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Conclusions

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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 15 JANUARY 1987
at 10.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Viscount Whitelaw
Lord President of the Council

The Rt Hon Lord Hailsham of St Marylebone
Lord Chancellor

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 Douglas Hurd MP
Secretary of State for the Home Department

The Rt Hon Peter Walker MP
Secretary of State for Energy

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon John Biffen MP
Lord Privy Seal

The Rt Hon Norman Fowler MP
Secretary of State for Social Services

The Rt Hon Norman Tebbit MP
Chancellor of the Duchy of Lancaster

The Rt Hon Tom King MP
Secretary of State for Northern Ireland

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment

The Rt Hon Lord Young of Graffham
Secretary of State for Employment

The Rt Hon Kenneth Baker MP
Secretary of State for Education and Science

The Rt Hon Kenneth Clarke QC MP
Paymaster General

The Rt Hon John MacGregor MP
Chief Secretary, Treasury

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

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry

The Rt Hon John Moore MP
Secretary of State for Transport

ALSO PRESENT

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

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SECRETARIAT

Sir Robert Armstrong
Mr D F Williamson (Items 3 and 4)
Mr C L G Mallaby (Items 3 and 4)
Mr A J Langdon (Items 1 and 2)
Mr M J Eland (Items 1 and 2)

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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.

Opposition Day
(5th Allotted
Day)

THE PRIME MINISTER, summing up a short discussion of the Opposition Motion for 20 January entitled "The Divided Nation - Failure of the Government's Economic Policies", said that the prosperity of the north and south of the country was by no means in such sharp and simple contrast as the Opposition made out. In many ways the contrast between the inner cities and the outer suburbs and smaller towns and cities was more stark and more intractable. There were many stories of success from all the regions: the pattern was a subtle and complex one. The underlying problem, which was shared by all Western industrialised countries, was the shedding of jobs from the traditional manufacturing industries, and the geographical concentrations of those industries. The Leader of the Opposition had indeed recognised this. The Government had consistently pressed home its belief that the way forward must lie in the encouragement of enterprise and of an inventive and entrepreneurial spirit. In contrast, the Opposition's policies of economic management were not likely to encourage investment by multinational organisations and, at a local level, the activities of some left-wing dominated local authorities did not provide a propitious climate for industrial investment. Furthermore the Labour Party's policies on nuclear power and the nuclear weapons programme would tend to increase unemployment in many parts of the country, including in the north and in Scotland. The Government's policies on these matters were consistently positive and no opportunity should be lost to present them in a positive fashion.

Criminal
Justice
Bill

THE HOME SECRETARY said that the Criminal Justice Bill was a very large and important measure that touched on many Departments' interests, especially in respect of commercial crime, and would excite a good deal of interest in both Houses. He still hoped that in order to ease the Bill's passage in the Lords it would be possible to take the Bill through the House of Commons without recourse to a guillotine motion, but in order to achieve this he might need to ask for his colleagues' co-operation at short notice on various matters.

The Cabinet -

Took note.

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HOME AFFAIRS

Unemployment
Figures

2. THE SECRETARY OF STATE FOR EMPLOYMENT said that he would be announcing that day that the seasonally adjusted figure for unemployment had fallen by 28,000. The cumulative fall over the past six months was now over 100,000 which was most encouraging; unemployment was now lower than it had been a year ago. While the figures for Scotland in December had been disappointing, it was noticeable that the fall in unemployment over the year had been greatest in the north, in Wales, in the north east and West Midlands. In announcing the figures he would however take care to stress that the current period of bad weather would affect the employment figures in two months' time.

THE PRIME MINISTER, summing up a short discussion, said that one drawback of the present recording system was its in-built delay. The picture presented by even the most up-to-date official statistics was therefore already an inaccurate representation of the actual position, and understated the buoyancy of the economic recovery. One useful measure of activity which had been used in the United States, was a comparison of the "situations vacant" columns of local newspapers over a period of time. The Paymaster General should consider what research work might usefully be carried out along these lines.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Paymaster General to proceed as indicated.

