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CC(87) 35th  
Conclusions

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CABINET

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

THURSDAY 3 DECEMBER 1987

AT 10.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon Viscount Whitelaw  
Lord President of the Council

The Rt Hon 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 Mackay of Clashfern  
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 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

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon David Waddington QC MP  
Parliamentary Secretary, Treasury

The Hon Peter Brooke MP  
Paymaster General

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SECRETARIAT

Sir Robert Armstrong  
Mr C L G Mallaby (Item 3)  
Mr R T J Wilson (Item 5)  
Mr R G Lavelle (Item 4)  
Mr A J Langdon (Items 1 and 2)  
Mr J H Holroyd (Item 4)  
Mr G Monger (Item 5)  
Mr S S Mundy (Items 1 and 2)

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PARLIAMENTARY  
AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons in the following week and that, subject to the progress of business, the House would rise for the Christmas Adjournment on Friday 18 December until Monday 11 January.

HOME AFFAIRS

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British  
Caledonian  
Airways

Previous  
Reference:  
CC(87) 26.1

2. THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he had announced earlier that morning that he had accepted the advice of the Director General of Fair Trading not to refer to the Monopolies and Mergers Commission (MMC) the proposed involvement of Scandinavian Airlines System (SAS) in British Caledonian Airways (BCal). He had taken his decision within the existing policy that the issue of competition was the principal criterion for references to the MMC. It had been represented that the proposed merger should be referred to the MMC on other public interest grounds. That should be done only in exceptional circumstances, and in the present case the Secretary of State for Transport already had powers under the Civil Aviation Act 1982 to revoke licences when control of an airline passed out of British hands.

THE SECRETARY OF STATE FOR TRANSPORT said that the Civil Aviation Act 1982 required the Civil Aviation Authority (CAA) to inform him if it had reason to believe that a company holding an air transport licence had passed out of effective British control. Should the CAA notify him to that effect, he would be empowered to direct that the licence be revoked. He had that morning released the text of a letter he had sent to the Chairman of BCal indicating that, if the CAA were to notify him that effective control of BCal had passed out of United Kingdom hands because of the purchase of a substantial shareholding by SAS, he would be minded to direct the revocation of BCal's present licences and to withhold consent for the granting of new ones. His principal reasons for taking this view were, first, that if the CAA were to certify that BCal had passed out of effective United Kingdom control, overseas Governments would be bound to take the same view, and this could well lead them to withdraw traffic rights from the airline, to the detriment of United Kingdom civil aviation interests. Second, he believed that it would be unacceptable, and would distort competition, for a private sector British airline to fall under the control of a foreign state-controlled airline. Third, British airlines were not able to take over foreign airlines on a comparable basis. Fourth, the proposed involvement of SAS would not be in the interests of British consumers, since SAS pursued a policy of charging high fares for a service which was aimed predominantly at business travellers: the proposed arrangement would therefore run directly contrary to the Government's policy of promoting cheaper fares and increased competition. The terms of his letter had been drawn so as to minimise the risk of a successful application for judicial review. He understood that SAS were now likely to restructure their bid. The rival bid from British Airways remained open.



THE LORD PRESIDENT OF THE COUNCIL said that the Managing Director of BCal was his son-in-law. He had no financial interest in BCal or in his daughter's and son-in-law's financial affairs. Nonetheless, he wished to place on record that he had thought it right to take no part in any consideration of proposals affecting BCal, and that he would continue to avoid any participation in the matter.

THE PRIME MINISTER, summing up a brief discussion, said that it was clearly important that the Secretary of State for Transport should continue to handle the matter in ways that were designed to reduce the risks of judicial review to the minimum.

Industrial  
Action by  
Postal Workers  
  
Previous  
Reference:  
CC(87) 34.2

THE CHANCELLOR OF THE DUCHY OF LANCASTER said that negotiations between the Post Office management and the Union of Communication Workers were delicately balanced. There appeared to be a reasonably good prospect that a settlement would be reached shortly on terms within the negotiating limits agreed by the Ministerial Steering Committee on Economic Strategy, Sub-Committee on Public Sector Pay. The threat to suspend the Post Office monopoly had increased the pressure on the Union to settle, and the Union's leadership were well aware of their members' vulnerability on this. There had, however, been some industrial action by local groups of postal workers.

