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CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on THURSDAY 18 JUNE 1987

at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Viscount Whitelaw Lord President of the Council

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 Tom King MP Secretary of State for Northern Ireland

The Rt Hon Lord Young of Graffham Secretary of State for Trade and Industry

The Rt Hon Kenneth Clarke QC MP Chancellor of the Duchy of Lancaster

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

The Rt Hon John Moore MP Secretary of State for Social Services

The Rt Hon Cecil Parkinson MP Secretary of State for Energy The Rt Hon Sir Geoffrey Howe QC MP Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Sir Michael Havers QC Lord Chancellor

The Rt Hon Peter Walker MP Secretary of State for Wales

the Rt Hon Norman Fowler MP cretary of State for Employment

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

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

The Rt Aon John MacGregor MP Minister of Agriculture, Fisheries and Food

The Rt Hon Paul Channon MP Secretary of State for Transport

The Rt Hon John Wakeham MP Lord Privy Seal

The Rt Hon John Major MP Chief Secretary, Treasury

ALSO PRESENT

The Rt Hon David Waddington QC MP Parliamentary Secretary, Treasury

#### SECRETARIAT

Sir Robert Armstrong
Mr D F Williamson (Items 4 and 5)
Mr C L G Mallaby (Items 4 and 5)
Mr A J Langdon (Items 1,2,3 and 6)
Mr S S Mundy (Items 1,2,3 and 6)

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1. THE PRIME MINISTER said that the Cabinet would wish to welcome as new members of the Cabinet the Lord Chancellor, the Lord Privy Seal, the Secretary of State for Energy and the Chief Secretary, Treasury. The Cabinet would also wish to welcome the new Parliamentary Secretary, Treasury, who would (like his predecessors) regularly attend the meetings of the Cabinet.

The covernment was committed to a full programme of legislation, which would require much hard work both in its preparation and in its passage through Parliament. It would be very important that instructions for Bills, and where at all possible draft Bills themselves, should be ready for Ministerial consideration before the Summer Recess.

THE LORD PRESIDENT OF THE COUNCIL said that all members of the Cabinet would wish to express their congratulations to the Prime Minister on the Government's success in the recent General Election, the third such victory in a row. They were grateful to her for the leadership she had given through the Government's second term and during the Election campaign, and looked forward in the same spirit to the third term.

The Cabinet

Took note with approval.

PARLIAMENTARY AFFAIRS 2. The Cabinet were informed that the State Opening of Parliament on 25 June would be followed by the conventional days of debate on the Address.

THE LORD PRIVY SEAL said that a new Firance Bill, to enact those parts of the previous Finance Bill which had been lost at the Dissolution, would need to be reintroduced and enacted before the Summer Adjournment. It would be introduced as soon as the precessary Parliamentary procedures could be concluded. The Local Government Bill would also be brought forward in the Commons as soon as possible.

THE LORD PRESIDENT OF THE COUNCIL said that the Criminal Justice Bill would soon be reintroduced in the House of Lords, whose other early task would be to take the Channel Tunnel Bill through to Royal Assent before the Summer Adjournment.

The Cabinet -

Took note.

Unemployment

Previous
Reference:
CC(87) 19.2

3. THE SECRETARY OF STATE FOR EMPLOYMENT said that the unemployment figures for May would be published later that day. The seasonally adjusted total had falled by 64,000 since April to 2.954 million. This was the largest fall in a single month since records had been kept. The oradjusted total, which had fallen by 121,000 since April and by 259,000 since June 1986, was also below 3 million. Unemployment now stood at lowest level since January 1984. It was continuing to fall in all regions in Great Britain, with the greatest reductions in Wales, the West redlands and the North. In Scotland, there had been a reduction of 17,000 since April 1987, although this was attributable in part to inacturaries in the preceding month's figures.

THE PRIME MINISTER, summing up a brief discussion, said that it was clear that these very welcome and encouraging figures reflected an increase in employment caused by the growth in the economy.

