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CC(87) 5th
Conclusions

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CABINET

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

THURSDAY 12 FEBRUARY 1987

at 10.00 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 George Younger MP
Secretary of State for Defence

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 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 4 and 5)
Mr C L G Mallaby (Items 4 and 5)
Mr J B Unwin (Item 6)
Mr A J Langdon (Items 1-3)
Mr G Monger (Item 6)
Mr M J Eland (Items 1-3)

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THE MARRIAGE
OF MR MARK
THATCHER

1. The Cabinet expressed their warmest good wishes to the Prime Minister and her family for the marriage on Saturday 14 February of her son to Miss Diane Burgdorf, and instructed the Secretary of the Cabinet to convey their good wishes to Mr Mark Thatcher.

PARLIAMENTARY
AFFAIRS

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

Local
Government
Legislation

THE LORD PRESIDENT informed the Cabinet of the conclusions he had reached, after consultation with the business managers, the Secretary of State for the Environment and the Prime Minister, about the arrangements for handling local government legislation in the present session.

The Cabinet -

Took note.

HOME AFFAIRS

Tax Frauds
at Building
Sites

3. THE SECRETARY OF STATE FOR NORTHERN IRELAND said that remarks by a judge in a case of tax fraud in the building industry which had concluded in Belfast the previous day had attracted a certain amount of publicity in the media. The use of such frauds by groups such as the Provisional Irish Republican Army to finance their activities was an established fact and a number of measures were being developed to counter it. The particular fraud was not confined to Ulster but was practised on the mainland by various criminal elements; there was some evidence of contact between these groups and Irish terrorists. The fact that the conviction rate for the offence had risen sharply over the past few years was a good indicator of the extent and success of the law enforcement agencies' activity in this area. It was clearly important to take all possible steps to prevent terrorist organisations from obtaining funds from such sources. Another profitable source for them in the past had been private security organisations.

Measures to counter this had been included in the Northern Ireland (Emergency Provisions) Bill currently before Parliament.

The Cabinet -

1. Took note.

Resignation of
Magistrates

THE LORD CHANCELLOR said that he had received a letter from Mr James Molyneux MP, leader of the Official Unionist Party, tendering his resignation as a magistrate on the grounds that following the Anglo-Irish Agreement his duties might bring him into conflict with his personal views. Since Mr Molyneux had not in fact sat as a magistrate for more than a decade, his motivation now was clearly solely political. He was therefore minded to refuse to accept the resignation and instead to strike Mr Molyneux off the roll of magistrates; this would make it clear to others who might be tempted to follow Mr Molyneux's example that it was not acceptable to bring the office of magistrate into disrepute by exploiting it for transparently political purposes. Before he reached a decision in the matter, he would wish to hear the views of colleagues, given the wider ramifications of any such action in the Northern Ireland context.

THE PRIME MINISTER, summing up a short discussion, said that the Cabinet shared the Lord Chancellor's concern about any risk of magisterial office being used for political ends. In reaching his decision on how to deal with the matter, however, the Lord Chancellor would wish to weigh the views expressed in discussion to the effect that Mr Molyneux might be looking for publicity and even martyrdom, and that it might in the circumstances be sufficient to accept his resignation, noting that it was in fact many years since he had sat as a magistrate.

The Cabinet -

- 2. Took note, with approval, of the Prime Minister's summing up of their discussion.

Attitude of
the Labour
Party to
Violent
Crime

THE HOME SECRETARY said that earlier that week Labour Members of Parliament had voted against renewal of the Prevention of Terrorism (Temporary Provisions) Act 1984 despite the clear evidence that had been presented of the vital importance of the Act in combatting both Irish and Arab terrorism. In the same week they had also voted against the provisions in the Criminal Justice Bill to enable the Attorney General to refer over-lenient sentences to the Court of Appeal for review, and to increase the maximum penalty for carrying firearms. These actions were in striking contrast with their professed concern about violent crime, and he would stress this divergence in various public appearances he was making in the coming days.

