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CC(87) 24th
Conclusions

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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 16 JULY 1987
at 10.15 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 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 Lord Havers
Lord Chancellor

The Rt Hon Douglas Hurd MP
Secretary of State for the Home Department

The Rt Hon Peter Walker MP
Secretary of State for Wales

The Rt Hon George Younger MP
Secretary of State for Defence

The Rt Hon Norman Fowler MP
Secretary of State for Employment

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

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

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

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

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

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

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

The Rt Hon Paul Channon MP
Secretary of State for Transport

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

The Rt Hon John Wakeham MP
Lord Privy Seal

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

The Rt Hon John Major MP
Chief Secretary, Treasury

ALSO PRESENT

The Rt Hon David Waddington QC 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 S S Mundy (Items 1 and 2)

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

Ministers' Pay THE CHANCELLOR OF THE EXCHEQUER said that, subject to the agreement of the Cabinet, he proposed that the pay for all Ministers and for office holders covered by the Ministerial and Other Salaries Act 1974 should be increased by £4,048, the same increase in cash terms as was being proposed for MPs. This would produce a higher proportional increase for Parliamentary Under Secretaries than for other Ministers, as the Cabinet had suggested at its meeting the previous week. The question of severance pay for House of Commons Ministers and the pension arrangements for the Prime Minister, the Lord Chancellor and the Speaker, but not Ministerial remuneration more generally, should be referred to the Top Salaries Review Body. While MPs' pay would in future rise automatically in line with the top of the main scale for Senior Principals in the Civil Service, a fresh order would be required each year for Ministerial salaries. The presumption should be that the pay of Ministers would be increased by the same proportion as for MPs in order to maintain differentials in real terms. But no commitment should be given publicly about this, and the position would need to be reviewed each year.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed the Chancellor of the Exchequer's proposals.

The Cabinet -

Invited the Chancellor of the Exchequer and the Lord Privy Seal to proceed accordingly.

HOME AFFAIRS

The Prison Population

Previous Reference:
CC(87) 21.2

2. THE LORD PRESIDENT OF THE COUNCIL said that the Home and Social Affairs Committee (H) had that week agreed to a package of proposals formulated by the Home Secretary in response to the increasingly serious problem posed by the growing prison population. At the end of the previous week the prison population had stood at 51,029, including 648 prisoners in police cells, while the uncrowded capacity of the prison system was 41,688. The increase in the population, which was concentrated among untried prisoners and those sentenced to longer terms, was projected to continue through the present year, and it seemed clear that it would substantially overrun the previously projected growth in the following year at least. Although 3,000 new places were due to become available in the twelve months from September 1987, there were very few further new places scheduled until 1991. There was, therefore, a severe immediate problem of overcrowding in the prisons and of prisoners in police cells, and there was every reason to suppose that the existing prison building programme could not be relied on to restore a manageable situation. H had fully agreed with the Home Secretary's

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view that decisive action was required immediately to head off what would otherwise be an intolerable situation for the Government over the coming years, and that this action should be directed both to the numbers of prisoners and to the amount of prison accommodation. The necessary action on the number of prisoners should, H agreed, take the form of an increase in the rate of remission for good behaviour and industry from one third to one half for prisoners serving 12 months and less. These sentences were too short to enable prisoners to qualify for early release under the parole scheme, and the Home Secretary proposed to announce the increased remission rate as an interim step pending the outcome of the review of the workings of the parole system which had been promised in the Conservative Party Manifesto. The terms of reference and establishment of that review would be announced as part of the present package. Provided that the increase in the remission rate was balanced by very clear action to increase accommodation, H agreed with the Home Secretary's view that the need for the measure would be generally apparent and that this particular machinery for reducing the population should not give rise to undue problems with Parliamentary or judicial opinion. The matching action on accommodation would comprise short-term and long-term elements. For the short term, relief for the use of police cells would be provided by the use of Rolleston Military Camp until the end of October, by when substantial benefit would be felt from the increased remission rate. For the longer term, the Chief Secretary, Treasury had agreed that the Home Secretary might announce a substantial acceleration and expansion of the prison building programme, the details to be resolved in the forthcoming public expenditure round. The Home Secretary would also be announcing administrative action to sharpen the management of the prison building programme and improve its performance. H believed that, taken in the round, these proposals were a balanced and necessary package.