Industrial
Action in
the Civil
Service

Previous Reference: CC(87) 17.2 THE CHANCELLOR OF THE EXCHEQUER said that the Society of Civil and Public Servants and the Civil and Public Services Association were continuing to demand a sobstantial pay increase. The two unions were considering the possibility of further industrial action, but it seemed doubtful whether their mambers would support a full strike. He was writing to his colleagues that day about the next steps in the handling of the dispute.

THE SECRETARY OF STATE FOR SCOLAR SERVICES said that 58 per cent of the 96,000 officials in his Department had taken industrial action at some point in the current dispute. This made it difficult for local offices to provide emergency payments to the unemployed and those on supplementary benefits. There was a risk that action could extend to computers which paid retirement pensions and child benefit, which had not previously been affected. The computer projects for converting the supplementary benefit and family income supplement caseload in 1988, when the social security reforms were the to come into effect, had already been badly affected. It might be necessary to bring in additional consultants to get the family credit system ready in time, although this could provoke an escalation in the dispute.

The Cabinet -

Took note.

FOREIGN
AFFAIRS
British/
Iranian
Relations

4. THE FOREIGN AND COMMONWEALTH SECRETARY said that the crisis in Britain's relations with Iran had been triggered by the relatively trivial matter of the arrest of an Iranian consular official in Manchester for shoplifting. This had caused the Iranian authorities to seize a British diplomat in Tehran by force in the presence of his family, to hold him for a day and to maltreat him. The Government

actions towards Iran since that time had sought to minimise the risk of further maltreatment of members of the British Mission in Tehran. The Government's first act had been to close the Iranian Consulate-General in Manchester and expel its staff of five. Iran had responded by expelling five British diplomats from Tehran, including the one who had garlier been seized. The Government had then asked Iran to reduce by two the staff of its Mission in London, so as to establish parity Ween the staff levels of each country's Mission in the other's capital. The Iranian response to this had been to escalate the affair expelling four more British officials from Tehran. By this stage, all the key political and commercial staff of the British Mission in Tehran had left, and only the Head of Mission and some visa personnel remained The Government had made clear to Iran that this situation was intolerable. Without breaking diplomatic relations with Iran, the Government had moved to reduce representation in both capitals to one caretaker official. Iran had that morning announced that it was adopting this position. If in the future Iran became willing to treat diplomatic relations seriously, the Government would be prepared to discuss the position, but the husk of diplomatic relations without the substance was not acceptable.

In a brief discussion, the hope was expressed that the Government's firm reaction to the irresponsible behaviour of Iran might influence that country's attitude in future.

Iran/Iraq War and the Threat to Shipping in the Persian Gulf

Previous Reference: CC(87) 17.3 THE FOREIGN AND COMMONWEALTH SECRETARY said that the threat to shipping in the Gulf caused by the war perseen Iran and Iraq had been discussed at the Seven Power Economic Summit in Venice from 8 to 10 June. The United States Administration, sported by pressures in the Congress, had tried to promote combined naval and other joint action to counter the threat. The Venice Summit had uphete the principle of freedom of navigation and had reaffirmed the participants' determination to bring the conflict between Iran and Iraq to an end. The United Kingdom had made clear at the Summit that the Armilla patrol of the Royal Navy, which had escorted a hundred British vessels in the area in the past year, was a proportionately higher contribution to countering the threat to shipping than other Western countries were making. Kuwait remained keen to flag out its tankers to the United States and to lease Soviet ships. The United States Administration hope to co-operate in this, but faced domestic opposition. There was no evidence at present that Iran would use its Silkworm missiles against shipping, but there could be no certainty in matters concerning a country as procedictable as Iran. He would remain in contact with the Secretary of State for Defence about the Armilla patrol and the risks that it faced.

The Government had been helping to promote in the United Nations
Security Council a draft resolution calling for an end to the conflict
between Iran and Iraq. This resolution might also provide for an arms
embargo against both participants in the conflict, but it was dicertain
whether the Soviet Union and in particular China would support this

element. The Government were pressing for the resolution as hard as was reasonable in the circumstances.