The Cabinet -

Took note.

FOREIGN  
AFFAIRS  
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Gibraltar  
Airport

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that negotiations which he and the Secretary of State for Transport had conducted with the Spanish Foreign and Transport Ministers had reached on the previous day a conclusion which satisfied all the Government's requirements in the dispute with Spain about the use of Gibraltar Airport. This would enable the agreement in the European Community on the liberalisation of air services to enter into force. Spain would be consulted on the future development of civil aviation at Gibraltar. The right of Spain to fly services to and from Gibraltar had been recognised, in line with the rules of the European Community. A new Spanish terminal for Gibraltar Airport would be established on the northern side of Gibraltar's frontier with Spain. Passengers to and from Spain would use that terminal and would not go through British controls. It should be possible to gain acceptance for the agreement among the inhabitants of Gibraltar; but to minimise the risk that the package might cause them dismay, the Government would stress that no concessions had been made regarding sovereignty and that the package would enter into force only after the necessary legislation had been passed in Gibraltar with the concurrence of the House of Assembly. The Chief Minister of Gibraltar, Sir Joshua Hassan, was being helpful.



Spain had undertaken to move urgently towards the resumption of the ferry service between Algeciras and Gibraltar and to reduce the delays to vehicles crossing the frontier between Gibraltar and Spain.

He had discussed the general issue of Gibraltar with the Prime Minister of Spain, Senor Felipe Gonzalez, in the previous week in Madrid. The Spanish Prime Minister had seemed more relaxed about the matter than before. This was important, not least because tension over Gibraltar could have negative effects on British trade with Spain.

In discussion, it was agreed that the agreement reached by the Foreign and Commonwealth Secretary and the Secretary of State for Transport with the Government of Spain was a valuable step forward. The contents of the agreement would be announced in Parliament that day in a written reply by the Secretary of State for Transport. If there was a need for a statement as well, it should be made on Tuesday 8 December, after the meeting of the Transport Council of the European Community on 7 December.

Visit by the  
General  
Secretary of  
the Communist  
Party of the  
Soviet Union

THE FOREIGN AND COMMONWEALTH SECRETARY said that the General Secretary of the Communist Party of the Soviet Union, Mr Mikhail Gorbachev, would make a short stop in Britain on 7 December on his way to Washington for the Summit meeting with the President of the United States, Mr Ronald Reagan. Although the meeting would be brief, it would provide an important opportunity for the Government to reiterate its views on key points concerning arms control, human rights in the Soviet Union and the problems of Afghanistan and the Gulf.

Poland

THE FOREIGN AND COMMONWEALTH SECRETARY said that there had been a low turn-out for the referendum on economic reform and democratisation in Poland on 29 November. A majority of the low vote, but a minority of those entitled to vote, had assented to the Government's position. This showed the continuing lack of confidence between the Government and the people of Poland. The Polish Government intended that reform should go ahead but with some modifications and perhaps at a slower pace.

Haiti

THE FOREIGN AND COMMONWEALTH SECRETARY said that the general election arranged in Haiti on 29 November, which would have been the first for 30 years, had been cancelled because of widespread disruption and killings. Factions supporting the former dictator, Monseieur Jean-Claude Duvalier, had led the disruption, but the army had been slow in attempting to curtail it. There were few British subjects in Haiti; one had been shot in the leg.



Korean  
Airlines  
Aircraft  
Crash

THE FOREIGN AND COMMONWEALTH SECRETARY said that a Korean Airlines flight from Baghdad to Seoul had disappeared near the border between Thailand and Burma on 29 November. The wreckage had not yet been found. There had been suggestions in the media that this crash might have been caused by terrorists. North Korea might possibly have been involved. Alternatively, the fanatical terrorist organisation known as the Japanese Red Army might have been behind the crash. There was no evidence that the crash of a South African Airlines aircraft near Mauritius on 28 November had been caused by terrorists, but there would be suggestions to this effect.

