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E(82) 6th Meeting

COPY NO 66

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 25 FEBRUARY 1982 at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for
the Home Department

The Rt Hon James Prior MP
Secretary of State for
Northern Ireland

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Baroness Young
Chancellor of the Duchy of Lancaster

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Sir Keith Joseph MP
Secretary of State for
Education and Science

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon John Biffen MP
Secretary of State for Trade

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Cecil Parkinson MP
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP
Lord President of the Council

The Rt Hon Humphrey Atkins MP
Lord Privy Seal

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The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards
Secretary of State for Wales

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury
(Items 1-3)

Mr Kenneth Baker MP
Minister of State, Department
of Industry (Minister for
Information Technology)
(Items 2 and 3)

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson
Mr D J L Moore

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1. THAMES BARRIER: TEESSIDE DOCKS DISPUTE

Previous Reference: CC(82) 6th Meeting, Item 4

The Committee discussed a memorandum by the Minister of Agriculture, Fisheries and Food on the effect on construction of the Thames Barrier of the Teesside docks dispute (E(82)17).

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that, although one large gate and five small gates were now in position at the Thames Barrier, the three remaining large gates and one small gate with the associated gate arms were at Cleveland Bridge's Port Clarence Works on Teesside awaiting loading. The gates could not be moved because of a strike by dockers arising from a pay dispute with the Tees and Hartlepool Port Authority. If the gates could be released by 21 March there was still a prospect that the Barrier would become operable by November. If the Barrier did not become operable before the period of high flooding risk in January and February 1983, there was a danger of serious flooding in London; the flooding would be worse because the river walls downstream would have been completed and there would be no relief from overspill of flood water on to low-lying land in the Thames Estuary. His memorandum set out various possible courses of action. Since it had been circulated, he had been in touch with the General Secretary of the Trades Union Congress (TUC), Mr Murray, who had had discussions with the General Secretary of the Transport and General Workers' Union (TGWU), Mr Moss Evans. He had just heard from Mr Murray that, under the auspices of the Advisory, Conciliation and Arbitration Service, the employers and unions had reached an agreement which the shop stewards would be recommending to a mass meeting of the strikers on Saturday morning, and there was a good prospect that the strike would be ended. If not, Mr Evans was keen to find some way of permitting the release of the gates. If the outcome of the mass meeting was unfavourable, he had provisionally arranged to have a discussion on the following Monday with Mr Evans and, in Mr Murray's absence abroad, with Mr Ken Graham of the TUC to consider the next steps. Meanwhile he had received a letter from the Leader of the Greater London Council (GLC) Mr Livingstone, which suggested that the Government should intervene by providing the port employers with funds to settle the dispute.

THE PRIME MINISTER, summing up the discussion, said that some of the possibilities discussed in the memorandum by the Minister of Agriculture, Fisheries and Food raised very difficult issues, notably the proposed investigation of the feasibility of breaching the downstream river walls. It would not however be useful to consider possible courses of action until the outcome of the mass meeting was known and, if it proved unfavourable, the Minister of Agriculture, Fisheries and Food had had another discussion with the TUC and TGWU. Depending on the outcome she would arrange a meeting early the following week with the Ministers most closely concerned to consider urgently the next steps which the Government might take. Meanwhile the Minister of Agriculture, Fisheries and Food should reply to the Leader of the GLC saying that the Government was keeping in close contact with the situation and would await the outcome of the mass meeting. When the dispute was settled, it might be desirable to draw public attention to the line which the Leader of the GLC had taken.

The Committee -

1. Invited the Minister of Agriculture, Fisheries and Food to be guided by the Prime Minister's summing up.
2. Took note that, if the dockers did not vote to end the strike, the Prime Minister would arrange early the following week for a meeting of the Ministers most closely concerned to consider urgently the steps which the Government might take.

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2. DIRECT BROADCASTING BY SATELLITE

The Committee considered Memoranda by the Home Secretary and the Secretary of State for Industry (E(82) 13) and by the Central Policy Review Staff (E(82) 18) on Direct Broadcasting by Satellite (DBS).