THE HOME SECRETARY said that he was grateful to the Chief Secretary, Treasury, and also to the Secretary of State for Defence, for his agreement in making Rolleston Camp available. He could undertake that the camp would be vacated by 31 October. The proposed increase in the remission rate for short sentences was certainly the most acceptable machinery that lay to hand for securing the necessary immediate reduction in numbers: the prisoners concerned were, by definition, the least serious offenders and since the most that was involved for any individual was two months' earlier release, he believed that general understanding for the measure could be secured.

THE PRIME MINISTER, summing up a brief discussion said that the Cabinet endorsed the Home and Social Affairs Committee's approval of the Home Secretary's proposals to stabilise what would otherwise be an impossible situation. The Home Secretary should announce the measures that afternoon.

The Cabinet -

1. Invited the Home Secretary to make an announcement that afternoon of the measures on the prison population that had been approved by the Home and Social Affairs Committee and reported to them by the Lord President of the Council.

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Canary Wharf

approved by the Home and Social Affairs Committee and reported to THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Canary Wharf development had now been agreed between the London Docklands Development Corporation and Olympia and York, a Canadian property company which had taken over the main interest in the scheme from the original consortium members. Without the late intervention of Olympia and York, it was unlikely that agreement would have been reached. There might be criticism from British developers that the late involvement of Olympia and York was on a basis that had not given them the opportunity to make alternative bids. This was not a valid criticism since Olympia and York were the only developers prepared to adopt the scheme being negotiated by the original consortium. It was expected that the agreement would be announced the following day. It represented a major step in drawing new capital investment into the docklands, and he would arrange for it to receive full publicity on that basis.

The Cabinet

2. Took note.

British
Caledonian

THE SECRETARY OF STATE FOR TRANSPORT said that British Airways (BA) had announced that morning that it had launched a take-over bid for British Caledonian (BCal) on the basis of an offer price of more than £200 million. BA had already secured the agreement of more than 40 per cent of BCal shareholders and the Chairman of BCal had made clear that he welcomed the proposed take-over. It would be for the Secretary of State for Trade and Industry to decide whether to refer it to the Monopolies and Mergers Commission once he had received the advice of the Director General of Fair Trading which was expected to be forthcoming in the first half of August. Meanwhile, the Government should not make any substantive comment on the proposed take-over. The parties had said that they would not proceed if there was a referral to the Monopolies and Mergers Commission. If the deal went ahead, it might be necessary to review the Government's airline competition policy.

In discussion the following main points were made -

a. This was the second case in a few weeks in which the promoters had threatened to call off a merger (or take-over) if it was referred to the Commission. On the other hand, a full referral to the Monopolies and Mergers Commission would take six months to complete, and it seemed unlikely that BCal's financial position would permit so long a delay. The Secretary of State for Trade and Industry was considering urgently the possibility of introducing new arrangements providing for examinations to be completed within a much shorter timescale.

b. If the proposed take-over went ahead, it would reduce competition especially for domestic and holiday charter flights. BCal was perceived by the public as a successful example of the

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to attract criticism. The alternative, however, might be a take-over by a foreign undertaking. It would be important to stress that a take-over by BA was greatly to be preferred to a take-over by a foreign airline.

THE PRIME MINISTER, summing up the discussion, said that the Government should not comment publicly on the proposed take-over of BCal by BA while the Secretary of State for Trade and Industry was considering whether to refer it to the Monopolies and Mergers Commission.

The Cabinet -

3. Took note that the Secretary of State for Trade and Industry would consider, in the light of advice from the Director General of Fair Trading, whether to refer the proposed take-over of British Caledonian by British Airways to the Monopolies and Mergers Commission.

4. Invited the Secretary of State for Trade and Industry to bring forward as soon as possible proposals for speeding up the process of examination by the Monopolies and Mergers Commission of references made to it.

Civil Service
Industrial
Action

THE CHANCELLOR OF THE EXCHEQUER said that in the ballot of the Civil and Public Services Association, 27 per cent had voted in favour and 73 per cent against all-out strike action. This effectively marked the end of the Civil Service pay dispute.

