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Conclusions

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CABINET

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

THURSDAY 23 JULY 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 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 (Items 1-3)

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

C O N T E N T S

Item	Subject	Page
1.	PARLIAMENTARY AFFAIRS	1
2.	HOME AFFAIRS	
	Inquiry into Zeebrugge Ferry Disaster	1
3.	FOREIGN AFFAIRS	
	Iran/Iraq War	1
	Relations with Iran	3
	Malaysia	3
	Portugal	3
	Prime Minister's Visit to the United States	4
	Prime Minister's Visit to Jamaica on 18 July	4
4.	COMMUNITY AFFAIRS	
	Relations with Morocco	4
	Space Research: The European Space Agency	5
5.	ECONOMIC PROSPECTS AND PUBLIC EXPENDITURE 1988-89 TO 1990-91	7

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PARLIAMENTARY  
AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons in the first week after the Summer Adjournment.

HOME AFFAIRS

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Inquiry into  
Zeebrugge  
Ferry  
Disaster

Previous  
Reference:  
CC(87) 9.2

2. THE SECRETARY OF STATE FOR TRANSPORT said that the Wreck Commissioner (Mr Justice Sheen) had the previous day submitted to him the report of the formal investigation into the loss of the Herald of Free Enterprise off Zeebrugge. Mr Justice Sheen would be making the report public the following morning, and he would then make a statement to the House of Commons in the afternoon. It was important that no Government comment should be made on the matter in the meantime. The report would make a number of recommendations for action in the short, medium and long term: those for action in the short term were all acceptable to him, and he was giving urgent consideration to the preparation of the Government's response to the other, more complex, recommendations. The report would expose defects in the present law relating to fitness to proceed to sea and it was now clear that, as he had indicated on previous occasions, it would be necessary to include provisions on this matter in the Merchant Shipping Bill for which he had a place in the legislative programme for the present Session. He would consult the Lord President of the Council about this.

THE PRIME MINISTER, summing up a brief discussion, said that it was important that the Government's response to the investigation's report should be vigorous and decisive, and that all practicable action should be seen to have been put in hand as a matter of urgency. This requirement was given added emphasis by the fact that the report was appearing in the middle of the holiday season. It was clearly right that the defects in the law exposed by the report should be repaired, and the Secretary of State for Transport should consult the Lord President of the Council about the necessary provisions.

The Cabinet -

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

FOREIGN  
AFFAIRS

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Iran/Iraq War

Previous  
Reference:  
CC(87) 24.3

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the United Nations Security Council had passed unanimously on 20 July a mandatory resolution calling for a ceasefire in the Gulf war. This was an important move. It was the first time for many years that the five Permanent Members of the Security Council had jointly sponsored such action. There had been a substantial British input into the achievement, and he had taken the opportunity of the Security Council meeting to pay tribute to the United Kingdom's former Permanent

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Representative at the United Nations, Sir John Thomson, who had made a considerable contribution to the launching of the resolution.

The resolution might have concrete effects on the war, because the circumstances of its passing gave it particular international authority. Iraq was likely to react positively to the resolution; its Foreign Minister was expected very shortly to visit New York to see the United Nations Secretary General. The initial reaction of Iran had been dismissive, but might not be a definitive reaction. The point of decision had not yet been reached on the question whether there should be a further resolution in the Security Council about measures to enforce the resolution of 20 July. The United Kingdom could support an arms embargo against any belligerent which did not comply with the first resolution.

The most important requirement in the immediate future was a cessation of attacks on shipping in the Gulf. The Government were doing everything possible to mobilise pressure for this on Iraq and Iran. There was hope that the message might have some effect. Meanwhile, it was necessary to uphold freedom of navigation in the Gulf. France and the United Kingdom, as well as the United States, were taking measures to protect their shipping in the Gulf. So was the Soviet Union, which had a frigate, minesweepers and trawlers in the area. The first Kuwaiti vessel flagged out to the United States, and travelling under escort of United States warships, had so far carried out successfully its voyage through the Gulf. The Government should continue publicly to reaffirm that a number of countries were upholding freedom of navigation and that the belligerents in the Gulf should desist from attacks on shipping. As regards the question of Kuwaiti ships sailing under a British flag, it was necessary to make clear that arrangements for flagging and reflagging were provided for under British law and were not a matter for political decision or one which necessarily carried implications concerning military protection of the vessels concerned. Kuwait had in fact applied for the reflagging, as a gesture, of one vessel under the flag of Gibraltar.