THE HOME SECRETARY said that there had been a generally favourable response to the Home Office's study published in May 1981 which had favoured a modest early start with perhaps two DBS channels, out of the five internationally allotted to the United Kingdom, in about 1986. British Aerospace, GEC-Marconi and British Telecom had now formed a joint venture to provide a satellite system. For this to be operational in 1986, they wished to negotiate in 1982 a specific agreement with a broadcasting organisation to form a secure basis for the design and construction of a satellite system. The British Broadcasting Corporation (BBC) wished to enter into discussions with them; there were no legislative constraints on their doing so, and they had already formulated detailed proposals. Subject to the outcome of the negotiations, they would lease two channels from 1986 at a charge of around £12 million a year for each channel. One service would offer films and special events not normally available on television and would be financed by subscriptions from those who wished to receive it; initially this subscription finance would have to be supplemented by borrowing which might lead to an increase in the limit on the BBC's borrowing powers. The other service would be a 'window on the world' drawing on the best programmes from around the world and would be financed from licence fee revenue, with a supplement charged to those receiving the service. The Home Office provisionally estimated that it would cost the BBC initially about £20 million a year for programme material for each service. There was undoubtedly a risk that viewers would be slow to respond to these new services, that this could strain the BBC's finances and that the licence fee might be higher than otherwise. He was, nevertheless, persuaded that the industrial arguments for proceeding on this timescale were such as to override any doubts on grounds of broadcasting policy. The Independent Broadcasting Authority (IBA) and the commercial television companies would undoubtedly be critical of a decision in which the Government had appeared to favour the BBC. Until recently they had considered that DBS should not be introduced

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before 1990. In the face of the BBC's initiative they were now showing interest in taking part in the initial phase of DBS from 1986 but they had left it too late to be in a position to sign a contract in 1982; they had not yet formulated firm plans and legislation would be necessary to provide for the supervisory and regulatory framework which would be appropriate under present broadcasting policy. The opportunity remained, however, for the commercial companies to bid for use of the three remaining available channels and it was open to them to put forward firm proposals; the necessary legislation could be provided in due course. If the Committee approved these proposals he recommended that he should make an early statement to Parliament and that a Debate should be arranged soon afterwards.

THE SECRETARY OF STATE FOR INDUSTRY said that he strongly recommended that the proposals should be approved now so that the service could be operational from 1986. The Government's decision would open up considerable industrial, export and employment opportunities not only for the manufacturers of the satellites but also for firms making associated equipment. The capital cost of the satellite system would be met by the private sector. The development of DBS would be linked with that of cable systems. It was important that the United Kingdom industries should maintain their technological lead in this area and be in a position to compete effectively with overseas companies, particularly in France and West Germany.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed with the proposals put forward by the Home Secretary and the Secretary of State for Industry. They recognised that the leasing of two channels from 1986 would involve the BBC in some financial risks, but the industrial advantages of developing DBS were overriding. The Committee accepted that, because the IBA and the commercial companies had been slow to take an interest in participation in the initial phase of DBS, the first two channels had to be leased to the BBC. If, however, the IBA and the commercial companies were to make firm proposals for their participation in DBS, the opportunity remained for them to lease in due course some of the three other channels allotted to the United Kingdom. The Home Secretary should make clear, when announcing the decision, that the Government would welcome the participation of commercial

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companies in providing DBS services and would put forward proposals, as necessary, for legislation to enable this to happen. Because of the importance of the proposals, and of the interest in them, they agreed that the Home Secretary should make an oral statement to the House of Commons.

The Committee -

1. Approved the proposals in E(82) 13 for the development of direct broadcasting by satellite.

2. Invited the Home Secretary -

i. To make an early oral statement to Parliament announcing their decision, and taking account of the points made in the Prime Minister's summing up of their discussion, and to agree on the terms of this statement and on its timing with the Prime Minister, the Lord President of the Council and the Secretary of State for Industry.

ii. To reach agreement with the Lord President of the Council on the timing of a Parliamentary debate on the Government's proposals.

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3. CABLE SYSTEMS AND BROADCASTING POLICY

The Committee considered a Memorandum by the Home Secretary and the Secretary of State for Industry (E(82) 14) on developments in cable systems and the implication of these for the future of broadcasting. They also had before them a Note by the Secretaries (E(82) 16) to which was attached a report on cable systems by the Information Technology Advisory Panel (ITAP).