Previous
Reference:
CC(87) 22.2

Unemployment

Previous
Reference:
CC(87) 20.3

THE SECRETARY OF STATE FOR EMPLOYMENT said that the unemployment figures for June would be published later that day. The seasonally adjusted total had fallen by about 27,000 since May to 2.925 million. The unadjusted total had fallen by about 81,000 to 2.905 million. Unemployment had fallen by about 300,000 since June 1986, which was the biggest twelve month reduction since records had been kept, and the trend remained firmly downwards. Unemployment had fallen in all regions over that period, with the largest reductions occurring in Wales, the West Midlands and the North West. Unemployment had fallen faster over the previous twelve months than in any other industrial country and the unemployment rate was now below that in both France and Belgium. Vacancies had increased by 27 per cent since June 1986 and there had been an increase of some 25,000 jobs between March 1986 and March 1987. Productivity stood at its highest rate for three years and this demonstrated that employment was rising without resort to over-manning. The overall position was very encouraging.

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The overall position was very encouraging.
The Cabinet -

5. Took note.

Northern
Ireland

Previous
Reference:
CC(87) 23.2

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that the marching season in Northern Ireland was proceeding in a much less tense atmosphere than for some years. The major marches on 13 July had passed without significant incidents. Exploratory "talks about talks" between the leaders of the Unionist Parties and the Northern Ireland Office had begun and would continue. There would be a meeting in London that day of the Anglo-Irish Intergovernmental Conference when the British side would call for more effective cross-border co-operation concerning security.

Recent Legal
Decisions

THE LORD CHANCELLOR drew attention to the important judgments delivered by the courts that week. On 13 July the House of Lords had ruled unanimously that certain supporters of Liverpool Football Club could be extradited to Belgium in connection with the riots at the Heysel Stadium in 1985. On 15 July, the Court of Appeal had ruled, again unanimously, in the Attorney General's case for contempt against The Independent for publishing material from Mr Peter Wright's book Spycatcher, that a newspaper could be in contempt of court if it published material which it knew that another newspaper was restrained by injunction from publishing. The Independent would be considering whether to appeal to the House of Lords. If the Court of Appeal's judgment was upheld, it should be a valuable strengthening of the law on injunctions.

The Cabinet -

6. Took note.

FOREIGN
AFFAIRS

Arab/Israel
Dispute

Previous
Reference:
CC(87) 21.3

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that King Hussein of Jordan and King Hassan of Morocco had discussed the Arab/Israel dispute in meetings with the Prime Minister that week. King Hussein and the Foreign Minister of Israel, Mr Shimon Peres, were trying to promote an international conference as a framework for negotiations on the dispute. The Government was giving them its full support. The Prime Minister planned to speak strongly in this sense during her forthcoming visit to Washington. The time available for making progress towards a conference was limited, since the Presidential election campaign in the United States would begin at the start of 1988.

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Morocco THE FOREIGN AND COMMONWEALTH SECRETARY said that the State Visit by King Hassan of Morocco was going as smoothly as could have been expected. Previous Although some newspapers had carried trivial comments about Morocco, the Reference: more responsible ones had commented in a balanced way on the State CC(87) 23.3 Visit. In both Houses of Parliament, Motions had been put forward which were critical of Morocco, concentrating on the war against the Polisario in the Western Sahara. The Government would maintain its neutral position in the dispute about the Western Sahara. Efforts to reach a solution were being pursued under the auspices of the United Nations.

Iran/Iraq War THE FOREIGN AND COMMONWEALTH SECRETARY said that the draft resolution in the United Nations Security Council calling for a ceasefire in the Gulf Previous war was in the final stages of preparation and was likely to be adopted Reference: in the following week. CC(87) 23.3

Australia THE FOREIGN AND COMMONWEALTH SECRETARY said that the Australian Labor Party, led by Mr Bob Hawke, had won the Australian general election, as Previous predicted. Much had been made of the fact that the Party had for the Reference: first time won a third consecutive term: a less momentous achievement in CC(87) 23.3 a country with triennial Parliamentary elections. The Opposition had been fragmented and, although Mr John Howard, Leader of the Liberal Party, was thought to have fought a courageous campaign, he was being challenged for the party leadership by Mr Andrew Peacock. The outcome would be known on 17 July.