In discussion, it was agreed that applications by foreign vessels to use flags of the United Kingdom or dependent territories should not be handled in a way which would encourage a rush of applications. It would be necessary to check, in the case of each such application, that there was no other ship of the same name on the British register and to be sure that the applications were bona fide. The law on the procedures for registration could not be altered without the consent of Parliament. The Armilla patrol of the Royal Navy in the Gulf was operating effectively and could not be increased in size.

The Cabinet -

1. Took note.

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Relations  
With Iran  
  
Previous  
Reference:  
CC(87) 20.4

THE FOREIGN AND COMMONWEALTH SECRETARY said that France was engaged in a dispute with Iran concerning the behaviour of Iranians in France, which was in some ways similar to the United Kingdom's recent dispute with Iran but involved additional complications. He was in touch with the Home Secretary about the implications of a bomb attack on 18 July in London on an Iranian, who had been Minister of Agriculture in the time of the Shah, and of the shooting on the previous day of a Palestinian believed to be a critic of the present Iranian regime. The one official who had been left in the British Mission in Tehran after the recent withdrawal of the rest of the staff had now returned to London, at least temporarily.

In discussion, it was noted that there was no clear information so far on whether the Iranian authorities had been behind either of the terrorist incidents, but they were known to be interested in activities of this kind. Officials were considering the arrangements concerning visas for Iranians to visit Britain, which might be tightened; and whether there were other measures which might demonstrate British seriousness to Iran, such as action regarding the Iranian airline Iranair or the Iranian office in London concerned with arms purchases. It would also be necessary to review the numbers of Iranians resident in Britain, distinguishing as far as possible between supporters and opponents of the present regime.

The Cabinet -

2. Invited the Foreign and Commonwealth Secretary and the Home Secretary to complete the review of questions concerning Iranian nationals resident in, or visiting, the United Kingdom.

Malaysia  
  
Previous  
Reference:  
CC(87) 8.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Prime Minister of Malaysia, Dr Mahathir Mohamed, was currently visiting the United Kingdom. The visit appeared to be going well and should contribute to the growing importance of trade relations between the two countries.

Portugal  
  
Previous  
Reference:  
CC(87) 14.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the centre right Portuguese Social Democratic Party under Dr Cavaco Silva had won the Portuguese general election on 19 July, achieving the first overall majority in Parliament since the democratic revolution of 1974. The Portuguese Socialist Party remained the main opposition, while the Communist Party had lost seats. The result was most welcome.



Prime Minister's Visit to the United States

THE FOREIGN AND COMMONWEALTH SECRETARY said that the discussion of arms control during the Prime Minister's visit to Washington on 17 July had been followed on 22 July by the Soviet Union's acceptance of the Western position that a ban on longer range intermediate nuclear weapons should be global. The Government should ensure that this was seen as Soviet acceptance of a United States proposal.

THE PRIME MINISTER said that her visit to Washington had been valuable. She had discussed arms control, the Arab/Israel problem, the Gulf war, Mozambique and economic matters including protectionism with the President, Mr Ronald Reagan, and with other members of the Administration and with senior members of the Congress. She had given a number of interviews on United States television, and had attempted to persuade the media to focus on other matters than the hearings in the Congress about the sale of arms to Iran and the diversion of funds to the Contra rebels in Nicaragua. President Reagan had assured her that he would not conclude any arms control agreement which was not fully in accord with Western interests. The United Kingdom's relations with the United States and its reputation there were currently very good.

Prime Minister's Visit to Jamaica on 18 July

THE PRIME MINISTER said that the Prime Minister of Jamaica, Mr Edward Seaga, faced difficulties because the previous Government had left behind a very serious economic situation. Mr Seaga had taken major measures, including devaluation and increases in food prices, to correct the situation. The worst was probably past, but the question was whether there was long enough until the next election, due by the end of 1988, for Mr Seaga's policies to show results. During her visit she had visited the Police Academy of Jamaica and had seen the impressive efforts that were being made to combat drugs despite great difficulties. She had announced a new loan of £7.5 million to Jamaica. Since her return, she had asked that the question of providing aid in the form of grants but in lower volume should be considered, and this was in hand.

The Cabinet -

- 3. Took note.