France

Previous  
Reference:  
CC(86) 41.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had asked the French Foreign Minister, Monsieur Jean-Bernard Raimond, on 30 November about the arrangements surrounding the release of two French hostages from Lebanon and the departure for home of a member of the Iranian Embassy in Paris and a member of the French Embassy in Tehran. He had pointed out that it would damage the agreed policy of the European Community countries of firmness against terrorism if bargains were entered into over hostages and similar matters. Monsieur Raimond had evaded his detailed questions. In mitigation of the French action, it could be argued that a loan repayment by France to Iran had been due to take place in any case. There was no point in public denunciation of France; it would merely display disunity among European Community countries. It was also relevant that France had recently captured the merchant vessel Eksund carrying a cargo of arms destined mainly for terrorism in Ireland. The Government should continue to reiterate its own policy of not dealing with terrorists, which was supported by public opinion; and should continue to seek by every possible means information about the British hostages held in Lebanon.

The Cabinet -

Took note.

COMMUNITY  
AFFAIRS  
---  
Internal  
Market  
Council

4. THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that at the Internal Market Council on 30 November there had been discussion of the Commission's proposals for a regulation which would apply to major mergers with a European Community dimension: a threshold of 1 billion ecu turnover had been suggested. Like the French, who had taken the lead in discussion, the British Government had reacted sceptically towards the proposal. But it was important to be aware of the Commission's existing powers to scrutinize mergers under Articles 85 and 86 of the Treaty. Recently British Midland Airways had made an application to the Commission for them to intervene in the proposed merger between British Airways and British Caledonian Airways. It did not appear that the responsible Commissioner, Mr Sutherland, was keen to take action in this case but there would be a desire on the part



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of the Commission to be more active on mergers generally, even if under Articles 85 and 86 this was with retrospective effect. In addition the Germans would be likely to push forward discussion on a draft merger regulation during their Presidency in the first six months of 1988. He agreed with the Chancellor of the Exchequer that early collective discussion to establish the Government's approach was necessary.

The Cabinet -

1. Invited the Secretary of State for Trade and Industry to arrange for a paper to be prepared for discussion in the Defence and Overseas Policy Committee, Sub-Committee on European Questions.

European  
Council,  
4-5 December

THE FOREIGN AND COMMONWEALTH SECRETARY, introducing C(87) 17, said that the agreements at the Fontainebleau European Council in 1984 had been designed to secure control of Community expenditure, particularly on the Common Agricultural Policy (CAP). But in important respects they had proved ineffective: in particular agricultural expenditure had risen from £9 billion in 1983 to £19 billion in 1987. The Fontainebleau agreements had envisaged the possibility of an increase in the Community's own resources from 1.4 Value Added Tax (VAT) to 1.6 VAT from 1 January 1988; but this could only be agreed by unanimity. This gave the United Kingdom the opportunity to insist that before any increase in the Community's own resources could be agreed there must be improved systems of budgetary control and detailed and binding agreements on stabilisers for agricultural commodities. Any increase in the structural funds must fall well short of the objective for the doubling of the funds injudiciously proposed by President Delors. The Community was already spending beyond the level of resources provided at a 1.6 per cent VAT rate, but it was important that whatever new level of own resources was agreed should be no more than adequate to meet legitimate Community expenditure in 1988 and continue on a level base thereafter. The key issue for the forthcoming meeting of the European Council at Copenhagen would be whether agreement could be reached that would measure up to the British requirement for genuine, effective and binding agricultural stabilisers, the most crucial being those for cereals, oilseeds and proteins. It was valuable that the British approach was shared by the Commission and the Netherlands. Even so he was not optimistic that such an agreement was within the grasp of the Council. If it came about, then the Prime Minister and he would be able to negotiate constructively on the other elements in the package. If there was a failure to reach overall agreement at Copenhagen it was important that it should not be seen to be on account of a dispute over the United Kingdom abatement - which remained of vital national importance - but over the failure of other member states to face up to the enormous problems of agricultural expenditure.

