negotiating

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efforts conducted by the United States Secretary of State, Mr George Shultz, seemed gloomy. The Soviet attitude would be important. In effect the United States now seemed to be withdrawing into its domestic electoral process. The Israeli Prime Minister, Mr Yitzhak Shamir, had escaped serious pressure in Washington.

The Cabinet -

Took note.

4. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Agriculture Council on 18-19 April had been mostly taken up by a long and desultory discussion of the Commission's price fixing proposals. Serious negotiations were not expected to take place on the proposals until after the French Presidential election and German elections in Schleswig Holstein and might then continue into June at least. The final stages of agreement of the stabiliser package were proceeding satisfactorily. The European Parliament was not expected to deliver its opinion on the wine stabiliser until May. It had been agreed that this should not hold up adoption of texts on the remainder plus set-aside. It had been accepted that any change in the wine stabiliser text would require unanimity.

THE CHANCELLOR OF THE EXCHEQUER said that at its meeting on 18 April the Economic and Finance Council had some discussion of the Commission's proposal for harmonisation of indirect taxation on which the Economic Policy Committee had submitted a report. The Presidency had felt obliged to arrange for such consideration, although they probably recognised that it would not be fruitful and the discussions were indeed inconclusive. Further discussion was expected to take place at the informal Council in May. The Presidency might well then seek some sort of procedural agreement, eg for a work programme, before handing over the subject to the Greek Presidency. Following up the Brussels European Council, the detailed text of a budget discipline decision for control of agricultural expenditure had been approved in principle. The Commission would table a formal proposal for a legally binding Council decision in the following week. Less progress had been made in relation to non-obligatory expenditure where the Commission were not holding to the conclusions of the European Council and there were also some differences within the Council. It would be necessary for the northern member states to stand firm on this issue. As regards the directive for liberalisation of capital movements, it was encouraging that pre-conditions hitherto envisaged by some member countries for agreement had been abandoned. There would be further discussions of this directive at the informal ECOFIN meeting in May and the Germans were aiming for full agreement at the June meeting.



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The Cabinet -

Took note.

REVIEW  
BY REPORTS

5. The Cabinet considered a note by the Secretary of the Cabinet (C(88)) about the recommendations of the Pay Review Bodies.

THE PRIME MINISTER said that the paper was the outcome of a discussion among the Ministers most directly concerned with the Review Body reports. The Nurses' Review Body had recommended a generous award for nurses, giving an average increase in pay of 15.3 per cent. Their recommendation included the implementation of a new grading structure for nurses directly involved in patient care. The intention was to introduce this new structure by 31 October. The new rates would be paid from the date the new structure was introduced but would then be backdated to 1 April, so that on the date of payment nurses would receive a substantial lump sum. All nurses would receive immediate payments on account of 4 per cent. The award of the Doctors and Dentists Review Body (DDRB), increasing pay by an average 7.9 per cent, was also generous, especially since there were no problems of recruitment or retention for doctors or dentists.

The proposal was that National Health Service (NHS) awards should be implemented in full, and that all the cost of doing so in excess of the provision already made should be met from the Reserve. This meant providing an extra £749m in total, increasing the total allocation for the NHS for 1988-89 over 1987-88 to nearly £2 billion. The pay of clinical academics should be settled in line with the DDRB report and the increase should also be financed from the Reserve.

For the armed forces, the proposal was to implement in full the award by the Armed Forces Pay Review Body (AFPRB). The cost should be met from within current provision for this year. For the Top Salaries Review Body (TSRB) groups, Ministers had concluded that, particularly having regard to the pay negotiations for the rest of the Civil Service, the award should be staged, with 4 per cent paid from 1 April and the remainder from 1 October. There was a special problem with the position of civil servants at Grade 3, who had lost London Weighting in 1985 but faced much higher costs if they lived in London, the TSRB should be asked to give their position consideration in next year's report. Finally, the Ministers concerned had thought it would be right to accept the TSRB recommendation that Northern Ireland County Court Judges should be paid as if they were in Grade 5 rather than Grade 6 so long as they were required to do significantly different work from their counterparts elsewhere in the United Kingdom.

The TSRB report to the Lord President of the Council on MPs' pensions and some other matters was being dealt with separately and would not be published until later.

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The proposal was that the Cabinet decision should be announced in a Written Answer that afternoon. A draft of that answer was attached to C(88)7.

In discussion the following main points were made:

a. The presentation of the award for nurses was important. Some critics might complain that they were being treated like the TSRB groups, by getting only a 4 per cent increase from 1 April and having to wait for the rest until later in the year. But it should not be difficult to deal with such criticism by pointing out that for the TSRB groups the Government had imposed a staging of the Review Body's awards whereas for the nurses it had accepted the Review Body's recommendations in full, including the backdating to 1 April of the substantial pay increases resulting from the introduction of the new structure.

b. It was important to make it clear that the new grading structure for nurses had been agreed in negotiations between management and staff before the recent industrial action had started. It had then been put to the Review Body for them to recommend the rates to be fixed for the new grades. This would make it clear that the introduction of the new structure was not a response to pressure. The new structure would also help to distinguish the special circumstances of the nurses from those of Non-Review Body groups in the NHS, who might press for similar increases.

c. More generally, there was a strong case for the Government to emphasise in public presentation how generous its record in dealing with the nurses had been. The increase in their pay since 1979 - 43 per cent in real terms - was substantial. Moreover, the new structure had major advantages in providing nurses with more attractive career prospects and recognising the skills of those involved directly in patient care. But it also had to be remembered that until the introduction of the new structure late in the year, individual nurses would not know how they would be affected.

d. The draft Answer attached to C(88)7 said that the Government recognised that the cost of the awards for the NHS groups could not be met from existing public expenditure programmes without adversely affecting services to patients. This sentence should be omitted.

e. Nurses London Weighting was negotiated in the Whitley Council but the Review Body was also able to recommend a London Supplement. This duplication was unsatisfactory and should be reconsidered before next year.

f. It would be desirable if possible to remove the requirement for an Order, subject to Affirmative Resolution, to maintain the

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differential between the Lord Chancellor's salary and the Lord Chief Justice's salary. This might be considered further in the context of other changes in this area affecting Parliament.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the proposals set out in C(88)7. She would announce this decision by Written Answer that afternoon. The Answer would be along the lines of the draft attached to C(88)7, subject to the deletion of the second sentence in the penultimate paragraph and any other drafting changes. It was important that full briefing on the decision should be made available to Ministers and backbenchers.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and noted that the Prime Minister would announce the Government's decisions accordingly.

Cabinet Office

21 April 1988

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