Unemployment

THE SECRETARY OF STATE FOR EMPLOYMENT said that January figures for unemployment would show an increase of 68,000. The seasonally adjusted figure would be up by 300. Any increase after the recent monthly reductions was disappointing, but this was still the best January result since 1978. In discussion it was pointed out that there were some regional differences. In Wales there would be another fall in

unemployment on a seasonally adjusted basis; in nine out of the last 10 months there had now been a reduction. In Scotland there would be some increase but this partly reflected the fact that there were more school leavers at Christmas in Scotland.

The Cabinet -

3. Took note.

FOREIGN
AFFAIRS

Nigeria

Previous
Reference:
CC(86) 28.3

4. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Nigerian authorities had suddenly demanded the closure of the new British visa office in Lagos. The visa regime for Nigeria, which had come into force earlier that month, had been criticised in Nigeria as being allegedly racist. The reason given for the demand for closure of the office was traffic congestion outside the premises but the real reason might concern security, since the building overlooked the military barracks which were effectively the seat of the Nigerian Government. It was impossible to know what else might lie behind the Nigerian action. The President, General Ibrahim Babangida, who had not objected to the opening of the visa office, was currently out of the country. The Government were of course reacting vigorously to the Nigerian action.

Lebanon

Previous
Reference:
CC(87) 4.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that there continued to be conflicting rumours, but no reliable information, about the position of the Archbishop of Canterbury's Special Representative, Mr Terry Waite, who had disappeared more than three weeks previously in Lebanon. The Archbishop of Canterbury had received a reply from the spiritual leader of the Shia community in Lebanon, Sheikh Fadlallah, disclaiming any responsibility for Mr Waite's kidnapping and providing no information. The British Ambassador in Lebanon, Mr John Gray, was maintaining contact with as many elements in Lebanon as possible and would shortly hold a meeting with the Druze leader, Mr Walid Jumblatt. The Government was maintaining pressure to dissuade the Government of the Federal Republic of Germany from making concessions to terrorism in order to secure the release of German hostages in Lebanon. So far, the Federal German Government was standing firm, but one could not be confident that there would be no change in that position. There were many reports that Israel was seeking the release of her servicemen detained in Lebanon in return for the release of Arabs in Israeli prisons. It was said that the United States would not support such a deal, but here too the position could change. Meanwhile, the United States 6th Fleet remained in the Mediterranean but there was no indication at present of plans to take military action in Lebanon. That could change rapidly if United States hostages were killed or seemed to be about to be killed.

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Vanuatu

THE FOREIGN AND COMMONWEALTH SECRETARY said that a cyclone had struck Vanuatu on 7 February. The death toll so far was put at 45 and the damage to the capital, Vila, was estimated at £100 million, twice the annual Gross Domestic Product of Vanuatu. The United Kingdom had immediately provided £100,000 in initial disaster relief. The offer of a team from the Royal Engineers, who would probably come from Hong Kong, had been accepted.

In a brief discussion, it was agreed that British aid following the cyclone should be seen to be both timely and consonant with the scale of the disaster.

United States Strategic Defence Initiative

THE FOREIGN AND COMMONWEALTH SECRETARY said that there had been various statements by members of the United States Administration about new moves in the implementation of the Strategic Defence Initiative (SDI). Remarks by the Secretary of Defense, Mr Caspar Weinberger, to the effect that decisions on deployment of certain systems might soon be taken had now been set in perspective. The Government had received assurances that any changes in the United States interpretation of the Anti-Ballistic Missile Treaty would be the subject of consultation with allies. The modalities of the consultations were not yet clear.

Soviet Union Previous Reference: CC(87) 3.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that 140 dissidents had been released from detention in the Soviet Union and the release of 140 more was reportedly under consideration. The Government should welcome this development, while pointing out that many more political prisoners were held in the Soviet Union. The release of the dissidents was likely to improve the image of the Soviet Union in the West, and this was undoubtedly part of its purpose.

