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CC 87/56th
Conclusions

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CABINET

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

THURSDAY 10 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 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 (Items 3 and 4)
Mr R G Lavelle (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

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

Local
Government
Finance Bill

Previous
Reference:
CC(87) 26.1

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that a group of Government backbenchers had tabled a Motion for the Second Reading of the Local Government Finance Bill the following week instructing the Standing Committee to consider the desirability of banding rates of Community Charge according to individuals' means. While he understood that this Motion would not be debated, the proposal of a banded charge might nevertheless provide the immediate focus for criticism of the Bill. A banded charge would be manifestly unjust and should be firmly resisted. It would create poverty traps at the bottom of each of the proposed bands and it would be very difficult and expensive to administer. The version of the proposal that was currently being canvassed was demonstrably vitiated by flaws in the figuring on which the analysis was based. That proposal would not significantly extend local government accountability beyond the present 18 million ratepayers, whereas 35 million people would be liable to the Community Charge under the Government's proposals. In addition, there would be very large differences in the charges levied on the more affluent in different areas: such people would have a great incentive to move out of high charge areas and this would have an adverse impact on the communities concerned, especially inner cities. The argument that the Government's proposals were unfair because of their regressive nature could best be rebutted by pointing out that nearly one-half of local government income would be met from taxation, compared with one-quarter from the Community Charge and a further quarter from the business rate, and that more affluent members of society would accordingly continue to make a much larger contribution than the less well-off. He would urgently circulate to colleagues and to Government backbenchers briefing material explaining the objections to banded charges.

The Cabinet -

Took note.

HOME AFFAIRS

Industrial
Action by
Postal Workers

Previous
Reference:
CC(87) 35.2

2. THE CHANCELLOR OF THE DUCHY OF LANCASTER said that negotiations between the Post Office management and the Union of Communication Workers had been settled the previous week on terms very satisfactory to the Post Office management. It had been agreed that the working week for postal grades should be reduced in return for improved productivity arrangements and the progressive abolition of a highly unsatisfactory bonus scheme. This would be for implementation at local level, and there had been some fitful industrial action by local groups opposed to the settlement. But, overall, the outcome of the negotiations had been very satisfactory.

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The Cabinet -

Took note.

British
Caledonian
Airways

Previous
Reference:
CC(87) 35.2

THE SECRETARY OF STATE FOR TRANSPORT said that, following his letter to the Chairman of British Caledonian Airways (BCal) that he had described to the Cabinet the previous week, Scandinavian Airlines System (SAS) had made further proposals to BCal, involving a smaller holding than they had previously sought. The most recent proposal took the form of a complicated package involving SAS's acquisition of 26 per cent of BCal's ordinary shares, though this would be diluted by new rights issues totalling £50 million, of which SAS would underwrite £20 million without increasing their voting rights. The overall result of the proposals would be to give SAS 23½ per cent of the voting rights in BCal, though that would be capable of increase to 40 per cent if in the future the controls on British airlines passing into foreign hands should be relaxed. SAS's main partner in these proposals was Investors In Industry, which was an investment group owned by the British clearing banks and in which the Bank of England had a small stake. As he had explained to the Cabinet the previous week, his powers to direct the revocation of air transport licences in the event of an airline passing out of British control were triggered by his being informed by the Civil Aviation Authority (CAA) that such a situation obtained. The CAA's duty was to keep the ownership of airlines under continuing review, and to inform him whenever they thought that a transfer of ownership within the meaning of the Act had taken place. But he was powerless to act unless he was so informed. He was naturally anxious that SAS might be banking on edging through the statutory controls in the way he had described and, when they judged they had securely established themselves, increasing their effective control of the company in the expectation that they would not then be dislodged. It was essential that he should act in strict accordance with the law at every stage, and he would continue to keep in touch on this with the Attorney General. In the most recent development, British Airways (BA) had increased by £80 million their cash offer for all BCal shares, so that it now stood at £200 million. It remained to be seen how the BCal directors and shareholders would react to this, but the Chairman of BA could be expected to mount a vigorous public campaign against SAS's proposed involvement.

THE PRIME MINISTER, summing up a brief discussion, said that the subject clearly provided many possibilities for legal challenge. The Cabinet agreed with the Secretary of State for Transport about the importance of his being seen to handle the matter in strict conformity with the law, and noted that he would continue to keep in touch with the Law Officer.

