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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 6 DECEMBER 1984
at 10.00 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Lord Hailsham of Marylebone
Lord Chancellor

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

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

The Rt Hon Michael Heseltine MP
Secretary of State for Defence

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon John Biffen MP
Lord Privy Seal

The Rt Hon Tom King MP
Secretary of State for Employment

The Rt Hon Peter Rees QC MP
Chief Secretary, Treasury

The Rt Hon Douglas Hurd MP
Secretary of State for Northern Ireland

The Rt Hon Lord Young of Graffham
Minister without Portfolio

THE FOLLOWING WERE ALSO PRESENT

- | | |
|--|----------------------------|
| Sir Patrick Mayhew QC MP | Mr John Gummer MP |
| Solicitor General (Items 3 and 4) | Paymaster General |
| Mr Geoffrey Pattle MP | Mr John Cope MP |
| Minister of State, Department of Trade and Industry (Item 4) | Treasurer of the Household |

SECRETARIAT

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

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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
Bill

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that Clause 1 of the Local Government Bill, which contained the principle of abolition of the Greater London Council and the Metropolitan County Councils, would be taken in Committee of the whole House on 12 and 13 December. Already 37 substantive amendments to the clause had been tabled and it seemed inevitable that a guillotine would be required. It would be preferable if the guillotine could also cover the remaining stages of the Bill.

Previous
Reference:
CC(84) 39th
Conclusions,
Minute 1

THE LORD PRIVY SEAL said that it would be necessary to assess the need for, and scope of, a guillotine as events developed.

Changes in
the Level
of Student
Grants

THE PRIME MINISTER said that as a result of strong pressure from Government supporters in Parliament, the Secretary of State for Education and Science had decided that he should amend his proposals for changes in the level of student grants. A group of Ministers under her chairmanship had agreed and the Secretary of State for Education and Science had announced to the House of Commons the previous day that he was withdrawing his proposals to introduce a parental contribution to charges for tuition. The additional cost was £21 million. £11 million of this would be found from the Secretary of State's science budget and the Chancellor of the Exchequer had agreed, in the very special circumstances of the case, to find the remaining £10 million. There would also be a radical reappraisal of student financing. The episode had revealed yet again the difficulties of reducing public expenditure in what were regarded by Government supporters as sensitive areas.

Previous
Reference:
CC(84) 39th
Conclusions,
Minute 1

In discussion it was noted that it was essential to treat the concession as a wholly exceptional case. It must not be regarded as a precedent for other decisions. Any other course would be likely to affect market confidence and endanger the already limited scope for reducing the burden of direct taxation. The events suggested that some Conservative Members of Parliament who allegedly supported the Government's economic policy did not in fact fully understand it. There was a great need to explain even more clearly the Government's strategy of reducing public expenditure as a proportion of Gross National Product in order to free resources for reductions in income tax. These must be directed at increasing the threshold for the payment of tax; far too many people were paying tax on relatively low incomes. This, combined with high levels of social benefits, created the unemployment trap which discouraged many of the unemployed from seeking work. A low income tax threshold also created a demand for higher wage increases than would otherwise be the case, since the perceived deficiency was in net income and it was regarded as easier to secure pay rises than increases in the tax threshold. Since 1949 the relationships between the tax threshold and average incomes and the tax threshold and social benefits had moved adversely and exacerbated both problems.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the action that had been taken on student grants and agreed that it must not be regarded as a precedent for any other case. Ministers should take every opportunity to explain to the Government's supporters the importance for the economy of reducing the burden of direct taxation, especially by raising the tax threshold, and therefore of firmly containing public expenditure.

The Cabinet -

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

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that stalemate continued over the hijacked airliner of Kuwaiti Airlines which remained on the ground at Tehran airport. The hijackers, who were believed to be linked with the Islamic Jihad movement, were demanding the release of prisoners held in Kuwait following the bomb attacks there in December 1983 for which the Islamic Jihad had claimed responsibility. Some of the passengers, and a British stewardess, had been released, but 90 remained on board including two British subjects. One passenger, probably a United States diplomat, had already died. It was not clear whether the hijackers were in possession of explosives as well as firearms. Present indications were that the Kuwaiti Government would not give in to their demands.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Minister of State, Foreign and Commonwealth Office and Minister for Overseas Development, who had returned from Ethiopia after a successful visit, remained sceptical about the intentions of Colonel Mengistu's regime regarding the distribution of famine aid. The Minister of State had announced in the House of Commons on 3 December that the United Kingdom would be providing a further £5 million from within the aid programme for famine relief in Africa, of which £2 million would be used to provide extra grain for Ethiopia, half of it by means of a grant to Oxfam. The United Kingdom had borne its full share of the famine relief operation. The Foreign and Commonwealth Secretary said that he had nevertheless been depressed by the European Commission's ignorance of the scale of the contributions made by individual member states in the European Community and steps were being taken to correct this. In the longer term, the United Kingdom would face significant problems in its relations with the Ethiopian regime.