United Arab Emirates FOREIGN AND COMMONWEALTH SECRETARY said that the Ruler of Sharjah, which was part of the United Arab Emirates (UAE), had been deposed and replaced by his brother, Abdul Aziz. Reactions in the UAE seemed so far to be onfused: the Sheikhs of Dubai appeared not to approve of the charge while Sheikh Zayid al-Nahayn, the President of the UAE, seemed to favour it. Abdul Aziz had been educated at the Royal Military Academy, Sandhurst, and was pro-British. He might be the right man to steer Sharjah out of its considerable financial difficulties.

Arms Control

Previous Reference CC(87) 19.3 THE FOREIGN AND COMMONWEALTH SECRETARY said that the Government had had to work hard for (the) successful results of the meeting of Foreign Ministers of the North Atlantic Treaty Organisation on 11 and 12 June in Reykjavik. The meeting and agreed a clear Alliance position on the global elimination of intermediate nuclear missiles of longer and shorter ranges. In addition, the Alliance had adopted clear priorities for further achievements in arms control: 50 per cent cuts in the strategic nuclear arsenals of) the United States and the Soviet Union; the global elimination of chemical weapons; and agreement to redress the imbalance in conventional weapons in Europe. The meeting had agreed that, in conjunction with the achievement of these agreements, the Alliance could contemplate reductions to parity in United States and Soviet nuclear missiles with ranges below 500 kilometres, a subject on which the Federal Republic of Germany might favour relatively early negotiations. The meeting in Reykjavík had also resolved a long-standing difference between the Wolfed States and France concerning the fora for negotiations about convertional forces in Europe.

THE SECRETARY OF STATE FOR DEFENCE said that the success of the Reykavik meeting and the maintenance of cohesion in the Alliance on these difficult matters had been achieved largely thanks to the efforts of the Foreign and Commonwealth Secretary. He wished to add two notes of caution. The positions agreed were not an unmaxed blessing for the United Kingdom's security. They left a potential gap in the range of weapons needed by the Alliance to maintain the author to respond flexibly to any level of attack from the Warsaw Pack Second, the proposed measures would leave a huge disparity in favour of the Soviet Union in nuclear missiles of ranges below 500 kilometres. The Alliance might need to look further at the difficult question of recentablishing its full ability to maintain flexible response by using weapons not covered by the proposed agreements between the United States and the Soviet Union on intermediate nuclear forces.

In discussion, it was noted that the communiqué of the Reykjawik meeting foresaw that any future negotiations about missiles with ranges shorter

than 500 kilometres should lead to parity in this area; that various types of nuclear weapons were not covered by the agreements now in view; and that the Soviet Union had superiority in all the areas where agreements were to be sought, which it would lose if negotiations were successful.

Italy

Previous Reference CC(87) 16.3 THE FOREIGN AND COMMONWEALTH SECRETARY said that, in the general election in Italy on 14 and 15 June, the gap between the Christian Democratic Party and the Communist Party, which in 1983 had been 3 per cent, had increased to 8 per cent, largely because of losses by the communists. The Socialist Party had moved up from 11.4 per cent to 14.3 per cent, a change which in the circumstances of Italian politics was regarded as a success. The election result would not determine the composition of a new Government; on that there would be difficult and probably long negotiations between political parties.

Fiji

Previous: Reference: CC(87) 19.3 THE FOREIGN AND COMMONITALTH SECRETARY said that the constitutional crisis in Fiji was continuing. The former Prime Minister, Dr Timoci Bavadra, had visited Landon in the previous week, without advance warning. He had sought to see The Queen; on the advice of the Governor General of Fiji, Ratu Sir Penaia Ganilau, The Queen had not met Dr Bavadra, but he had been received by her Private Secretary. He had not asked to see Ministers He did not appear to have advanced his cause through his visit. In Fhir the Governor General had been seeking with some courage to unravel the origin caused by the recent military coup. He was trying to establish a constitutional Council, including a place for Dr Bavadra, which would consider constitutional change: change would be enacted only if agreed by the Fijian Parliament. Even after the crisis was over, Fiji was likely to be a less stable country than before. British Ministers had no role in advising The Queen on this matter.