COMMUNITY AFFAIRS

--- Relations with Morocco

4. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Danish Presidency had received a letter from the King of Morocco seeking Moroccan membership of the European Communities. The response would have to be negative, but it would need to be handled carefully.

The Cabinet -

- 1. Took note.



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Space  
Research, The  
European  
Space Agency

THE PRIME MINISTER said that colleagues were expressing different views on the question whether there should be an immediate substantive announcement about the funding of space research and development. The European Space Agency was looking for an increase in members' contributions to its work. Colleagues had not considered that it would be right to give up other priorities in order to increase expenditure on space. Officials were currently engaged in discussions on the programme and funding of the European Space Agency, and needed instructions. The recent decisions on the co-ordinated consideration of priorities in research and development, including the setting up of the Sub-Committee on Science and Technology of the Ministerial Steering Committee on Economic Strategy (E(ST)) under her chairmanship, had been welcomed. It would be consistent with this approach if no final announcement of the Government's position on space research and development were made until E(ST) had looked at the issues after the Summer Recess. In discussion the following points were made -

- a. Before the Election Ministers had considered a variety of options for space policy. It had been argued that the Government should seriously consider a course which would involve increasing Government expenditure on space by up to £100 million in 1990-91 (option 3). Although some small amounts of money might be found by the reordering of priorities and from contributions by industry, it did not seem likely that these would be anything like sufficient to make that course probable without additional total spending on research and development. In these circumstances there was a case for an announcement then that there would be no increase in the British contribution to the European Space Agency, in order to clarify the situation in the official discussions with the Agency.
- b. It was important that whether or not there was an immediate announcement, there should be no indication that the Government was reconsidering the matter or that any further public money would be found.
- c. It was some time since the last discussion of this issue by a Ministerial Committee and in the meantime E(ST) had been set up and some private sector money had been identified. The present instructions stood, but it would be wrong to make an immediate public announcement, so soon after announcing the new co-ordinating machinery.

THE PRIME MINISTER, summing up the discussion, said that there was no change in the United Kingdom's position on the funding of space research. Officials engaged in discussions with the European Space Agency should be so instructed. Before any final public announcement was made about the United Kingdom's future contribution to the European Space Agency, the Government's policies on space and the resources to be committed to space research and development should be looked at by E(ST) and a meeting should be arranged for the early autumn.

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The Cabinet -

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

3. Invited the Secretary of State for Trade and Industry to be guided accordingly.

4. Instructed the Secretary of the Cabinet to arrange a meeting of the Sub-Committee on Science and Technology of the Ministerial Steering Committee on Economic Strategy to consider policy on space early in the autumn.

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ECONOMIC  
PROSPECTS  
AND PUBLIC  
EXPENDITURE  
1988-89 TO  
1990-91

5. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(87) 13) on Economic Prospects and a memorandum by the Chief Secretary, Treasury (C(87) 14) on the 1987 Public Expenditure Survey.

THE CHANCELLOR OF THE EXCHEQUER said that the economy was now stronger than it had been for a very long time. In particular, growth that year would be closer to 4 per cent than the 3 per cent predicted at Budget time, although it would be wrong to plan on the assumption that it could be sustained at that rate. But, while general prospects were good, the markets were nervous about signs of overheating in the economy, and it was important not to increase their concern by departing from policies of prudence and caution. As to public expenditure, it was essential to ensure that the proportion of public expenditure to Gross Domestic Product (GDP) should continue to fall, particularly if the Government were also to achieve the important objective of reducing the burden of non-North Sea taxation as a share of GDP. While the proportion of public expenditure to GDP had been falling since 1982, it was still above the level the Government had inherited in 1979. This objective might allow some increase in the planning total, but if that it happened at all it should be kept to the absolute minimum.

THE CHIEF SECRETARY, TREASURY said that the Government's objective, based on its Manifesto commitment, must be to ensure not only that the level of public expenditure should be held as close as possible to the existing planning totals, but also that its share of national income, without allowing for privatisation proceeds, should not exceed the path in the previous year's White Paper. This objective had already been made harder to achieve by increases in local authority expenditure, demand-led increases in social security spending especially, and recent policy decisions which would raise departmental expenditure. The additional bids which he had now received could not possibly be afforded within the commitment.