THE HOME SECRETARY said that the Prime Minister had instructed officials to examine the issues raised by the ITAP report with a view to enabling the Government to reach detailed decisions by the end of 1982 on the future development of cable. He recommended that in parallel with this work, and as a contribution to it, he should set up a small - probably three-person - urgent inquiry charged with considering within six months the broadcasting policy issues involved in expanding cable systems and proposing appropriate supervisory arrangements. The draft terms of reference for this inquiry were at Annex A to E(82) 14.

THE PRIME MINISTER, summing up the discussion, said that the Committee warmly welcomed the possibilities for developing cable systems and the industrial and employment benefits which this would bring. It was desirable that the extra jobs should be provided as quickly as possible. The Home Secretary should therefore consider urgently who might lead a swift inquiry into the broadcasting policy issues; it might not be necessary to appoint as many as three people. The broadcasting inquiry should complete its work in time for its findings to be taken into account by the inter-departmental official group which would be reporting later in the year on the wider issues arising from the development of cable systems in the United Kingdom. The timescale of both reviews should be such as to ensure that instructions could be given to Parliamentary Counsel in time for any legislation which might be necessary to be ready for introduction at the beginning of the 1982-83 Session.

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The Committee -

1. Took note that the Prime Minister had approved the publication of the report on cable systems by the Information Technology Advisory Panel, attached to E(82) 16, and had instructed that the issues raised by it should be examined by officials, under Cabinet Office chairmanship prior to substantive consideration by Ministers later in the year.
2. Approved the draft terms of reference, at Annex A of E(82) 14, for an inquiry into the broadcasting policy issues involved in an expansion of cable systems.
3. Invited the Home Secretary -
 - i. To consider further the membership of the proposed inquiry into broadcasting issues and to ensure that the inquiry was completed on the timescale indicated by the Prime Minister in her summing up of their discussion.
 - ii. To consider the timing of an early announcement of the proposed inquiry, bearing in mind the plans for publishing the report of the Information Technology Advisory Panel.

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4. UNITED KINGDOM TRADING POLICY

The Committee considered Memoranda by the Secretary of State for Trade (E(82) 10) and by the Central Policy Review Staff (CPRS) (E(82) 15) on United Kingdom trading policy.

THE SECRETARY OF STATE FOR TRADE said that his approach to the United Kingdom's trading policy started from the proposition that the national interest lay in the maintenance of the open trading system and that the Government should not waver from this in the advocacy of its trade policy. Japan presented the biggest current threat to the free trading system: officials were preparing a comprehensive report on British policy towards Japan for discussion by Ministers and, following the discussion of Japan by the European Community Foreign Affairs Council in March, he would wish to circulate a paper putting forward his own views. United Kingdom export performance was currently good and he had a number of proposals for helping exporters. On export credits, he considered it essential that Yen financing should be available to United Kingdom exporters, that the Government should be cautious about agreeing to any further increase in Consensus interest rates, and that unilateral increases in interest rates above Consensus levels should not be contemplated. It was important to maintain the full range of facilities offered by the Export Credits Guarantee Department and to keep up the export support provided through the British Overseas Trade Board and posts overseas. He recommended that there should be increases in the amounts available in 1982-83 and 1983-84 for supporting export projects under the Aid and Trade Provision (ATP) within the aid programme and under the Science and Technology Act. The ATP programme had been demonstrably successful in helping British exporters to win substantial orders. He accepted the CPRS' proposal that the criteria for support of large projects should be reviewed. He did not, however, agree with their proposal that there should be a review of sectoral priorities; in his view, rather than attempt to spot winners, the Government should continue its present, successful policy of backing those strong and active firms which were either already competitive in export projects or close to being so. He recommended that the Government should stay broadly on its present course in attacking other countries' non-tariff barriers rather than risking retaliation by erecting barriers to protect British industry. He