Britons held in Iraq and Iran

THE FOREIGN AND COMMONWEALTH SECRETARY said that Mr Ian Richter, a British businessman resident in Iraq, had been arrested in June 1986 and had now been sentenced to life imprisonment for bribery. Mr Richter's lawyers and the British Consul General in Baghdad had been present during the trial. The sentence was obviously out of proportion. The trial had been connected with that of a former mayor of Baghdad, who was likely to be condemned to death for bribery. The Foreign and Commonwealth Office were in close touch with Mr Richter's family. Everything possible would be done to help him, but it would be wrong to raise hopes of his release.

Mr Roger Cooper, a British journalist resident in Iran before the Islamic revolution, had been detained in prison for over a year. Despite repeated representations, only limited consular access to him

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had been obtained. The Government continued to make all possible representations on his behalf.

Anglo-Italian Summit Meeting

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Anglo-Italian Summit Meeting, held in London on the previous day, had been constructive and friendly, and had been well reported in the Italian press.

The Cabinet -

Took note.

COMMUNITY AFFAIRS

Meeting with President of the Commission

Previous Reference: CC(87) 4.4

5. THE PRIME MINISTER said that at her meeting with Monsieur Delors, President of the Commission, on 5 February she had made clear that she saw no point in discussing some of Monsieur Delors' wider proposals until there was agreement on budget discipline which worked effectively within the Community.

THE FOREIGN AND COMMONWEALTH SECRETARY said that at the subsequent meeting with British Ministers on 5 February, Monsieur Delors and his colleagues had been left in no doubt about the British attitude to the review of Community financing and, in particular, the need for effective budgetary control and reform of the operation of the Common Agricultural Policy.

Agriculture

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Agriculture Council on 9-10 February had discussed the implementation of the agreement on changes in the milk sector and on structural measures, but a further Council would be required. As part of the December agreement, there would be an accelerated programme of disposal of intervention butter stocks. There would be a deferred repayment from the Community budget to member states of the losses on these stocks.

In discussion it was said that a scheme of this kind was open to criticism as it would relax budgetary pressure. The scheme, however, took account of the budgetary difficulties in 1987 and 1988 until the full effect of the milk reform was reflected in savings, and it enabled at least some proceeds to be obtained from a quicker sale.

In discussion of the separate arrangement for providing some food for the needy, it was said that the butchers had now agreed to cut up the beef without charge, and distribution should therefore accelerate.

The Cabinet -

Took note.

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ECONOMIC
STRATEGY

6. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(87) 2) on Economic Strategy.

THE CHANCELLOR OF THE EXCHEQUER introduced a discussion of the economic strategy and prospects, as a background to the decisions which he would be taking for his Budget, to be presented on 17 March.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet congratulated the Chancellor of the Exchequer on his management of the economy, which had produced very satisfactory results and prospects. They fully endorsed the maintenance of the prudent and consistent policies which had led to this outcome.

The Cabinet -

Invited the Chancellor of the Exchequer to take account of the discussion in preparing his forthcoming Budget.

Cabinet Office

12 February 1987

SECRET

MOST CONFIDENTIAL RECORD
TO
CC(87) 5th Conclusions

LOCAL
GOVERNMENT
LEGISLATION

THE LORD PRESIDENT OF THE COUNCIL said that the Queen's Speech on the opening of the present Session had promised legislation "to promote further competition in order to secure greater efficiency in the provision of local authorities' services". It had been the intention to include the very complex provisions that would be needed on this matter in a Local Government Bill that would also have contained provisions to prevent local authorities from including requirements of a non-commercial nature in their contracts. The Bill would also have embodied the Government's original proposals on political advertising by local authorities, which had been modified against the Government's wishes in the previous Session by the House of Lords, where the subject was very highly controversial. Policy approval had also been given for various other measures that might be included in the Bill, and two of these were of paramount importance in controlling local government expenditure. The first, to deal with the creative accounting device of deferred purchase schemes, had been announced by the Secretary of State for the Environment on 22 July 1986, and would take effect from that date. The second, which had been announced the previous week after discussion in Cabinet and would similarly take effect from the date of announcement, would regulate the use of a device pioneered by Sheffield Council for subventions by local authorities towards rented housing developments in the private sector.

