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CC(84) 24th Conclusions

COPY NO 74

CABINET

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

THURSDAY 28 JUNE 1984

at 10.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Viscount Whitelaw
Lord President of the Council

The Rt Hon Lord Hailsham
Lord Chancellor

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

The Rt Hon Leon Brittan QC MP
Secretary of State for the Home Department

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Education and Science

The Rt Hon James Prior MP
Secretary of State for Northern Ireland

The Rt Hon Peter Walker MP
Secretary of State for Energy

The Rt Hon Michael Heseltine MP
Secretary of State for Defence

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment

The Rt Hon John Biffen MP
Lord Privy Seal

The Rt Hon Norman Fowler MP
Secretary of State for Social Services

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry

The Rt Hon Lord Cockfield
Chancellor of the Duchy of Lancaster

The Rt Hon Tom King MP
Secretary of State for Employment

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Peter Rees QC MP
Chief Secretary, Treasury

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon John Wakeham MP Parliamentary Secretary, Treasury	Mr John Gummer MP Minister of State, Department of Employment

SECRETARIAT

Sir Robert Armstrong	
Mr P L Gregson	(Item 4)
Mr D F Williamson	(Items 2 and 3)
Mr B G Cartledge	(Items 1-3)
Mr M S Buckley	(Item 4)
Mr C J S Brearley	(Item 1)

C O N T E N T S

PARLIAMENTARY AFFAIRS

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

Local Government (Interim Provisions) Bill

Previous Reference: CC(84) 22nd Conclusions, Minute 1

THE LORD PRESIDENT OF THE COUNCIL said that the Committee Stage of the Local Government (Interim Provisions) Bill was due to begin in the House of Lords that day. The Government would be supporting an amendment to the Bill to provide that the elections due to be held to the Greater London Council and metropolitan county councils in 1985 should be cancelled only if an affirmative procedure order was approved by both Houses of Parliament. He could not say with confidence whether this amendment would meet the concern of those opposing the Bill in the House of Lords: but nothing short of the amendment was likely to be successful. He and the Chief Whip, House of Lords, had taken all the steps they could to secure its success, but the outcome was likely to depend on the course of the debate itself. Many Government supporters were still deeply concerned about abolishing the elections and replacing the existing councils with nominees of the successor authorities, notwithstanding the differences between the present situation and that which had obtained on previous reorganisations of local government. He had considered whether he or the Lord Chancellor should speak in the debate to indicate how serious the Government considered the issue to be, and he might himself do so if the course of the debate seemed to merit it. If the amendment was defeated it would be necessary to consider how to react. One possibility would be to allow the existing councils to remain in office until 1986, although it was pointed out that the extension of mandate without an election, which this would entail, would raise very serious constitutional issues.

Northern Ireland

Previous Reference: CC(84) 17th Conclusions, Minute 2

THE SECRETARY OF STATE FOR NORTHERN IRELAND informed the Cabinet of the line he proposed to take in the following week's debate on the New Ireland Forum.

The Cabinet

Took note.

FOREIGN AFFAIRS

Iran/Iraq

Previous Reference: CC(84) 23rd Conclusions, Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that there had been no real change in the situation in the Gulf, despite two further Iraqi attacks on shipping. These had not disturbed the oil market. The ceasefire agreement on attacks on civilian targets seemed generally to be holding.

Libya

Previous Reference: CC(84) 20th Conclusions, Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the only significant new development concerning Libya was the achievement, on 25 June, of consular access to five of the six British detainees, who had appeared fit and well. The sixth detainee had been absent but not necessarily for any sinister reason. The consular visit had been preceded by representations to the Libyans by the Italian Government, and it seemed possible that exchanges in Athens between Greek and Libyan Ministers had also been helpful. He had himself discussed the situation with both the Greek Prime Minister, Mr Papandreou, and the Italian Foreign Minister, Signor Andreotti, in the margins of the European Council meeting in Fontainebleau; he had made it clear to them that Her Majesty's Government were not thinking in terms of any exchange of hostages. A satisfactory resolution of the problem of the six detainees was clearly going to take some time to achieve.