Takeover Bid
for Pilkington
Brothers plc

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he had received advice from the Director of Fair Trading that there was no case for referring the takeover bid by BTR plc for Pilkington Brothers plc to the Monopolies and Mergers Commission (MMC). He was satisfied that the bid fell quite clearly outside the category of cases to be referred to the MMC under the guidelines governing such referrals and he had therefore decided, acting in the quasi-judicial capacity he had to adopt in such cases, to accept the advice and not to refer the bid to the MMC. He should warn colleagues that this decision was likely to be challenged in the House of Commons where an Early Day Motion urging him to refer the bid to the MMC had attracted over 70 signatures.

Effects of the
Exceptionally
Severe Weather

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the announcement earlier in the week that exceptionally severe weather payments would be guaranteed for that week for all those within qualifying groups had met with a generally good reception in the media. A decision would need to be taken shortly whether to repeat the procedure for the following week. He had also asked his junior Ministers to ensure that there was sensible

co-operation between his Department and voluntary organisations about the problem of single homeless people sleeping rough. These exchanges had been misleadingly reported as implying open-ended financial support for the activities of such organisations in this field; steps were being taken to correct this.

The Cabinet

Took note.

FOREIGN
AFFAIRS

Afghanistan

Previous
Reference:
CC(86) 19.2

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Soviet Union had declared a ceasefire in Afghanistan starting that day. This was part of the generally skilful efforts of the General Secretary of the Communist Party of the Soviet Union, Mr Mikhail Gorbachev, to present a more accommodating and peaceful face to the world. It came at a time when Pakistan was facing increasing difficulties because of the presence there of 3 million refugees from Afghanistan and when a further round of the United Nations negotiations on Afghanistan was due soon to take place; and at a time of year when weather made military operations against the resistance forces especially difficult. The Government would be active in drawing public attention to the real nature of Soviet policy in Afghanistan, particularly the continued presence there of some 110,000 Soviet forces.

In a short discussion, it was noted that the Soviet Union, which was occupying Afghanistan, was in effect asking the national resistance forces to lay down their arms while the occupation continued. Those forces seemed unlikely to oblige.

Gibraltar

Previous
Reference:
CC(86) 14.2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Foreign Minister of Spain, Senor Fernandez Ordonez, had visited London on 13 and 14 January and held talks with himself and with the Prime Minister. Senor Ordonez was not an impressive figure. His manner, with his own officials or in talks with British Ministers or before the media, was always benign and nervous. He had tried to give the press the impression that his line with British Ministers on Gibraltar had been more robust than in fact had been the case. The Government were trying to improve the atmosphere surrounding the matter of Gibraltar by co-operation in the area between Spain and Gibraltar. There was no serious difficulty in maintaining this policy.

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Iran/Iraq War

Previous
Reference:
CC(86) 10.2

THE FOREIGN AND COMMONWEALTH SECRETARY said that Iran had launched an offensive in the southern sector of the front on 24 December 1986, which Iraq had rapidly repulsed, using chemical weapons among others. A second offensive had begun on 9 January east of Basra. There were now reports that fighting might have started in the central sector east of Baghdad. There had also been more air attacks than for some time by each country on the other. The situation had worsened and the risks to British citizens in the area had increased.

Lebanon

THE FOREIGN AND COMMONWEALTH SECRETARY said that Mr Terry Waite, Special Representative of the Archbishop of Canterbury, was visiting Lebanon. Officials of the Foreign and Commonwealth Office were in touch with him. Two British hostages in Lebanon, Mr Alec Collett and Mr John McCarthy, might still be alive and there was also one dual national. Mr Waite would be making inquiries. There had been unconfirmed reports that Mr McCarthy might be released. Mr Waite had given foreigners in Lebanon the sensible advice that they should keep away from West Beirut. A French national had been seized by gunmen in West Beirut since Mr Waite's arrival, and the number of French hostages in Lebanon now stood at six, compared with four at the beginning of 1986.