The Government would therefore be faced with difficult decisions. No area of expenditure could be exempt from searching scrutiny. The bids for education, health and defence would need to be scaled down. The demand-led increases in social security now in prospect were very large, and offsetting policy changes should be considered. As to employment expenditure, the welcome fall in unemployment should make significant savings possible; but they were largely offset by the results of demographic changes and increased take up of benefits of claimants. Spending on regional policy should be reassessed to see if resources could be released for the Inner Cities. Territorial expenditure should be scrutinised. The bids made for the nationalised industries were unrealistic. With the exception of electricity, the provision must be held to baseline or below, and for electricity it must be as low as possible. Stringent financial and efficiency targets must be set for these industries.

As to running costs, he proposed that their share of total public spending should not rise above the Survey period. This was consistent with an increase of about 1 per cent a year in real terms; but this was an increase across the board, not an entitlement for individual



programmes. The objective he proposed would require efficiency gains of at least 1.5 per cent a year in the use of all resources including manpower, which could be achieved only by careful planning in advance, by means of the management plans over the full Survey period suggested in his paper. It also meant that the bids received for 1988-89 would have to be reduced by about half.

In discussion the following main points were made -

- a. The Government had followed a consistent policy of financial prudence and firm control of expenditure. This policy had produced a strong and successful economy and had been endorsed by the electorate. There could be no question of departing from it now. More particularly, it would be wrong to make permanent increases in expenditure on the basis of a rate of growth in output which might prove temporary.
- b. Current uneasiness in the markets about credit conditions and the trade balance would make it especially unwise to adopt measures which they would see as a change of course. The previous year the markets had accepted a substantial increase in the planning totals without difficulty. They were unlikely to take such a relaxed view that year. Adverse market reaction could have damaging effects, for example on interest rates.
- c. There was much to be said for concentrating on the biggest programmes (not excluding the demand-led programmes like social security) in the search for the reductions necessary to achieve the Government's objectives. It would then be easier to take a less stringent view of smaller programmes which could bring political or economic benefits disproportionate to their size.
- d. The proposed increases in social security expenditure resulted almost entirely from estimating changes and demographic movements. Offsetting policy changes were possible, but would be extremely unpopular. On the other hand, now was the right time for considering such changes, which could substantially increase the Government's room for manoeuvre.
- e. During the Election the Government had stressed how their successful management of the economy had made it possible both to raise expenditure and to reduce taxes. Commitments given then indicated the need for higher expenditure in some areas. Moreover, some expenditure in desirable areas could be regarded as investment, since it could bring a substantial return in extra receipts. All these considerations pointed to the importance, as the Manifesto had said, of deciding and concentrating on priorities within the general objective.
- f. Running costs posed a particular problem. Further reductions in Civil Service numbers without a corresponding reduction in functions could lead to a deterioration in quality of service. More dispersal from London might be one way of containing costs.



technological developments should help to reduce some of the obstacles to dispersal in the past. Recent studies had suggested that there was further scope for improving efficiency of management and getting better value for money.

g. At present, all spending by local authorities was included in the planning total, although the Government had little control over it. The case for including only Government grants to the authorities within this total should be reconsidered. The general review of local government finance provided the opportunity for such a reconsideration.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the proposals by the Chief Secretary, Treasury. He should now, as proposed, conduct bilateral discussions with spending Ministers in the usual way against the objectives which had been agreed. She hoped that these discussions would be able to reach agreement. If that proved impossible, she would at the appropriate time establish a small group under the chairmanship of the Lord President of the Council, which would consider outstanding issues and make recommendations to the Cabinet. Meanwhile, in reply to questions, she would explain that the Cabinet had discussed public expenditure, that they had reaffirmed the policy that public expenditure should continue to take a declining share of national income, as set out in the last Public Expenditure White Paper, and that within that constraint the Chief Secretary, Treasury would hold bilateral discussions in the autumn. Questions about the possibility that the planning totals might not be held would require very careful handling. It would be necessary to emphasise the Government's determined adherence to strict and prudent policies. Other members of the Cabinet should adhere strictly to this line in any outside contacts. The bilateral discussions should be carried on in confidence and, as all Ministers had agreed, it was essential that there should be nothing on which the press could base speculative stories of Ministerial disagreements.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Approved the proposals in C(87) 14, and invited the Chief Secretary, Treasury, to proceed accordingly.
3. Noted that the Prime Minister would, if necessary, establish a small group under the chairmanship of the Lord President of the Council to consider any outstanding issues in the autumn and make recommendations to the Cabinet.

Cabinet Office

23 July 1987