The Multilateral Conference on the Causes and Prevention of Damage to Forests and Waters by Air Pollution in Europe

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Conference on Air Pollution held in Munich from 24 June to 27 June, had gone much better than reports in the British press would suggest. As previously agreed, the United Kingdom was having to continue to hold back from specific numerical commitments. He was aware that the United Kingdom's refusal to join the so-called "30 per cent Club" would cause some disappointment; but reports of the United Kingdom's alleged isolation and of serious differences with its partners were very misleading. The Norwegian Minister for the Environment, Mrs Rakel Surlien, had already made it clear that reports of an Anglo-Norwegian row were untrue. The Parliamentary Under-Secretary of State, Department of the Environment, (Mr Waldegrave) had made it clear that the United Kingdom would in due course be prepared to accept a numerical basis for an agreement. In a brief discussion, the unhelpful role of some of the media, and in particular of the British Broadcasting Corporation, was noted. There was a real difference between the United Kingdom and Norway, but this was not insoluble and it would be wrong for the United Kingdom to play all its negotiating cards at the outset. It was also noted that environmental pollution provided a useful argument against coal-fired power stations.

Deployment of Cruise Missiles in the United Kingdom

THE SECRETARY OF STATE FOR DEFENCE said that the Cabinet would wish to note that the first full-scale exercise in the off-base deployment of Ground Launch Cruise Missiles from Greenham Common had been successfully initiated. There had been two previous off-base deployments, but these had been designed to demonstrate the capacity to move Cruise missiles out of the base rather than to engage in serious training. The current exercise was not yet complete; the missiles still had to return to the Greenham Common base. It was so far proceeding satisfactorily.

The Cabinet -

Took note.

COMMUNITY AFFAIRS

Community Budget and United Kingdom Refunds

Previous Reference: CC(84) 23rd Conclusions, Minute 3

3. THE PRIME MINISTER said that the agreement on the future financing of the European Community and United Kingdom refunds which had been reached in the European Council at Fontainebleau on 26 June was a very reasonable settlement. There had been advantage in concluding during the French Presidency. The agreement provided for a fixed refund to the United Kingdom of about £600 million (1,000 million ecu) for 1984. Thereafter the new system of refunds would be in effect. It had been strongly in the United Kingdom's interest to avoid more than one year of ad hoc arrangements and this had been achieved. The main features of the new system were:

i. It would continue unless there were a decision to change it. Any such decision could only be made with the unanimous agreement of member states and their Parliaments. For the first time there would be in place a system for correcting the budget inequity which was linked with the level of the Community's own resources.

ii. Under the new system, and even with an increase in the ceiling on Value Added Tax to 1.4 per cent, the United Kingdom's net contribution to the Community would be less than if we had continued with the existing arrangements and the 1 per cent Value Added Tax ceiling. A failure to agree could have left the United Kingdom with a commitment to contribute more than £1,200 million a year to the Community.

iii. The system provided for a new method under which the refund would be automatically deducted from the United Kingdom's contribution of Value Added Tax in the following year. There would no longer be any need to create special measures requiring the agreement of the European Parliament.

iv. The United Kingdom's refund would be at the level of 66 per cent, which was to all intents and purposes two-thirds, of the gap between the share of Value Added Tax and the share of expenditure. This covered the whole of the United Kingdom's net contribution except the excess element of customs duties and levies, which in 1983 had amounted to about £170 million (291 million ecu).

Following the agreement on future financing and United Kingdom refunds the atmosphere in the European Council had changed immediately. The French and Italian reserves which had held up the payment of the United Kingdom's 1983 refund of about £440 million (750 million ecu) had immediately been withdrawn and the necessary regulations had been adopted by the Council of Ministers. It was now for the European Parliament to transfer the money from the reserve chapter of the budget. The strong wish of the President of the French Republic, Monsieur Mitterrand, to achieve a successful European Council and the willingness of the Federal German Chancellor, Herr Kohl, to carry a heavier financial burden had contributed to the settlement. Chancellor Kohl had also had the problem that he needed Community agreement at the European Council to a higher payment to German farmers from national funds. It was a cause for satisfaction that, at a period when many issues were the subject of prolonged and difficult disagreements, the question of Community financing and United Kingdom refunds had been resolved by negotiation.