In discussion it was said that, while the levels of agricultural expenditure would continue to feature prominently in public discussion

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it was important to get over to United Kingdom farmers that it was in their interest for expenditure under CAP to be brought within control since the alternative could be a breakdown in the normal funding of agricultural support. While it would be necessary for the European Council to concentrate on key commodities it was also essential that the Council should set an intensive programme of work which would ensure that before the measure implementing any decision on new own resources was agreed genuine and effective agricultural stabilisers for the remaining commodities would have been put in place. It was important to avoid any of the agreements on agriculture at the European Council being provisional.

THE PRIME MINISTER, summing up the discussion, said that it was essential that the European Council should tackle the unacceptable levels to which Community agricultural spending, both on internal support and export subsidies, had reached. The Government could not compromise or condone a fudge on this issue. If other member states recognised this and were prepared to agree to the effective and binding measures on agriculture which the British Government regarded as essential, then it would be possible for us to work towards agreement in other areas, including some additional expenditure on the structural funds, though not the Commission's proposal for doubling of that expenditure. It was essential to maintain the Fontainebleau abatement. Given current levels of Community expenditure it seemed inevitable that a new level of own resources would have to be established at a rate above that represented by 1.6 per cent of VAT. This would mean an increase in the net British contribution after abatement which, compared with £900 million now, could rise by over £150 million. This would be unwelcome. So would the fact that in covering expenditure for 1988 it would be necessary to accept the need for an increase in expenditure on agriculture. This is why it would be essential for any overall agreement to include fully effective measures to stop the growth in surpluses, together with depreciation of existing surpluses to wipe the slate clean. She was sure that she and the Foreign and Commonwealth Secretary would have the Cabinet's full backing in pursuing the objectives in paragraph 13 of C(87) 17 and particularly for the stand that they would be taking on the control of agricultural expenditure. If, together with the maintenance of Britain's abatement, an agreement on this could be achieved which met British requirements, there would be scope for agreement in other areas, including the structural funds, and to an increase in the own resources ceiling sufficient to cover real 1988 requirements.

The Cabinet -

2. Took note that the Prime Minister and the Foreign and Commonwealth Secretary would be guided by the Prime Minister's summing up of the discussion for the purposes of the forthcoming meeting of the European Council at Copenhagen.

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STEEL

5. The Cabinet had before it memoranda by the Chancellor of the Duchy of Lancaster (E(A)(87) 37) and by the Secretary of State for Scotland (E(A)(87) 38), a minute by the Secretary of State for Defence dated 30 November 1987, and the minutes of a meeting of the Economic Affairs Sub-Committee of the Ministerial Steering Committee on Economic Strategy held on 1 December 1987 (E(A)(87) 13th Conclusions).

THE CHANCELLOR OF THE DUCHY OF LANCASTER said that there was general agreement about the desirability of early privatisation of the British Steel Corporation (BSC), probably towards the end of 1988, possibly in mid-1989. He proposed to make a statement accordingly that afternoon. The question was what this statement should say about the future of Ravenscraig. Following discussion at the meeting of the Economic Affairs Sub-Committee of the Ministerial Steering Committee on Economic Strategy held on 1 December, he had discussed this with the Secretary of State for Scotland, and they had agreed on three points in the statement which should help to reassure Scottish opinion. First, it would report an assurance by the BSC that subject to market conditions there would continue to be a commercial requirement for steelmaking at Ravenscraig for at least the next seven years. BSC could not however give any assurance about the levels of output or employment at Ravenscraig during this period. Second, the statement would say that BSC had indicated that, if they should wish at some stage because of market conditions to close their steelmaking facilities at Ravenscraig, they would consider, on a commercial basis, any wholly private sector offer for these facilities as an alternative to closure. Third, the statement would not now say that the Ravenscraig hot strip mill would close: it would say only that BSC had decided on commercial grounds that all their present hot strip mills, including the Ravenscraig mill, would continue to operate at least until 1989. This would leave BSC free to take their own decision after privatisation about the hot strip mills. It was accepted that they might then decide to close the Ravenscraig mill.

