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E(82) 11th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 22 APRIL 1982 at 11.30 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 Sir Keith Joseph MP
Secretary of State for
Education and Science

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

The Rt Hon David Howell MP
Secretary of State for
Transport

The Rt Hon Baroness Young
Lord Privy Seal

The Rt Hon Norman Tebbit MP
Secretary of State for
Employment

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

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

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

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
Chancellor of the Duchy of
Lancaster and Paymaster General

The Rt Hon Lord Cockfield
Secretary of State for Trade

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon John Biffen MP
Lord President of the Council

The Rt Hon Sir Michael Havers QC MP
Attorney General
(Item 1)

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury
(Item 1)

Mr J Sparrow
Central Policy
Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson
Mr M S Buckley

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1. THE GREATER LONDON COUNCIL AND LONDON TRANSPORT

The Committee considered a Memorandum by the Secretary of State for Transport (E(82) 36) concerning financial relations between the Greater London Council (GLC) and London Transport (LT).

THE SECRETARY OF STATE FOR TRANSPORT said that the GLC had clear advice from Counsel in respect of LT's capital budget for 1983. This indicated that there was little scope for approving most capital expenditure by LT in 1982. In conjunction with previous legal advice to the GLC concerning the need to try to achieve break-even on revenue account from January 1983, this appeared to oblige LT to take early steps towards reducing services. This was being used by the GLC to create political difficulties. They were encouraging the trade unions both to resist necessary economies, on the grounds that the real need was to change the law, and to press exorbitant wage demands. Reforms in the conduct of the business of LT were certainly needed. The immediate requirement was however to make it clear in public that the Government intended to safeguard the legal position, and that the GLC had no justification for trying to shift the blame for the difficulties of LT on to the Government. He accordingly proposed to tell Mr Livingstone, the leader of the GLC, that he should prepare plans for 1983 on the footing that the Government would provide resources for capital and current purposes roughly equivalent to those being made available in the current year. He would also announce that the Government intended to introduce legislation in the new Session of Parliament establishing that a reasonable level of subsidy for LT was legitimate while firmly preventing a return to extravagant subsidy policies.

In discussion, the following main points were made -

- a. The purpose of any new legislation, and of any statement of intent to legislate, would be to prevent the GLC from taking unacceptable action. To achieve this purpose it would be necessary to be specific. It was clear that Ministers were not yet able to make specific proposals. Hence to make an announcement of the sort proposed at this stage would have little value. On the contrary, it would be widely regarded as recognition by the Government that the GLC were right in arguing that changes in the law were needed.

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b. An early announcement ran a risk of cutting across current studies of several aspects of local government finance and, in particular, the work of the official group on public transport in London and other conurbations (MISC 70). It was desirable to clarify the law. But this could not be done until Ministers had taken decisions on such questions as what was a reasonable level of subsidy for public transport.

c. The present situation was causing much discontent among the Government's supporters in the country. Early action was required to prevent the Government's position becoming unsustainable. But the right course was to shift the ground of public debate to the irresponsibility of the present GLC and the desirability of modifying or removing the powers of the GLC over LT.

d. The legal advice given to the GLC was reasonable. Although it was legitimate to budget for a deficit in 1982, when the damage resulting from the GLC's low fares policy had to be put right, it did not follow that the same held good for 1983. Moreover, even if the Government's legal advisers took the view that a deficit could legitimately be budgeted for in 1983, the GLC could reasonably reply that they had to be guided by the legal advice tendered to them. On the other hand, the essential point of the House of Lords' judgment had been that it was wrong deliberately to incur a larger deficit than was unavoidable. Provided that proper steps were taken to minimise the deficit, subsidy to cover what remained was legitimate. That had been the policy of the previous Conservative leadership of the GLC, and had not been challenged.