THE FOREIGN AND COMMONWEALTH SECRETARY said that all the important negotiations on Community financing and United Kingdom refunds at or in the margins of the European Council had been conducted by France, Germany and the United Kingdom. No other member state, except for some helpful interventions by the Dutch Prime Minister, had played a role. It would now be important to ensure that the legal texts matched the agreement reached on the United Kingdom refunds and that the measures on budget discipline were also adequate.

THE LORD PRESIDENT OF THE COUNCIL said that the Cabinet wished to congratulate the Prime Minister and the Foreign and Commonwealth Secretary on the achievement of this agreement after long negotiation.

In discussion the following points were made -

a. The United Kingdom now needed to buttress the agreement on Community financing with effective measures on Community budget discipline. When the higher ceiling of 1.4 per cent Value Added Tax was introduced, it should continue for some time. It was not possible, however, to be too optimistic about the results of future discussions on budget discipline in the Council of Ministers (Finance), since other member states continued to shy away from legally binding measures.

b. Though it was true that, if the United Kingdom had declined to consider an increase in the 1 per cent Value Added Tax ceiling and had continued with the existing arrangements, the public expenditure consequences would have been much worse than under the agreement now reached, the last Public Expenditure White Paper had included estimates of the United Kingdom's contribution to the Community on a stylised basis and these figures would need in due course to be revised upwards.

c. There was now a good opportunity to look at the way in which Community issues were presented in the United Kingdom. It was no longer a question of arguing about United Kingdom membership but rather about the sort of Community we wanted. In particular we needed to convince people both here and in the rest of the Community that a Community-wide common market not only in goods but also in services would help to create jobs.

Working Time

Previous Reference CC(84) 22nd Conclusions, Minute 4

THE PRIME MINISTER said that the draft recommendation on working time had been raised in the European Council and she had not accepted it. The Germans had supported her. It was possible that it would now be revised to refer to the reorgansiation rather than the reduction of working time.

Transport

Previous Reference: CC(84) 23rd Conclusions, Minute 3

THE SECRETARY OF STATE FOR TRANSPORT reported that his discussions with the German Minister both on air fares and on road transport had not been productive but the question of lorry quotas was still being pursued.

The Cabinet -

Took note, with approval, of the agreement reached in the European Council on the future financing of the European Community and United Kingdom refunds and congratulated the Prime Minister and the Foreign and Commonwealth Secretary on the successful outcome to the long drawn-out argument in the Community on these subjects.

INDUSTRIAL AFFAIRS

Coal Industry Dispute

Previous Reference: CC(84) 23rd Conclusions, Minute 4

4. THE SECRETARY OF STATE FOR ENERGY reported to the Cabinet on the latest position in the coal industry dispute. The Cabinet's discussion is recorded separately.

Enterprise Oil

THE SECRETARY OF STATE FOR ENERGY said that the Government had set up Enterprise Oil to own and manage the North Sea oil assets which had previously been owned by the British Gas Corporation. It had decided not to allow those assets to be bought by existing companies. Instead it had decided to vest them in Enterprise Oil, and to privatise Enterprise Oil as an independent company. In order to ensure the continuing independence of the company's management, the Government had decided to create and hold a "special share" which would allow it to block any takeover for a certain period. In the offer for sale of shares in Enterprise Oil earlier that week, the Government had, with the agreement of the underwriters, taken power to control the allocation of shares in order further to protect the independence of the company. Because of the recent fall in the general level of share prices and weakness in the price of oil, the offer for sale had not been well subscribed.