Sri Lanka

Previous Reference: CC(87) 16.3 THE FOREIGN AND COMMONWEATLH SECRETARY said that the attempts by the Sri Lankan Government to re-establish its position in the Tamil areas in the north of the country had had some success on the ground. India had made air drops of supplies to the Tamil areas without the agreement of the Sri Lankan Government, and the earlier dialogue between Sri Lanka and India about the problem had been broken off. The Sri Lankan authorities were now, however, distributing the supplies from India and the Foreign Ministers of the two countries would shortly be meeting, so that dialogue between them might possibly be re-established.

Repu**6** 

THE FOREIGN AND COMMONWEALTH SECRETARY said that there had been protests in the Republic of Korea against the decision of the President, Mr Chun Doo Hwan, to suspend discussions on constitutional reform and about the death by torture of a student in January, which had caused the then Prime Minister and three other Ministers to be dismissed. The President had nominated a successor for himself, who was likely to take over in relativary 1988. The President was trying to keep control of the situation, particularly in view of the Olympic Games to be held in Seoul in 1988. The Republic of Korea was not a democracy, but, despite the drama of some of the reports in the British media about events there, was not about to fall apart or experience a mass uprising.

Seven Power Summit in Venice THE FOREIGN AND COMMONWEALTH SECRETARY said that reactions in the British media to the Seven Power Economic Summit in Venice from 8 to 10 June had not been very favourable. In fact, the Summit had reached sensible conclusions. The pressure for reform of agricultural support policies had been maintained; the Chancellor of the Exchequer's initiative concerning the debts of the poorest Sub-Saharan African countries had been endorsed; and the right sentiments about protectionism had been expressed. The pressure on Japan for more reasonable economic and trading policies had not been as strong as might have been hoped; nor had the Summit produced any new commitments for the Governments of Japan, the United States and the Federal Republic of Germany on proposals to return fiscal and trade imbalances.

THE CHANCELLOR OF THE EXCHEOUSE said that he had been pleased that his initiative about debt had been entorsed in the Economic Declaration issued by the Summit. As regards macro-economic policy, steps had been taken before the Summit to lower expectations about major new agreements, so that the markets had not reacted negatively to the results. The agreements on stabilisation of currencies which had been reached in Paris in February 1987 and extended in Washington in April had been further extended by the Venice summit; these arrangements had been working despite scepticism about them in some quarters.

In discussion, it was noted that Japan's trade surplus had diminished only slightly and that the Prime Minister, Mr Jasaniro Nakasone, would leave office in October. These factors suggested that it would be very difficult to make early progress on economic matters with Japan. There had however been some advances regarding the United Langdom's specific current interests. Mr Nakasone had confirmed in the margins of the Summit that there would be two competitive bids for the communications operation in Japan, which was what the major British company with an interst, Cable and Wireless plc, desired. Japan was well sware of the British interest in participation in the Tokyo Stock Exchange. British firms had won three security licences and ten out of thirties.

The Cabinet -

Took note.

COMMUNITY AFFAIRS

Agriculture

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the stigulture Council had ended that morning without reaching agreement on the agricultural price proposals. There were two main reasons for this. First the blocking minority - the United Kingdom, the Federal Republic of Germany and the Netherlands - had held together against the proposed tax of oils and fats. The Commission had also put forward an alternative interim proposal for a tax for two years. This was not acceptable but the Presidency had invited the member states to consider it further. Secondly, the Federal Republic of Germany had indicated that it would not accept the proposals both on monetary compensatory amounts and on outs in support for cereals, oilseed rape and some other products. It was expected that the proposed tax on oils and fats and the future arrangements for monetary compensatory amounts would now be submitted to the Eoropean Council on 29-30 June. The Agriculture Council would return to the package after that meeting. He had indicated that, subject to the removal of the oils and fats tax, the United Kingdom would support the package. The savings were less than in the Commission's original proposal, but there were nonetheless budget savings and reductions in support. The joint meeting of the Economic and Finance Council and the Ariculture Council on 15 June had been helpful in maintaining the elements of the package. The results would be reasonable for the United Kingdom: the proposal for adjustment of the green pound was marginally higher than the changes proposed in the green rates for France and the Republic of Ireland and he had indicated that he could accept it. The Irish were however, still questioning the proposal on the green punt and, if there were to be a change for the Republic of Ireland, the United Kinggon would need to stay ahead of them.