In the event, the preparation of this legislation had been massively disrupted by the need to prepare and take through Parliament the Local Government Finance Bill, which was required to repair a fundamental flaw in the operation of the Rate Support Grant machinery. That Bill had proved to be far longer and more complex than had been envisaged, and it had inevitably been the first preoccupation not only of Parliamentary Counsel but also of the lawyers and administrators concerned in the Department of the Environment. It had now become clear that there was no realistic possibility of the full Local Government Bill being prepared until well into March. The provisions on competition in local government contracts were especially badly delayed. If the Bill were introduced on that very late timetable, it would be apparent from the start that it had little hope of reaching the Statute Book in the present Session, and proceeding with it would become a charade that would alienate the Government's supporters. In these very difficult circumstances, the only practical option was for the Government to cut their losses and introduce without delay a short Bill containing the two provisions necessary to control local authorities' creative accounting devices, together with whatever minor provisions the Secretary of State for the Environment judged appropriate. The provisions on local authority contracts and on political advertising, however, would need to be dropped for the present Session, and thought would need to be given to the most effective way in which the Government's commitment to competition in local government contracts might be restated. If the

Cabinet agreed with his view, which was shared by the other business managers, that there was no practical alternative to proceeding in this way, then the shortened Bill should be taken to Legislation Committee and introduced in the House of Commons in the following week, with the Secretary of State for the Environment making a statement on the day of introduction. While this would be a difficult occasion, the announcement would become yet harder to handle if it were delayed, and the impact of the Local Government Finance Bill faded in Parliament's memory.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he fully agreed with the Lord President of the Council's analysis of the situation. He proposed that in addition to the two measures to control creative accounting devices (which would be retrospective to the dates of their announcement and should not, therefore, be postponed to another Session) the shortened Bill should include a technical provision to cure a point of vires on the power to wind up pools of education expenditure. The only other measure that he proposed to include would be various changes to the law on land registers, as a stimulus to the sale of unused land. The inclusion of other, more minor, points would do no more than irritate the Government's supporters, as it was no longer feasible to proceed with the major provisions on local government contracts and political advertising. He would give careful thought to the way he presented this decision as having been forced on the Government by the emergence of the Local Government Finance Bill, and would stress the vital importance of enacting the measures to control creative accounting.

THE PRIME MINISTER, summing up a short discussion, said that the Cabinet agreed that, in the circumstances, there was no realistic alternative but to proceed as the Lord President of the Council and the Secretary of State for the Environment proposed. The Bill, reduced to the items described by the Secretary of State for the Environment, should be brought forward as soon as possible. The Secretary of State for the Environment should make an oral statement in the House of Commons on the day of the Bill's introduction and he should discuss the precise timing of this, and other handling arrangements, with the Lord Privy Seal and the Chief Whip.

The Cabinet -

Invited the Secretary of State for the Environment to bring forward a Local Government Bill, reduced to the items he had described, for introduction in the House of Commons as soon as possible, and to discuss timing and handling arrangements with the Lord Privy Seal and the Chief Whip.

Cabinet Office

13 February 1987

MOST CONFIDENTIAL RECORD
TO
CC(87) 5th Conclusions

ECONOMIC
STRATEGY

The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(87) 2) on Economic Strategy.

THE CHANCELLOR OF THE EXCHEQUER said that economic performance during 1986 had been good. Growth had been at 3 per cent, inflation had averaged 3.5 per cent, the lowest since 1967, the current account of the balance of payments had been broadly in balance, and unemployment had stopped rising and started to fall.