The international mining group Rio Tinto Zinc (RTZ) had disclosed that it had, through a variety of nominees, bid for 49.5 per cent of the equity of Enterprise Oil. The bid could not be blocked by invoking the powers of the "special share", which came into force only if there was a bid for 51 per cent or more of the company's equity. Nevertheless, to accept the bid would clearly be incompatible with the Government's repeatedly declared policy of safeguarding the independence of Enterprise Oil. He therefore proposed to limit the allocation of shares to RTZ, under the terms agreed with the underwriters, to 10 per cent of the equity. His merchant bank advisers, Kleinwort Benson (KB), considered that this would be acceptable to the City. If his colleagues agreed, he would announce the decision that afternoon to Parliament.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he was concerned about the possible implications of the course proposed by the Secretary of State for Energy on the flotation of British Telecom (BT) later that year. As it happened, KB were the merchant bank advising him on that flotation; and he had received advice from them that morning which suggested that to reduce the allocation of shares in Enterprise Oil to RTZ below 20 per cent was likely to have serious adverse implications for the flotation of BT. The flotation of BT was crucial to the success of the Government's privatisation policy. It was essential that decisions on the allocation of shares in Enterprise Oil should take full account of the possible repercussions on the BT flotation.

In discussion the following main points were made -

a. There appeared to be a conflict of advice from KB, though it was fair to recognise that different pieces of advice had been given in different contexts. However this might be, it was clearly necessary to clarify KB's views as soon as possible.

b. An alternative to reducing the allocation of shares to RTZ to 10 per cent would be to reduce the allocation to 20 per cent, to give RTZ the right to appoint a director to the Board of Enterprise Oil, but to require an undertaking from RTZ that they would not seek to acquire further shares in Enterprise Oil. This might have tax and other advantages for RTZ and so be attractive to them; it would also probably minimise the risk of adverse repercussions on the flotation of BT. On the other hand, it would be hard to reconcile with the Government's policy of safeguarding the independence of the management of Enterprise Oil.

c. Decisions in the context of Enterprise Oil had no necessary implications for the flotation of BT. Certain clear and specific undertakings had been given in the case of Enterprise Oil which had to be honoured, but were not of general application.

d. What was important in the context of the flotation of BT was how the Government's decisions on Enterprise Oil affected the underwriters and sub-underwriters. At present, they were content because they stood to acquire shares in Enterprise Oil at a reasonably attractive price and would be able in due course to dispose of them at a profit. If the Government sought to impose terms on RTZ which the company regarded as too harsh it might unload its shares and so depress the market price. This would be likely seriously to damage the interests of the underwriters and sub-underwriters.

e. It was essential to make a definitive statement of the Government's position that afternoon. This statement should, among other things, emphasise the measures which the Government had taken to safeguard the independence of the management of Enterprise Oil.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were not in a position to decide between the possible courses that had been outlined in discussion. The Secretary of State for Energy should clarify the views of KB on the extent to which the allocation of shares in Enterprise Oil to RTZ might be scaled down, taking account of the possible implications for the flotation of BT later that year. He should then agree with the Chancellor of the Exchequer and the Secretary of State for Trade and Industry on the size of the allocation and on what conditions, if any, should be attached to it. It was essential that the Government's decisions should be announced to Parliament that afternoon.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Secretary of State for Energy to be guided accordingly.

Cabinet Office
28 June 1984

SIR ROBERT ARMSTRONG
(BOUND VOLUME)

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CABINET

LIMITED CIRCULATION ANNEX

CC(84) 24th Conclusions, Minute 4

Thursday 28 June 1984 at 10.00 am

INDUSTRIAL AFFAIRS

Coal Industry Dispute

Previous Reference: CC(84) 23rd Conclusions, Minute 4

THE SECRETARY OF STATE FOR ENERGY said that coal was being produced at 46 pits (40 of which were at full production) and 6 pits which would otherwise be producing coal were on holiday. There were in addition 5 pits where men were working but not yet producing coal and a further pit in this category was on holiday. The number of pits on strike was 117. Some 1,500 more miners were at work than last week. Coal movements had been more difficult at the beginning of the week because of the pressure applied by the rail unions on their members, but had improved the previous day when 25 trains had run from the Shirebrook depot and total movements of coal by road and rail had been 131,000 tonnes. Power station coal stocks had fallen by only 230,000 tonnes in the previous week. The National Coal Board (NCB) would be reinforcing its efforts to encourage a return to work in two ways: by a press advertising campaign which had begun that day and which it was hoped to make more effective; and by letters to individual miners from their colliery managers over the next week or so.