In discussion it was agreed that the objections to the proposed oils and fats tax were very soundly based. It would add to food costs, with the greatest effect on the poorest consumers. It would affect trade, including trade from developing countries, and aggravate the risks to the open trading system. To attempt to solve the problem of rising expenditure by introducing a new tax in this way was a completely wrong approach. It would be desirable to determine before the European Council whether in the United Kingdom's view unabjust was required for a decision on this proposed tax.

Finance

THE CHANCELLOR OF THE EXCHEQUER said that the Economic and Finance Council had agreed on 15 June on the reference framework for 1988. In a brief discussion on the European Monetary System (EMS) the brench had indicated that they would not be prepared to accept further

liberalisation of capital movements unless there were also some technical improvements in the EMS.

Future Financing THE FOREIGN AND COMMONWEALTH SECRETARY said that the Foreign Affairs council on 25-26 May had had a preliminary discussion on the future financing of the Community. The question would be dealt with again in the Foreign Affairs Council on 22 June and in the "conclave" meeting of Foreign Ministers on 27-28 June immediately before the European Council. The 1987 budget problem should, as far as possible, be kept separate from the longer term issues and should be settled without recourse to an intergovernmental agreement. In discussion it was said that the essential issue in considering the level of the Community's future resources was the achievement of stringent financial controls.

The Cabine Took note.

THE QUEEN'S
SPEECH ON
THE OPENING
OF PARLIAMENT

6. The Cabinet considered a memorandum by the Lord President of the Council (C(87) 10) to which was attached a draft of The Queen's Speech on the Opening of Parliament.

THE LORD PRESIDENT OF THE COUNCIL said that the draft Speech had been prepared in the usual way by The prepared's Speeches and Future Legislation Committee (QL) on the basis of contributions by colleagues. It took as its starting point the legislative programme that had been provisionally approved by the Cabinet at their meeting on 26 March (CC(87) 12.5). This represented a most ambitious programme of legislation and he wished to emphasise to his colleagues the importance of striking the right balance between, on the one hand, the need to proceed with politically vital measures as soon as practicable and, on the other hand, the danger of attempting too much in one Session. An overburdened legislative programme would not only be difficult to manage in Parliamentary terms, but would also risk producing legislation that regulted in further embarrassment by being insufficiently well prepared and proving vulnerable to judicial review. The Government had been given much trouble of that kind by the Local Government Planning and Land Act 1980. The moral that QL drew from this was that it would be preferable for The Queen's Speech to be drafted in a way that avoided making unnecessarily detailed commitments to legislation. That cautionary make applied particularly strongly to the proposed Housing Bill. It was clear that the entire compilation of housing measures proposed by the secretary of State for Environment was too great to be enacted in one testion and the Ministerial Committee on Economic Strategy, Sub-Committee on Local Government Finance, had agreed at their meeting on 7 May (ENF) 9.1) that the phasing of this legislation would need to be considered with particular care. The Education Bill, too, would undoubtedly be

long and contentious measure. Outstanding policy issues on both the Education and Housing Bills would need to be settled very quickly if the Bills were to be ready on a manageable timetable. Bringing the main Water Privatisation Bill back into the programme, as the Chancellor of the Exchequer had suggested in correspondence, had to be considered against that background. Even if ways could be found to prepare the Bill more rapidly, it could be accommodated only at the cost of dropping of the other major Bills that the Department of the Environment had in the programme. Finally, a decision should be taken on whether to Groced in the next Session with a Bill to implement the Warnock Report on the alleviation of human infertility, since such a Bill should be mentioned in the Speech if it were to be brought forward in the fortheoning Session. In the light of the Cabinet's decisions on The Queen Speech, QL would review the detailed composition of the legislative programme and he would report the results of that review to his Cabinet colleagues by early July. He trusted that his colleagues would endorse a programme that would proceed with confident efficiency, and he believed that this was the tone that should be struck in The Queen's Speech.