COMMUNITY
AFFAIRS

Cash
Accounting
for Small
Businesses

4. THE CHANCELLOR OF THE EXCHEQUER said that at the Economic and Finance Council on 13 July the Paymaster General had secured agreement to a derogation from the Sixth Value Added Tax (VAT) Directive so that the United Kingdom could allow small businesses with turnover of less than £250,000 to relate settlement of VAT to actual receipt of payment. This was an important measure for small businesses both in relation to their cash flow and to any bad debts. It was being introduced as part of the United Kingdom budget measures. There had been considerable difficulties with the French over the proposal which had required intervention at a high level to resolve. The derogation was on an interim basis but he was confident that it could be sustained. In discussion it was agreed that any approximation of fiscal legislation within the Community should not result in more burdensome arrangements for business. The impetus which the Government had given towards more deregulation in the United Kingdom was playing an important role in promoting economic growth.

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Tax
Approximation
Previous
Reference:
CC(87) 23.4

THE CHANCELLOR OF THE EXCHEQUER said that the Commission had now agreed and announced its proposals on the approximation of VAT and excise duties within the Community. The Paymaster General had issued a statement on 15 July making clear that the proposals required unanimity. It was important that these proposals should not be seen as only a matter for disagreement between the Commission and the United Kingdom. The Commission's package posed greater difficulties for many other member states - it could, for example, reduce the revenue of the Danish Government up to 5 per cent of their gross domestic product - and would run into opposition and objections on many grounds.

In discussion the following points were made -

- a. There were cases where a very high level of tax on a particular product or products (eg on whisky in Italy) had formed a barrier to trade, but it did not follow from this that full harmonisation was necessary.
- b. The Prime Minister had made clear the United Kingdom's position on VAT zero rates during the Election campaign. These pledges stood. The Government would not wish, however, to go beyond the wording which the Prime Minister had used, for example on books and other publication.
- c. It was important to distinguish between the Commission's new proposals and the case already before the European Court of Justice about the permissibility under the present law of zero rating new construction for VAT. The United Kingdom disputed the Commission's view on the present law. Judgment on this case might be given towards the end of 1987.

Agricultural
Expenditure
in the
1987 Budget

Previous
Reference:
CC(87) 23.4

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that, following the European Council, the Agriculture Council on 13 July had reached agreement on the means of bridging the gap between the Community budget provision and the expected level of agricultural expenditure in the Community in 1987. This would be done by moving from advances to reimbursement of agricultural support expenditure. The adjustment would be a continuing one. The form in which the change had been agreed ensured that there would be no extra cost falling on the 1988 budget. In discussion it was pointed out that, despite the position taken by their Heads of Government in the European Council, the Netherlands and Greece had opposed the proposal in the Agriculture Council.

Research and
Development

THE FOREIGN AND COMMONWEALTH SECRETARY said that the member states had now agreed to the proposal which the Prime Minister had put forward in the European Council for dealing with the Community's framework

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(about £280 million) would be held over and could only be released by unanimous agreement.

**Future
Financing**

THE FOREIGN AND COMMONWEALTH SECRETARY said that the discussion at the meeting of Foreign Ministers on 13 July had shown that the Commission was likely to come forward shortly with further proposals on budget discipline and management and with its paper on agricultural stabilisers. There was a good chance that these would include elements which the United Kingdom had put forward at and immediately following the European Council.

The Cabinet -

1. Took note.

**European
Political
Co-operation**

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had attended a meeting of the Foreign Affairs Council of the European Community (EC) countries on 13 July. In discussion of South Africa, there had been indications that the Danish Presidency would seek to put that subject on the agenda of European Political Co-operation in the coming months. The only proposal which Community Foreign Ministers had approved in this connection had been that there should be a review of the implementation of the measures against South Africa presently applied by the EC countries. The record of the United Kingdom in implementing the relevant measures was good. The Federal Republic of Germany continued to oppose the imposition of a ban on imports of coal from South Africa. During the Foreign Affairs Council, the Foreign Minister of the Federal Republic of Germany had given an interesting account of the recent visit to the Soviet Union of the Federal President, Freiherr Richard Von Weizsaecker; this had shown that relations between the Soviet Union and the Federal Republic of Germany had been going through a notably cool period. The Foreign Affairs Council had decided, with regard to relations with Syria, that the ban on high level contacts with that country introduced in November 1986 should end but that the other measures then imposed against Syria because of its support of terrorism should not at present be withdrawn.