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FOREIGN
AFFAIRS

Hijacking
of Kuwaiti
Aircraft

Ethiopia
Previous
reference:
HC(84) 39th
Conclusions,
Minute 2

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Sri Lanka
Previous
Reference:
CC(83) 26th
Conclusions,
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the situation in Sri Lanka was bad. Tamil terrorists had recently mounted a more effective and stronger campaign against the Sri Lankan Government, operating in part from bases in south India. President Jayawardene of Sri Lanka would shortly renew his efforts to reach agreement with the Tamil United Liberation Front but his prospects of success were poor; the President might, therefore, attempt to impose a solution but such an attempt was unlikely to succeed. There was resentment in Sri Lanka over the Indian Government's inactivity with regard to terrorist bases in Tamil Nadu. The British Government had made it clear that the Sri Lankan Government could not expect any military assistance from the United Kingdom under the 1947 Defence Agreement. The Sri Lankans had, however, requested of the United Kingdom and also of the United States and Japan the loan of naval patrol vessels for use against Tamil terrorists operating from India. It was unlikely to be possible for the British Government to supply vessels of the required type but it would, in any case, be politically inadvisable for the United Kingdom to meet the Sri Lankan request.

North
Atlantic
Treaty
Organisation
Previous
Reference:
CC(84) 21st
Conclusions,
Minute 2

THE SECRETARY OF STATE FOR DEFENCE said that he had attended meetings of the Defence Planning Committee and of the Eurogroup of the North Atlantic Treaty Organisation (NATO) in Brussels from 3 to 5 December. The meeting of the Defence Planning Committee had been the first under the chairmanship of the new Secretary-General, Lord Carrington, and had been a marked success. The Committee had taken important decisions on increasing the levels of stocks of defence supplies held by the Alliance, thus enhancing its sustainability in combat, and the scale of budgetary allocations for infrastructure. These measures should help the European members of the Alliance to counter criticism in the United States, led by Senator Nunn, of alleged inadequacies in the overall European contribution. It had, however, been clear from the meetings in Brussels that United States pressure was again building up for a prolongation of the commitment of Alliance Governments to an annual increase of 3 per cent in their defence expenditure. The Secretary of State for Defence said that he and the West German Defence Secretary, Dr Woerner, had made it clear that there could be no question of their Governments making extra resources available for this purpose.

The Secretary of State for Defence went on to say that he had detected, during the Anglo-French Summit meeting in Paris on 29-30 November, a new and encouraging mood. Multilateral meetings on defence matters were tending to proliferate, in the main NATO fora, between the leading arms manufacturing members of the Alliance and now in the Western European Union. It should be possible to use this intensifying dialogue to address the framework of European defence co-operation but the refusal of France to participate in some NATO bodies constituted a major obstacle to this. It would be possible to rationalise the framework for discussion within the Alliance if the French could be prevailed upon to change their attitude. He thought that the United Kingdom should take a leading role in this and that efforts should be made to put the French, whose position was weak in logic, on the defensive.

In a brief discussion it was noted that although France subscribed in principle to the cause of more effective defence co-operation, in practice the French drew back when this reached the point of, for example, multilateral discussions between Chiefs of Staff. It was nevertheless desirable to promote a more rational structure for consultation on defence matters and thus to reduce the tendency of the United States to deal directly with either the Federal Republic of Germany or with France, to the possible detriment of British interests.

THE SECRETARY OF STATE FOR EMPLOYMENT said that although the improvement in the climate of Anglo-French relations had also been apparent at the meeting of the Franco-British Council in Avignon on 30 November which he had attended, he hoped that the French Government could be persuaded to improve the calibre of its Ministerial representation at future meetings of the Council. The French Government had been represented at a significantly lower level than had the British Government and the Council itself would benefit from a more youthful and lively membership.

The Cabinet -

Took note.