The following main points were made in discussion -

- a. A main strategic thrust of policy during the Government's third term of office would be a concerted attack on the problems of the inner cities. The Speech should be rearranged so as to emphasise the contributions that would be made in this regard by the proposed legislation on housing, education, and employment.
- b. The proposed Housing Action Trusts would be an important component of the overall approach to inner cities and the provisions enabling their establishment should therefore be included in the Housing Bill in the forthcoming Session, along with provisions on private rented sector deregulation. The legislation on Housing Action Trusts would take the form of enabling powers only, and the public expenditure implications should be addressed separately.
- c. The other housing matters that might be included in a Housing Bill in the forthcoming Session were improvement grants; amendments to the right to buy; provisions on housing associations; and provisions to enable local authority tenants to change their landlord. The Secretary of State for the Environment did not propose to bring forward legislation to amend the law on local authority housing accounts and on the local government capital control system until the 1988-89 Session.
- d. The privatisation of the water and sewerage functions of the water authorities in England and Wales would be a major component of the privatisation programme, which remained a cornerstone of the Government's policies. If the legislation were not enacted in the forthcoming Session, and sales were consequently deferred until 1990, there would be a damaging gap in the privatisation programme, and in the flow of privatisation receipts. Furthermore, it would

mean that water privatisation and electricity privatisation would be competing simultaneously for the available money. There was, therefore, a strong argument for pressing ahead with the main Water Privatisation Bill in the forthcoming Session, even at the cost of displacing another major Bill from the programme. On the other hand, the decisions that colleagues had recently taken on a revised approach to water privatisation would inevitably delay the preparation of the Bill. In particular, they demanded further consultation with the industry, both in order to secure the necessary co-operation and support, and to avoid later risks of indicial review. When allowance was made for proper consultation, the bill could not be prepared before January 1988 at the very earliest, and that would be very late for the introduction of such a large and contentious measure.

e. Legislation on the Warnock Report would be too divisive to be sensibly attempted in a Session that would be filled with mainstream political measures. In the absence of a Bill in 1987-88, lowever, the Secretary of State for Social Services would almost certainly need to take some other initiative to demonstrate Government activity on the subject, perhaps by way of a White Paper.

f. Various drafting hanges to the Speech were agreed.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Bill on the Warnock Report should be dropped from the programme for 1987-88. The times of main privatisation legislation for the water industry was clearly affected by the Government's decision in May to revise its proposals in various respects that required consultation with the water industry) It would be taking too great a risk to assume at that stage that in these changed circumstances, a sound Bill could be prepared in time for legislation in the forthcoming Session, and The Queen's Speech should berefore not promise it. For the reasons indicated by the Chancello of the Exchequer, however, early water privatisation would be a considerable prize to win. The possibility of introducing the main water privatisation measure in the forthcoming Session should not be ruled out, in case it proved possible to complete the preparatory consultations more rapidly than the Secretary of State for the Environment current wavisaged, and both the consultations and the preparation of a Bill should be taken ahead as fast as was compatible with a prudent regard to prigial review. The Queen's Speech should therefore include a form of works that would be broad enough to cover water privatisation legislation but did not commit the Government to do anything beyond the neces paying measure. The Speech should also be revised to give greater prominence to the relevance to inner cities of the Government's proposals on education, housing and employment. The legislative programme set out in the Speech was exceptionally heavy, and it was essential that all the main Bills were brought forward as early as possible. The Education Bill and the Housing Bill, in particular, were of cardinal polical importance, and it was essential that they should be introduced the before Christmas. The Cabinet had approved the draft Speech at tacked

C(87) 10, subject to revision on the points she had indicated and to miscellaneous drafting points that had been agreed in discussion. Other changes might be necessitated by later developments.

The Cabinet -

Subject to the changes agreed in discussion, approved the draft Speech attached to C(87) 10.,

Instructed the Secretary of the Cabinet to prepare a final revision of the draft Speech, taking account of these changes, for the Prime Minister to submit to The Queen.

3. Invited the Lord President of the Council to arrange for The Queen's Speeches and Future Legislation Committee to arry out a final review of the legislative programme in the light of the decisions that the Cabinet had reached, and of the Prime Minister's summing up of the discussion.

Cabinet Office

18 June 1987