For 1987, the prospects were also good. Growth should again be about 3 per cent, and better balanced between consumers' expenditure, investment and exports. Inflation, as measured by the Retail Price Index should edge up towards the middle of the year, but fall back again to 4 per cent by its end. The trend of unemployment should be downwards, although that did not of course mean that the total would be lower in every single month. The current account of the balance of payments was expected to show a small deficit, but the United Kingdom's large holding of overseas assets should ensure that it created no problems. Perhaps the most striking proof of the improvement in United Kingdom economic performance was provided by international comparisons of productivity. In the 1960s and 1970s the increase in output per head in manufacturing industry had been about the lowest for the major industrialised countries. Since 1979 it had been the highest.

There were of course risks. The biggest was on inflation. The United Kingdom's position as an oil exporter meant that, unlike most of its competitors, it had had to adjust to the change in oil prices by allowing the exchange rate to fall, and this was leading to the slight upturn in inflation. But it was still very low by recent standards. Another risk was on pay. Pay increases were coming down, but only slowly and not by as much as they should. Finally, there were always great uncertainties about future prospects for world trade and pressures for protectionism.

As to fiscal prospects, the fall in oil revenues and the increase in public expenditure in the previous year's Autumn Statement had reduced the scope for tax cuts. He also believed that the following year's Public Sector Borrowing Requirement (PSBR) should be reduced below the level, 1.75 per cent of Gross Domestic Product, projected in the previous year's Medium Term Financial Strategy. There should still be room for some tax reductions, and the increase in the tax burden since 1979 showed the case for making them where possible. But the overriding need remained to maintain the prudent and consistent policies which had brought about the present favourable position.

In discussion, the following main points were made -

- a. The Chancellor of the Exchequer was to be congratulated on his economic management. Sensible and prudent policies continued over several years had led to a major improvement in economic performance. Their success had also led to a marked revival of confidence in industry. They must be maintained.
- b. Table 2 in Annex 3 to C(87) 2 showed that since 1979 income tax and National Insurance Contributions had risen as a percentage of gross earnings for those on average earnings. It was a major objective to reverse that. Another objective was to ameliorate the poverty and unemployment traps which were created by the interaction of the tax and benefit systems and had a depressing effect on incentives.
- c. The presentation of the case for tax cuts was important. The Opposition would certainly attack them on the ground that they would suck in imports and create jobs abroad rather than in this country. The Government must demonstrate that they were part of a strategy for creating jobs by strengthening incentives throughout the country. The economic case for concentrating on cuts in the basic rate rather than increases in allowances, if that were decided on, would also need to be strongly presented.
- d. The Government had a good record on tax reform. This also was important to improving the performance of the economy, and the Government should show that it intended to go further in that direction in the longer term. But it was probably not appropriate to include proposals for major tax reform in a Budget which might be followed later in the year by a General Election.
- e. Interest rate reductions were also important, on one view as important as tax cuts. They would remove the only remaining substantial grievance of industry, and help home buyers. But the effect on market confidence and possibly on inflation also had to be borne in mind, and there could be no commitment as to the size or timing of any reductions. The Government's success in reducing public borrowing meant that the relationship between the PSBR and interest rates was not as direct as when they took office: private sector borrowing was now larger than public sector borrowing by a factor of several times.
- f. The Government's policies on tax and expenditure needed to be presented as a coherent whole: cuts in the Budget needed to be seen in the context of the decisions on public expenditure the previous autumn. But the argument about the relative merits of expenditure increases and tax cuts seemed to be attracting less attention than the previous year.



g. As part of further improving the performance of the economy, consideration might be given, so far as resources allowed, to measures to encourage small businesses and ownership of property and shares, and to helping North Sea oil production.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet congratulated the Chancellor of the Exchequer on his management of the economy, which had produced very satisfactory results and prospects. They fully endorsed the maintenance of the prudent and consistent policies which had led to this outcome.

The Cabinet -

Invited the Chancellor of the Exchequer to take account of the discussion in preparing his forthcoming Budget.

Cabinet Office

13 February 1987