3. THE PRIME MINISTER said that the European Council in Dublin on 3-4 December had held a very good discussion on unemployment and the general economic situation of the European Community. This had been based on an excellent report from the European Commission, including guidelines for improved economic performance which closely matched the United Kingdom's own economic policy. The case for moderation in real wages and the encouragement of enterprise was being more widely adopted. The European Council had reached agreement on the Community's position on wine for the enlargement negotiations with Spain and Portugal. It was significant that the Germans had been able to minimise the effect on Germany of measures to restrain additional production and cost resulting from the addition of sugar to wine. This reflected the strong stand taken by Germany on its own interests, using its position as the principal contributor to the Community budget. This in turn was being reflected in a closer relationship between France and the United Kingdom. The long-standing close links between France and Germany were both political and tactical, but the situation within the Community was now developing in an interesting way for the United Kingdom. The European Council had not reached agreement on the proposed integrated programmes for Mediterranean areas of the Community. The Greek Government had linked this with enlargement. Greece was, however, already an important net beneficiary from Community expenditure. The Commission had proposed Mediterranean programmes estimated to cost over a period of years almost £4,000 million. Almost all member states had considered this out of the question but had been prepared to make a modest start for Greece within the limits of financing possibilities. The Greek Prime Minister, Mr Papandreou, had not accepted this and had reserved Greece's position on the enlargement of the

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Franco-British Council, Avignon

COMMUNITY AFFAIRS --- European Council

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Community. Nonetheless, the negotiations would go ahead and Greece would have to reconsider its position on their conclusion. The European Council had reached a satisfactory agreement that the Community and its member states would provide 1.2 million tonnes of grain for African countries, in particular Ethiopia, before the next harvest. This was a major effort. It could be achieved, however, without a supplementary budget. The substantive discussion of the work of the committees established at the Fontainebleau European Council had been deferred until next year. Finally, the text on budgetary discipline had now been adopted.

In discussion it was pointed out that, as France was now becoming a net contributor to the Community budget, there would be an increasing convergence between French and British views. It was said that the integrated Mediterranean programmes had been a French invention but, with the change in the situation, their enthusiasm for these programmes had now almost vanished. In an enlarged Community the changes would be even more fundamental. The scope for the Mediterranean member states to shift the balance of agricultural expenditure even more towards their commodities would be increased. It was important that we should foster the closer relationship which was now developing with the French.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that at the Council of Ministers (Fisheries) on 4 December it was apparent that the negotiation between the Community and Norway would be difficult and that some other decisions might be held up by it.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that at the Council of Ministers (Agriculture) on 10-11 December there would be strong pressure on the United Kingdom to agree to a ceiling on the total amount of hill subsidy which might be paid to an individual farmer. This would discriminate against the larger farms in the United Kingdom. He would be resisting the proposal. On the milk superlevy it was likely that the Commission would insist that the levies which were due must now be collected. Some levy was due in Northern Ireland. He would continue to make clear that this levy would be collected and paid over when it was clear that all member states were fulfilling their obligations on the milk superlevy.

THE SECRETARY OF STATE FOR TRANSPORT reported that a satisfactorily liberal agreement on air fares had now been reached with the Federal Republic of Germany. It was hoped next to seek a similar arrangement with Belgium.

The Cabinet -

Took note.

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Fish

Agriculture

Previous Reference: CC(84) 37th Conclusions, Minute 3

Air Transport

INDUSTRIAL
AFFAIRS

Coal
Industry
Dispute
Previous
Reference:
CC(84) 39th
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.

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Cabinet Office

6 December 1984

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CABINET

LIMITED CIRCULATION ANNEX

CC(84) 40th Conclusions, Minute 4

Thursday 6 December 1984 at 10.00 am

INDUSTRIAL
AFFAIRS

Coal
Industry
Dispute

Previous
Reference:
CC(84) 39th
Conclusions,
Minute 4

THE SECRETARY OF STATE FOR ENERGY said that more than 100,000 of the National Coal Board's (NCB's) 222,000 employees were now not on strike. Although the number of those returning to work had diminished, the increase in the workforce was beginning to be reflected in an increase in coal production and a wider availability of pithead stocks. It was hoped that coal production would be resumed the following week at Manton in South Yorkshire, where 400 miners were now at work and the pit deputies, who had previously been unwilling to cross picket lines, would be available for supervision. There had been record coal movement in the previous week (960,000 tonnes from NCB sources alone) and power station coal stocks were holding up well. Stocks of coal for industrial use were 25 per cent higher than at the same time last year. The NCB would be mounting a further campaign to encourage a return to work after the Christmas and New Year holidays on 2 January. Through press advertising and personal contacts they would be drawing attention to the tax relief available to those who resumed work in good time before the end of the tax year. It was unfortunate that an article by a political correspondent of the Daily Telegraph had suggested that the NCB Chairman, Mr MacGregor, was behind the recent legal actions by working miners. A vigorous denial of the story by the working miners' representatives had subsequently been published by the Daily Telegraph.