The Cabinet -

2. Took note, and endorsed, the Prime Minister's summing up.

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FOREIGN
AFFAIRS

United States
Soviet Union
Summit Meeting

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the President of the United States, Mr Ronald Reagan, and the General Secretary of the Communist Party of the Soviet Union, Mr Mikhail Gorbachev, had signed in Washington the treaty between their two countries eliminating Intermediate Range Ground Based Nuclear Missiles (INF). The Summit meeting was now engaged in detailed discussion of a range of issues. A number of working groups had been established and would be reporting to the two leaders. Little hard news was emerging about the progress of the discussions but the atmosphere appeared to be good. Mr Gorbachev was making a strong and positive impression on the media and public opinion in the United States. Both sides appeared to be at pains to damp down excessive public expectations of results from the meeting.

The Foreign and Commonwealth Secretary added that he would be seeing the United States Secretary of State, Mr George Shultz, in the coming days at a meeting of Foreign Ministers of the North Atlantic Treaty Organisation. Mr Shultz would subsequently visit London. These meetings would provide opportunities to hear in detail about the Washington Summit.

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

Previous
Reference:
CC(87) 35.3

THE PRIME MINISTER said that the short stop of the General Secretary of the Communist Party of the Soviet Union, Mr Mikhail Gorbachev, and his party at the Royal Air Force base at Brize Norton on 7 December, on the way to the United States, had gone well. Mr Gorbachev had appeared very confident. He showed no visible effects of the difficulties he had recently encountered at home in his campaigns for the restructuring of Soviet society, known as perestroika, and greater openness, known as glasnost. He had clearly set his sights on real progress in these fields and intended to pursue it. Mr Gorbachev was very pleased about the agreement between the Soviet Union and the United States on the elimination of Intermediate Range Ground Based Nuclear Missiles (INF). This agreement was indeed a major breakthrough, not least in its extensive provisions for verification. She had warned Mr Gorbachev that there might be difficulties in the United States Senate about the ratification of the INF agreement, and had suggested that those difficulties would be diminished if the Soviet Union were to make further improvements in its performance in the field of human rights, for instance through a higher level of emigration. As on previous occasions, Mr Gorbachev had been sensitive on this matter, saying only that it was a domestic question for the Soviet Union, which would do what it thought best. She had told him that the prospects for ratification by the United States Senate of the INF agreement would also be helped if he would declare that Soviet forces would withdraw from Afghanistan. The impression she had gained was that Mr Gorbachev would like to withdraw Soviet forces from Afghanistan but still hoped to be able to leave behind a government that would be reliable from the Soviet point of view. She had pointed out to Mr Gorbachev that the United Kingdom, when it had withdrawn from colonial territories, had not insisted that the governments left behind should be pro-British. She had again made clear to Mr Gorbachev that the British nuclear deterrent

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was already at an irreducible minimum strength. The objective of arms control should be a world free of war rather than a world free of nuclear weapons. In a nuclear-free world immensely destructive conventional wars could take place; and, since nuclear weapons could not be disinvented, countries engaged in war might produce them quickly if they had not clandestinely retained some. The stability created by nuclear deterrence was especially important in Europe, where two world wars had started. The next priorities in arms control in Europe, after 50 per cent cuts in the strategic arsenals of the Soviet Union and the United States, should be reductions in conventional forces and the elimination of chemical weapons despite all the difficulties of verification.

Mr Gorbachev's recent admission that the Soviet Union was engaged in strategic defence research opened the possibility of reciprocal arrangements concerning activity in that field. She had argued to him that the aim should be to create predictability and confidence on both sides. There should be a requirement for negotiations before any deployments took place. The Anti-Ballistic Missile Treaty should be extended, perhaps for a further seven years. During that period, each side should inform the other of the types of strategic defence research on which it was engaged.

Her discussions with Mr Gorbachev had been friendly and frank. His attitude to this country was clearly influenced by the fact that the British Government had been the first to recognise him as the rising man in the Soviet leadership; and he also was grateful for the Government's expressions of support for his campaigns for perestroika and glasnost.

While the talks were continuing at Brize Norton, Mrs Gorbachev had paid an extremely successful visit to a nearby school, where she had seen a nativity play performed by the pupils. As a former teacher, she had visibly enjoyed the experience. It was satisfactory that her visit had gone well, particularly in view of critical remarks about her in a recent article in the British press, which had caused serious annoyance in Moscow.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had held talks at Brize Norton with the Soviet Foreign Minister, Mr Eduard Shevardnadze, and other senior members of Mr Gorbachev's party. He had pressed the Soviet Foreign Minister again to co-operate in moves towards an embargo on arms sales to Iran, as a follow-up to United Nations Security Council Resolution 598 concerning the Gulf war. The Soviet Union accepted in principle the idea of an arms embargo but was not yet ready to move forward on this. There had also been discussion of human rights, and he had handed to Mr Shevardnadze new lists of personal cases in the Soviet Union where the Government was pressing for a resolution. It had been provisionally arranged that he would visit the Soviet Union in February 1988. Mr Gorbachev would pay another visit to the United Kingdom in due course.