There were also three points of detail. First, the draft statement would not say that BSC would be privatised 'as a single entity'. This was to avoid drawing unnecessary attention to the alternative possibility of privatising BSC's Scottish interests separately. But he had agreed with the Secretary of State for Scotland that, if he was questioned on the point, he could confirm that BSC must be sold as a single entity, and that separate flotation of its Scottish interests had been examined but found to be impracticable. Second, he still awaited final comments from Sir Robert Scholey, the Chairman of BSC, who might in particular want BSC's readiness to consider offers for its steelmaking facilities at Ravenscraig to be qualified by the words 'subject to their commercial interest' rather than the words 'on a commercial basis'. Third, the form of any assurance to be given about the future of the Dalzell plate mill still had to be agreed with BSC. They would be prepared to give an assurance on Dalzell similar to the one they had agreed for Ravenscraig steelmaking but weaker, perhaps by the addition of a word such as 'probably'.

THE SECRETARY OF STATE FOR SCOTLAND said that he agreed with the statement as amended along the lines described by the Chancellor of the



Duchy of Lancaster. He thought that it should now be possible to convince Scottish opinion of the case for privatisation and he was grateful to colleagues for their help in taking account of Scottish sensitivities.

THE LORD PRESIDENT OF THE COUNCIL said that the addition of a steel privatisation Bill to an already very full legislative programme for the current Session would undoubtedly add substantially to the difficulties of managing that programme. He, the Lord Privy Seal and the Chief Whip had taken the view that the Bill was of such importance to Government policy that it had to be accommodated in the programme for the current Session. But the consequences for management of the programme must be recognised. There would certainly need to be an overspill in the autumn, and it could be the longest for 30 years, perhaps until the end of November. There would be no reserve of time available if any unexpected emergency business had to be taken. The Government would have to be prepared for accusations, especially in the House of Lords, that it was trying to carry through legislation without adequate time for debate. The business managers hoped that colleagues would do all they could to minimise the difficulties. They should keep in close touch with backbenchers to ensure that they fully realised and understood the size and radical nature of the programme, and remained firmly in support of it. Colleagues would also understand that additions to Bills which might be desirable in themselves might not be practicable in the circumstances of the current Session.

In discussion, the following main points were made -

- a. The draft statement said that BSC had decided to continue to operate all their hot strip mills at least until 1989. This formulation would create doubts about the prospects after that date, not just of Ravenscraig but of the other three mills. There was no question of closing the two mills in South Wales, and this could be made clear by means of guidance from the Welsh Office when the statement had been made. This would increase the pressure for reassurance about the prospects for Lackenby, but there seemed no way of meeting that without drawing further attention to the greater uncertainties at Ravenscraig.
- b. Sir Robert Scholey's desire to qualify the BSC's readiness to consider offers for Ravenscraig steelmaking by the words 'subject to their commercial interest' could be argued substantially to change the sense of the statement on that point, and should be resisted.

THE PRIME MINISTER, summing up the discussion, said that there was general agreement on the desirability of the early privatisation of BSC. On the text of the proposed statement it would be better for the BSC's readiness to consider offers for Ravenscraig steelmaking to be qualified by the words 'on a commercial basis', rather than 'subject to their commercial interest' as preferred by Sir Robert Scholey. The assurance to be given on the Dalzell plate mill still needed to be agreed with BSC but it should be similar to, though if necessary somewhat weaker than,



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that already agreed for steelmaking at Ravenscraig. Subject to these points, and any minor amendments agreed between the Chancellor of the Duchy of Lancaster, the Chancellor of the Exchequer and the Secretary of State for Scotland, the Cabinet endorsed the draft statement. The statement would also be made in the House of Lords by the Secretary of State for Trade and Industry; the business managers should ensure that arrangements for the statements in the two Houses were properly co-ordinated. It was agreed that the Welsh Office could make it clear, when the statement had been made, that the future of the two hot strip mills in South Wales was not in question. There should also if possible be a statement to that effect from BSC. Finally, the Cabinet noted the warning by the Lord President of the Council about the difficulties of managing the current Session's business. They agreed on the importance of keeping backbenchers in close touch with the Government's thinking, and of avoiding additions to the Bills in the programme so far as possible.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up.
2. Noted that statements would be made in the two Houses of Parliament that afternoon, by the Secretary of State for Trade and Industry and the Chancellor of the Duchy of Lancaster, along the lines agreed.

Cabinet Office

4 December 1987

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