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recommended keeping up the pressure along the lines recommended in paragraphs 41 and 44 of the report by officials, at Annex I to E(82) 10, although these measures would be only modest in their effect. In general he recommended that the Government should not embark upon a systematic policy of covert protection of British industry but the approach should be pragmatic. His Department was in the lead in an inter-departmental review of the ways in which standards could be used to help to improve the performance of British industry; this review would also cover the possibility of using port controls to prevent imports of products not complying with health and safety regulations. He invited the Committee to agree with the recommendation in paragraph 42 of the report by officials, for a greater degree of Community preference in tendering for European Investment Bank Projects. He accepted the advice of the Lord Chancellor, at Annex III of E(82) 10, that the measures concerning the procedure of the courts, discussed in paragraph 36 of the report by officials, should not be pursued. This left open the possibility of references to the European Court on a case by case basis where this was defensible in Community law. He recommended that the Government should be ready to use the legitimate instruments available to it to deal with import penetration which threatened serious injury to domestic producers.

In discussion the following were the main points made -

- a. There was support for the proposal that the share of the ATP within the total aid programme should be increased, although it was recognised that this would be at the expense of bilateral aid and might run the risk of retaliation from other countries offering mixed credit arrangements. It was desirable that the multilateral aid programme should lead to more contracts for British industry.
- b. Although it was noted that an increase in Consensus interest rates could be helpful in reducing public expenditure, most Ministers were strongly against any further increase in Consensus rates which were damaging to the prospects of British exporters.

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c. Although it was generally right to pursue an open trading policy it would on occasions be necessary to act swiftly and decisively to protect British industries from unfair competition. Neither the European Commission nor the European Court could be relied on to provide effective protection. On occasions it might be necessary to consider the provision of subsidies where British industries were at risk of going out of business in the face of subsidised competition from abroad or to put up barriers to imports on the lines of the action recently taken to protect poultry meat producers against subsidised French competition.

THE PRIME MINISTER, summing up the discussion, said that the Committee generally welcomed the Secretary of State for Trade's proposal that there should be increases, within the overall public expenditure provision for aid, in the ATP. They hoped that Yen financing would soon be available to British exporters. They agreed that any proposal to increase Consensus interest rates should be viewed with very considerable caution. They accepted the CPRS' proposals for a review of the criteria for support of large projects, though there would be no question of suspending such support while the study was in progress. They agreed that for the reasons put forward by the Secretary of State for Trade, it was not necessary to review sectoral priorities. They agreed in general that it was right to pursue an open trading policy and to avoid systematic covert protection of British industry and the erection of non-tariff barriers. The Committee were, however, deeply concerned over the failure of other countries to observe the regulations of the European Community and to reduce their non-tariff barriers. It was particularly unsatisfactory that the courts in other Community countries were slower and less effective than United Kingdom courts in enforcing Community law. There would be no attempt to seek to delay procedures in United Kingdom courts but the Government should take the initiative and call for action within the European Community to ensure uniformity in the speed and effectiveness of court proceedings. In pursuing the recommendations in paragraphs 43 and 44 of the report by officials at Annex I to E(82) 10, the Secretary of State for Trade should take account of the comments on paragraph 43 ii. by the Attorney General in his minute to her of 22 February.

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The Committee -

1. Approved, subject to the points made by the Prime Minister in her summing up of their discussion, the recommendations in E(82) 10.
2. Invited the Foreign and Commonwealth Secretary, in consultation with the Secretaries of State for Industry and for Trade and the Chief Secretary, Treasury, to consider how, within the total aid programme, the Aid and Trade Provision might be increased.
3. Invited the Secretary of State for Trade -
 - i. to arrange for the Official Committee on Exports to review the criteria for support of large projects, as recommended by the Central Policy Review Staff in paragraph 3 of E(82) 15, and to report;
 - ii. in consultation with the Secretary of State for Industry to ensure that the current review of port controls covered the possibility of requiring compliance with United Kingdom regulations, including but not confined to health and safety regulations;
 - iii. in consultation with the Attorney General, to consider how best to press for greater uniformity within the European Community in court procedures for dealing with the enforcement of Community law;
 - iv. to circulate in due course, and for discussion at the same time as the report which officials under the Secretary of the Cabinet were preparing, a memorandum on the problems arising from the trading policies of Japan.

Cabinet Office

26 February 1982

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