THE SECRETARY OF STATE FOR EMPLOYMENT said that the President of the National Union of Mineworkers (NUM), Mr Scargill, would be meeting leading representatives of the Trades Union Congress that afternoon to ask for industrial action in support of the NUM, following the appointment of a receiver to control the NUM's assets. It was likely that this request would be rejected, not least because the NUM's current legal difficulties did not result from action under the Government's employment legislation. The Transport and General Workers' Union (TGWU) would be faced the following week with the possibility of sequestration of their assets in view of their refusal to pay a fine under the Government's legislation about strike ballots, invoked by British Leyland

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in connection with the recent strike at Austin-Rover. It was however hoped that the TGWU would find a way of avoiding a serious confrontation with the courts. It was also hoped that the danger of a national dock strike arising from the current dispute at Southampton could be averted. The National Dock Labour Board would be told that morning that they could increase borrowing so as to finance voluntary severances at Southampton. If the National Association of Port Employers approved a special severance scheme for Southampton, it was expected that the port authority (Associated British Ports) would be able to shed surplus labour without breach of the National Dock Labour Scheme and the Jones-Aldington agreement.

THE SOLICITOR GENERAL said that in accordance with a decision of the Ministerial Group on Coal the Attorney General had on 13 November given an indemnity to the accountants, Price Waterhouse, covering the costs and expenses reasonably and properly incurred by them in carrying out their duties in pursuance of their appointment by the court as sequestrators of the NUM's assets. To meet the requirements of the Public Accounts Committee it would be necessary to inform Parliament without further delay. Later that day the Treasury Estimate Clerk would write to the Clerk to the Liaison Committee warning him that a Supplementary Estimate relating to the Law Charges Vote would need to be revised. On Monday or Tuesday of the following week the revised Supplementary Estimate would be presented to Parliament, and there would be a passage in the accompanying Financial Secretary's Memorandum explaining the contingent liability arising from the indemnity given by the Attorney General. There was no known precedent for such an indemnity, but this was not surprising: the courts had only in recent years had recourse to the remedy of sequestration. Moreover the opportunity to seek to avoid sequestration by moving assets overseas had not been available before the abolition of exchange control. Sequestrators had not therefore been faced before with the possibility of incurring substantial expenses on behalf of the courts without certainty that they would be able to lay hands on sufficient assets both to meet the fine imposed by the court and their own legitimate expenses.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that Parliament should be informed in accordance with the normal procedures about the indemnity given by the Attorney General. The passage in the Financial Secretary's Memorandum would need careful drafting so as to emphasise that the sequestrators had been appointed by the court in an action brought by private citizens against the NUM. If challenged about the indemnity the Government had no cause to be defensive. The sequestrators had been appointed to enforce an order by the court which had arisen from a contempt of court, and they could not be expected to work for nothing. It was however essential that, by the following Monday, all members of the Cabinet should be supplied with a brief setting out the essential facts about the legal actions against the NUM which had resulted in the appointment of both sequestrators and a receiver, distinguishing clearly between the two. The brief should

explain why the indemnity to the sequestrators had been given, and should set out the line to take when the indemnity became public. For the future it was desirable to consider as soon as possible what the general policy should be in such cases. One possibility would be to continue to leave it to the Attorney General to offer an indemnity as had happened in the present case; in that event it would be for consideration whether the Attorney General should look at each case on its merits or adopt a policy of making such indemnities available generally. An alternative option, which would need to be considered, would be for the courts to be given a financial provision so that they would themselves be able to indemnify sequestrators and others acting on their behalf. Whichever route was to be followed in providing the indemnities, it would be necessary to define the range of court actions to which such arrangements might apply.

The Cabinet -

1. Invited the Chief Secretary, Treasury, in consultation with the Solicitor General, to ensure that the passage in the Financial Secretary's Memorandum, referring to the indemnity given by the Attorney General, was drafted on the lines indicated in the Prime Minister's summing up.
2. Invited the Solicitor General, in consultation with the Secretary of State for Energy and the Chief Secretary, Treasury, to circulate to all members of the Cabinet by Monday 10 December a factual brief and line to take covering the matters indicated in the Prime Minister's summing up.
3. Invited the Lord Chancellor, in consultation with the Home Secretary, the Chief Secretary, Treasury and the Law Officers, to prepare a paper for consideration by Ministers on future arrangements for the granting of indemnities to those enforcing orders of the courts, on the lines indicated in the Prime Minister's summing up.

Cabinet Office

7 December 1984