THE SECRETARY OF STATE FOR SCOTLAND said that it was particularly encouraging that coal had been produced at Bilston Glen Colliery despite violent picketing, including an attempt that morning to invade the colliery by 75 pickets, mainly from England. Thirty three miners were at work in the pit in addition to those providing safety cover. They were now engaged on preparing coal faces for the three-week annual holiday, starting next week, but had made it clear that they would definitely return to work after the holiday.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that the only serious problem affecting industry was the interruption of rail deliveries of coal, coke and iron ore to the British Steel Corporation (BSC). At Ravenscraig the management had been able to arrange adequate road deliveries of coal and coke and were confident that the same could be done for iron ore. At Llanwern adequate road deliveries of iron ore, which were twice the volume of coal and coke deliveries, would be more difficult to secure, partly because of problems over handling equipment. The BSC Board had been considering whether an injunction should be sought against the National Union of Mineworkers (NUM) for unlawful picketing. They were however conscious that, if this were done, it would be difficult to refrain from seeking an injunction also against the rail unions in respect of the refusal of their members to drive coal and iron ore trains to the steel works. It was relevant that the Annual Conference of the National Union of Railwaymen (NUR) would be in session until the middle of next week. It was unlikely that the BSC Board would take very early steps to seek an injunction and the BSC Chairman was keeping in close touch with the Chairmen of other nationalised industries concerned. Meanwhile the Iron and Steel Trades Confederation (ISTC) and local union representatives at both Llanwern and Ravenscraig had made clear their determination to maintain production and they would co-operate with management's efforts to ensure supplies of coal, coke and iron ore. It remained to be seen what would emerge from a meeting of the Executives of the NUM and ISTC the following day. It was important to emphasise the threat not only to the future of the Llanwern and Ravenscraig plants but also to the jobs in the mines and on the railways which were dependent on them.

THE HOME SECRETARY said that there had been no large scale violent picketing during the past week. Increasing attention was now being paid to countering intimidation and the President of the Association of Chief Police Officers was convening a meeting that day of the Chief Constables mainly concerned. The areas worst affected were Nottinghamshire and Derbyshire where extra uniformed patrolling and investigative effort had been arranged. Ninety four arrests had been made in respect of 104 offences associated with intimidation. It was desirable that cases should be dealt with promptly and that sentences should reflect the seriousness of the offences. Stipendiary magistrates had now been appointed to deal with the increased workload at Rotherham and Chesterfield. Sentencing would depend in part on whether an individual had been charged with an indictable offence and such cases would inevitably take longer. He would be in touch with the Lord Chancellor to ensure that appropriate arrangements were made.

The following points were made in discussion -

a. Little was known about the financial pressures on strikers; there were reports that many strikers were being assisted by increased overdrafts from their banks and by arrangements with their building societies and other creditors. Policy on such matters was however for the financial institutions and other organisations concerned. At some stage the amount of debt could become a cause for concern both to lenders and to borrowers.

b. The NCB would continue to keep under review whether it would be feasible and desirable to proceed with any pit closures or with redundancy arrangements for those miners who sought them during the strike. At least one pit might before long be closed on geological grounds.

THE PRIME MINISTER, summing up the discussion, said that it continued to be essential that the public should not lose sight of the vital issues at stake in the dispute. Every effort should continue to be made to bring these out in the media and also to dispel the impressions given by reports in the media which often exaggerated the extent and effectiveness of the strike and sympathetic action by other unions.

The Cabinet -

Took note.

Cabinet Office

29 June 1984