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Poland THE FOREIGN AND COMMONWEALTH SECRETARY said that the Foreign Minister of Poland, Mr Marian Orzechowski, had that week visited the United Kingdom. Previous Reference: CC(87) 35.3 The Government had renewed its efforts to persuade the Polish regime to adopt more sensible economic policies and less illiberal ones in the political field. The invitation to the Prime Minister to visit Poland in 1988 had been renewed. That visit would provide an opportunity to continue to encourage Poland towards sensible reforms. It would be difficult to achieve much in this regard, but the attempt should be maintained.

Bangladesh THE FOREIGN AND COMMONWEALTH SECRETARY said that the situation in Bangladesh had deteriorated further. Parliament had been dissolved on 6 December. There were daily demonstrations, and a 24 hour strike had been called for 12 December. The position of the President, Mr Hossain Ershad, was under increasing threat. Previous Reference: CC(87) 34.3

Pakistan THE FOREIGN AND COMMONWEALTH SECRETARY said that the disputes that had arisen during the tour of Pakistan by the England cricket team were most regrettable. They could affect general relations between this country and Pakistan and could damage the United Kingdom's international reputation in matters concerning sport. But the difficulties were not the responsibility of the Government, which should not become involved. The British Ambassador in Islamabad was already doing what he could to encourage the England team and the Pakistan cricket authorities to come to terms. Previous Reference: CC(87) 31.3

Gibraltar THE FOREIGN AND COMMONWEALTH SECRETARY said that the Chief Minister of Gibraltar, Sir Joshua Hassan, had resigned. He had made clear that his decision had nothing to do with the arrangements agreed to the previous week between the British and Spanish Governments about Gibraltar Airport. Sir Joshua Hassan had been Chief Minister for 34 years, with an intermission of three years; he was aged 72 and wanted to rest. He would be replaced by Mr Adolfo Canepa, his deputy for the past seven years. Elections were due in Gibraltar by March 1988. Previous Reference: CC(87) 35.3

France THE HOME SECRETARY said that he had received a visit from the French Minister for Internal Security, Monsieur Pandraud, who had described the arrangements between France and Iran under which two French hostages had recently been released from Lebanon. He had been struck by the ease with which the French Government had been able to expel Iranian. Previous Reference: CC(87) 35.3

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opponents of the present regime in Tehran. He expected more expulsions of such people from France. He had gained the strong impression that France saw questions of this kind as matters of foreign policy rather than of principled opposition to terrorism.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

European
Council,
4-5 December

Previous
Reference:
CC(87) 35.4

4. THE FOREIGN AND COMMONWEALTH SECRETARY said that the meeting of the European Council on 4-5 December had been a business-like occasion at which significant headway had been made. There had been no sustained attack on the United Kingdom abatement. The Prime Minister and he had made substantial progress in pressing the general argument on containing the growth of agricultural expenditure. The alliance with the Dutch had been maintained on agricultural stabilisers and the Commission had for the most part also stood firm on this issue. The French move towards the Germans had not produced a reciprocal German response and the Franco/German concordat had come under strain and subsequent criticism. On the structural funds it had been possible, though only with some difficulty, to hold like-minded countries to levels consistent with budget discipline: it would be necessary to forge firmer alliances on this issue before the February meeting.

In discussion it was noted that Chancellor Kohl of Germany and President Mitterrand of France had not been prepared even to discuss the draft conclusions tabled by the Danish Presidency on the second day and had suggested instead agreement on a statement of principles. It had been made clear in response that general principles had already been agreed at Brussels the previous June. Towards the conclusion of the meeting Chancellor Kohl had somewhat disingenuously suggested that there should be a common presentation emphasising that no one country was responsible for the absence of agreement and emphasising the commitment to work together. This had been followed by a long and gloomy intervention by President Mitterrand on the European prospect. He had been reminded that on a previous occasion an inconclusive meeting had been followed by the highly successful settlement reached at Fontainebleau under his chairmanship.

Looking ahead to the run up to the special European Council now to take place on 11-12 February it was suggested that a major objective should be to detach the French from the Germans. It was possible that at the meeting the Germans might be prepared to give a little if this was a necessary price for a successful outcome for which the German Presidency could take credit.

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Transport
Council,
7 December

THE SECRETARY OF STATE FOR TRANSPORT said that at its meeting on 7 December the Transport Council had finally passed the air transport liberalisation package.

The Cabinet -

Took note.

Cabinet Office

10 December 1987

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