United States

Previous
Reference:
CC(86) 42.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the United States Secretary of State, Mr George Shultz, with whom he had held talks in Bermuda on 6 and 7 January, had been in good form. He was carrying on with his job, and believed that the State Department might now have come through the worst of the effects of recent revelations of United States arms sales to Iran and the diversion of resulting funds to the Contra forces in Nicaragua. Mr Shultz was taking a close interest in the question of further moves in arms control negotiations with the Soviet Union.

The Cabinet -

Took note.

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COMMUNITY
AFFAIRS

Trade Dispute
With The
United States

Previous
Reference:
CC(86) 42.4

4. THE FOREIGN AND COMMONWEALTH SECRETARY said that he had discussed with the United States Secretary of State, Mr Shultz, at their recent meeting in Bermuda the dispute over the effects of the accession of Spain and Portugal on United States exports. He had made clear to Mr Shultz that the Community would respond with equivalent measures at the same time if the United States were to impose the restrictions they had threatened to impose on certain Community exports to the United States. The volume of Community trade affected by the proposed United States restrictions was about \$400 million, of which about \$80 million would be exports of gin from the United Kingdom. The Community's counter-measures would be concentrated largely on United States supplies of corn gluten feed; if the dispute were not settled, the size of the supplementary charge would be decided by the Foreign Affairs Council later in January. It was important that the United States should understand the seriousness of the Community's purpose, since the United States claims were too high and would have to be brought down if a settlement were to be reached.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that there would be further talks between the Commission and the United States before the Foreign Affairs Council on 26-27 January. The United States measures, if implemented, would risk pricing British gin out of the United States market. He thought it right that the Community's counter-measures should concentrate on corn gluten feed, which was important for the sector of United States agriculture which was most directly concerned with the original area of dispute. Nonetheless, it was clearly in the British interest that a settlement should be reached during January, since a compromise would be better than a potentially escalating trade war. He had in mind that, if an agreement had not been reached at the Foreign Affairs Council, the Community might offer binding arbitration. It would be unwise, however, to signal this possibility in advance while negotiations continued. More generally, he considered that the protectionist pressures in the United States would continue to be strong over the coming year and might give rise to further difficulties. At the heart of the problem was the United States trade deficit, which was about \$170 billion for 1986 and about \$19 billion for November 1986 alone.

In discussion the view was endorsed that it would be in the British interest to reach a settlement if possible during January, since the effects of a trade war would be likely to spread further. The possibility of arbitration had already been signalled by Dr Bangemann, the Federal German Minister of Economics, but it would be appropriate only if an agreement could not otherwise be reached.

The pressure on United States opinion of the trade deficit, their imports now being twice as large as their exports, was linked with the United States budget deficit and diminishing confidence in the dollar. Substantial expenditure by the Japanese authorities in support of the dollar in a recent period had had little or no effect. Trade tension also reflected the big change in world agricultural export markets as improvements in domestic production in former importing countries closed off outlets for United States grain and the products of other developed

countries. These changes supported the arguments which the United Kingdom had been making for reforms in the operation of the common Agricultural Policy. This effect would be even more marked if the Soviet Union, now an importer of cereals, were able to make good the deficiencies in its domestic production.

Community
Budget For
1987

Previous
Reference:
CC(86) 41.1

THE CHANCELLOR OF THE EXCHEQUER recalled that, despite the efforts of the United Kingdom Presidency, there had been no agreement between the Council and the European Parliament on the proposed Community budget for 1987. The Community was therefore operating on the regime known as provisional twelfths. The conditions for reaching an agreement had been improved by the decisions of the Agriculture Council in December. The Commission and the Belgian Presidency were now seeking an agreement which, while not exceeding the 1.4 per cent value added tax ceiling, would involve commitments above the maximum rate of increase for non-obligatory expenditure. The United Kingdom would not agree to exceeding the maximum rate and seemed likely to be able to rely on support from France and the Federal Republic of Germany to defeat it. The Commission and Belgian Presidency were also proposing an arrangement of doubtful legality in the form of a negative payments reserve. It might be necessary to take further legal advice on this point. It was expected that there would be a further Budget Council the following day.

The Cabinet -

Took note.

Cabinet Office

15 January 1987