The Cabinet -

2. Took note.

Cabinet Office

16 July 1987

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MOST CONFIDENTIAL RECORD
TO
CC(87) 24th Conclusions

THE PRISON
POPULATION

THE LORD PRESIDENT OF THE COUNCIL said that, although the Home and Social Affairs Committee (H) had unanimously agreed to the Home Secretary's proposals for reducing the number of prisoners, increasing the number of prison places and temporarily taking over Rolleston Camp, they had not been able to agree with his suggestion that military personnel should be involved in running Rolleston for the prison service. There was doubt whether sufficient prison officers were available to operate Rolleston. Even if they could be found, to make them available would prejudice the Fresh Start working arrangements being introduced in the prison service. But any use of the Army in circumstances that were short of a manifest emergency was a matter that should engage the Cabinet and could not be settled in one of its Committees. H had therefore asked the Home Secretary and the Secretary of State for Defence to arrange for the options to be urgently explored, so as to inform the Cabinet's discussion.

THE HOME SECRETARY said that he did not claim that the present situation in the prisons was a manifest crisis. It was, however, on the brink of crisis, and a full scale emergency might develop at any time. The proposals that had been approved by H would bring the prison service great relief. Although Rolleston could not appropriately house either remand prisoners or dangerous offenders, its use as a prison was an important part of the package. The prison service had used Rolleston before, and were familiar with it. The sole remaining problem was on staffing the camp. The prison service was currently under severe strain and he would welcome any possible relief. He had already agreed with the Secretary of State for Defence that military personnel should not be used in duties that brought them into face-to-face contact with prisoners. What was at issue now was their deployment in back-up duties of various kinds. His assessment was that this use of military personnel in a temporary prison environment would run less risk of creating industrial trouble with the Prison Officers Association (POA) than would the use of any other group of people from outside the prison service.

THE SECRETARY OF STATE FOR DEFENCE said that it would be a completely new principle to use the military in aid of the civil power in any circumstances short of a manifest crisis. The face-to-face custody of prisoners was clearly the most sensitive of the duties in question, and he was grateful that the Home Secretary had agreed to find prison officers for that. Nevertheless, the deployment of military personnel even on such tasks as catering and maintenance would breach the point of principle, and he would have yet greater reservations about their deployment on perimeter security, which might bring them into coercive contact with prisoners at any time. He would very much prefer that the Home Secretary could find his way to run Rolleston without the involvement of any military personnel. The Chief of the Defence Staff fully shared his concerns.



The following main points were made in this part of the discussion -

- a. The maintenance of perimeter security, at least insofar as this involved external surveillance, seemed on the face of it to be a not inappropriate task for police. If there was no legal problem about such police deployment, then it seemed likely that sufficient numbers of police officers could be found for the task. It had to be accepted that any emergency staffing arrangements were likely to be expensive, whatever service was involved.
- b. The total number of staff involved in the whole Rolleston operation would be in the low hundreds. As custodial and security duties were removed from the argument, the number of residual jobs that the military might be asked to discharge became very small. The point of principle against military deployment thus loomed disproportionately large against the small manpower requirement that was in question.

THE PRIME MINISTER, summing up this part of the discussion, said that while the Cabinet appreciated the difficulties for the prison service, they would not be willing to authorise the involvement of military personnel in the running of Rolleston or any other temporary prison accommodation until the fullest examination had been given to every alternative method of finding the necessary personnel. So far as perimeter security was concerned, it appeared on the face of it that the police would be the most appropriate service on which to rely if prison officers could not be made available. A decision on this and other matters raised was, however, clearly dependent on further consideration of the legal issues. The Home Secretary should make no public mention of the possibility of using service personnel, and he should give further thought to ways of running Rolleston without military involvement.

The Cabinet -

Invited the Home Secretary to be guided by the Prime Minister's summing up of their discussion.

Cabinet Office

17 July 1987