THE PRIME MINISTER, summing up the discussion, said that the Committee were not persuaded that it would be right to make a public announcement on the lines proposed by the Secretary of State for Transport. A better way of proceeding would be for the Secretary of State to write to the GLC, restating the Government's view that the existing law permitted a reasonable level of subsidy and that subsidy on the basis adopted by the previous Conservative leadership of the GLC could continue. The question of whether a statement should be made about legislation on transport subsidies would have to be looked at again when Ministers had considered the various reports on the financing and organisation

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transport in the conurbations and on other major issues of local government structure and finance which were already in preparation with a view to completion at the end of May.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up.
2. Invited the Secretary of State for Transport, in consultation with the Secretary of State for the Environment, the Chief Secretary, Treasury, and the Attorney General, to write to the Greater London Council on the lines indicated in the Prime Minister's summing up.

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2. CONTINENTAL SHELF: AN EIGHTH ROUND OF OFFSHORE LICENSING

The Committee considered a Memorandum by the Secretary of State for Energy (E(82) 32) and a Note by the Central Policy Review Staff (E(82) 33) discussing the eighth round of offshore licensing for prospecting for hydro-carbons on the United Kingdom Continental Shelf.

THE SECRETARY OF STATE FOR ENERGY said that an eighth round of licensing was required in order to maintain the momentum of exploration. He proposed to offer about 200 blocks, including blocks in the Southern Basin gas province, a few blocks in the mature oil province of the central North Sea, and blocks in frontier areas. He expected a total of about 85 blocks to be licensed. For blocks in the mature oil province he proposed to invite closed tender bids, though he would retain the ability to exclude applicants whose technical and financial standing was inadequate. For all other blocks, decisions would be based on the normal licensing criteria. This would enable him to select the most suitable applicants for individual blocks and to extract all possible support for the Government's offshore policies.

He had discussed his proposals with the Chancellor of the Exchequer and reached a broad measure of agreement. The only point at issue concerned the timing of an announcement. An early announcement, which he favoured, would enable companies to make use of the 1982 summer season for the preliminary surveys on which they would base their applications for licenses. The Chancellor of the Exchequer, on the other hand, was concerned that the oil companies would use an announcement as a pretext for attacks on the new oil tax regime proposed in the Finance Bill, and would therefore prefer to delay an announcement until the Committee Stage of the Finance Bill was concluded.

In discussion, the following main points were made -

- a. There was conflicting evidence about the likely attitude of the oil companies to an announcement. Most members of the Committee took the view that undue delay could significantly hamper the preliminary surveys which the companies would require before they could bid.

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b. E(82) 33 suggested that there might be advantage in delaying an announcement in respect of gas blocks until the working group on ways of controlling gas exports had reported. Otherwise, applicants would press for a statement on exports policy; and this pressure could create difficulties for Ministers. On the other hand, the Government had already made clear its general approach.

c. It was open to question whether the British Gas Corporation (BGC) should be permitted to bid for licences. However, the thrust of the Government's policy was to break the BGC's powers of monopoly and monopsony, not to prevent it from competing for business on fair terms. Moreover, the Secretary of State for Energy would retain the ability to refuse a bid by the BGC if he considered it undesirable.

d. It would be important to make it clear that there would continue to be adequate consultation and safeguard arrangements for the fishing industry, whose interests would be affected by prospecting in some of the blocks proposed for licensing.

THE PRIME MINISTER, summing up the discussion, said that the Committee were content with the proposals in E(82) 32, subject to resolution between the Secretary of State for Energy and the Chancellor of the Exchequer of the question of timing. On this, the balance of opinion in the Committee favoured an early announcement.

The Committee -

1. Subject to conclusions 2 and 3 below, approved the proposals in E(82) 32.

2. Invited the Secretary of State for Energy, in consultation with the Chancellor of the Exchequer, to decide the detailed timing of an announcement concerning the eighth round of licensing in the light of the Prime Minister's summing up.

3. Invited the Secretary of State for Energy to consult the Minister of Agriculture, Fisheries and Food and the Secretary of State for Scotland concerning the most appropriate way of taking account of the interests of the fishing industry in the eighth round of licensing.

Cabinet Office

23 April 1982

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