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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 2 FEBRUARY 1984
at 9.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Lord Hailsham
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 Peter Walker MP
Secretary of State for Energy

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon John Biffen MP
Lord Privy Seal

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

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

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport

THE FOLLOWING WERE ALSO PRESENT

Mr John Stanley MP
Minister of State for the Armed Forces
Ministry of Defence (Items 1 and 2)

Mr John Gummer MP
Minister of State, Department of Employment
(Items 1 and 2)

SECRETARIAT

Sir Robert Armstrong
 Mr P L Gregson (Item 4)
 Mr A D S Goodall (Items 2 and 3)
 Mr D F Williamson (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 during the following week.

Housing
Benefit

Previous
Reference:
CC(84) 2nd
Conclusions,
Minute 1

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that new Housing Benefit orders were to be published the following week. He had agreed revised proposals with the Chief Secretary, Treasury, some for implementation in April and the remainder in November, which would substantially reduce the loss of benefit to individuals. He believed that one or two Conservative Members might still oppose the changes proposed but he expected them to prove acceptable to most of those Government supporters who had been concerned about the earlier proposals. The Association of Metropolitan Authorities (AMA) had said that they did not believe the proposals could be implemented in April, but this view related to the original proposals and was in his opinion coloured by the AMA's more general opposition to the savings being sought. The advice of his consultants was that the revised proposals could be implemented satisfactorily without causing great administrative disruption.

Telecom-
munications
Bill

THE LORD PRESIDENT OF THE COUNCIL said that the Telecommunications Bill would run into difficulties during its forthcoming Committee Stage in the House of Lords. A number of senior Conservative back-bench Peers were very concerned at the private monopoly which the Bill would establish and would be seeking changes. He and the Chancellor of the Duchy of Lancaster, who was in charge of the Bill in the House of Lords, would seek to ensure that changes were kept to a minimum.

Unemployment

THE PRIME MINISTER said that the monthly unemployment figures, to be published later that morning, were disappointing, showing a rise of 120,000 (29,000 seasonally adjusted) in the unemployment total. The bad weather in January had no doubt been a factor in the increase, and monthly figures could in any case be notoriously erratic, but it would be best in commenting on the figures to set them in the context of recent increases in numbers employed and the encouraging outlook indicated by the Confederation of British Industry's latest survey. In the Secretary of State for Employment's absence abroad, the Minister of State, Department of Employment should set out the Government's view on the lunch-time news broadcasts.

The Cabinet -

Took note.

FOREIGN
AFFAIRS

Lebanon
Previous
Reference:
CC(84) 3rd
Conclusions,
Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the long-term prospects for progress in the Lebanon remained poor. The reconciliation process and the Security Plan were both bogged down. But the arguments against premature withdrawal of the Multinational Force (MNF) were as strong as ever. Efforts continued, in consultation with the Governments of the other countries contributing to the MNF, to produce conditions in which a withdrawal would be possible. Meanwhile, indications had been received a week earlier that the Lebanese Government was preparing for military action by the Lebanese army to close the so-called Shuweifat Gap in order to prevent continued infiltration of hostile forces into Beirut. Although the Lebanese Government's motives were understandable, the ability of the Lebanese army to achieve success was doubtful. The proposed action would in any case lead to the complete breakdown of the ceasefire and, at the same time, increase the degree of American military involvement. Because of its isolated position and proximity to the likely scene of operations, the British contingent to the MNF would be put at particularly grave risk. He had therefore taken action to urge the American, French and Italian Governments to dissuade the Lebanese Government from the action proposed, pointing out that it would amount to a grave departure from the process of reconciliation, would be seriously divisive and could precipitate bitter fighting in which MNF contingents would be exposed to serious risk; he had at the same time made it clear that, if the action went ahead without due consultation, the Government would have to reconsider Britain's contribution to the MNF. The United States and French Governments had subsequently both approached the Lebanese Government to warn them of the dangers, and no military action had yet taken place, although intelligence suggested that the Lebanese forces were in a position to attack at very short notice if they decided to do so. If the attack went ahead, the British contingent was almost certain to be caught in exchanges of heavy gunfire and would have to withdraw at once from its present position. Although the United States authorities had approached the Lebanese Government in the sense he had suggested, there were divided counsels in Washington, and some influential members of the Administration probably still favoured some form of military action by the Lebanese army with American support.

THE MINISTER OF STATE FOR THE ARMED FORCES said that the British contingent to the MNF continued to carry out its patrolling responsibilities in Beirut; but the other part of its remit, guarding the talks of the ceasefire committee, was in abeyance because the talks had been interrupted on 16 January and there was no sign of their resumption. Militarily the last few days had been quiet, although exchanges of fire between rebel forces and Lebanese army emplacements on either side of the British position on 30 January had once again demonstrated the extreme vulnerability of the British contingent. If military action to close the Shuweifat Gap were taken by the Lebanese army, all four MNF contingents would be at risk. There were up-to-date contingency plans for the urgent extrication of the British contingent from its present position, but this could be a

slow and complicated operation if the surrounding areas were under heavy fire, especially in view of the fact that the helicopter pads from which British troops would be flown out were some distance away across heavily populated urban terrain.

In discussion the following points were made -

a. There was no doubt that, if the Lebanese army took action to close the Shuweifat Gap, British troops would be at especial and unacceptable risk because of their location and isolation. They might expect some gunfire support from United States forces but ground support was unlikely. It was therefore for consideration whether the contingent should be withdrawn at once, unless assurances could be obtained from the Americans and from the Lebanese Government that there would be no attack without advance consultation and without sufficient time for the British contingent to be moved before the fighting began.

b. Given the fading prospects of a satisfactory political settlement in the Lebanon, it would be increasingly difficult to satisfy public and Parliamentary opinion in the United Kingdom that the British contingent's continued presence in Beirut was serving a justifiable purpose.

c. If a withdrawal were decided on, it would be prudent to withdraw the British contingent completely, ie, to the Sovereign Base Areas in Cyprus. Once its position in Beirut had been abandoned, the British force was unlikely to be able to return. A unilateral British withdrawal without the clearest evidence that British troops were in direct danger would be generally seen as leading the way for the withdrawal of the other European contingents. It would be a serious blow to President Reagan (who was already under heavy pressure from leading Democrats in the United States to withdraw the United States contingent) and would be likely to have a damaging impact on the United States-United Kingdom relationship.

d. A telegram just received from Her Majesty's Ambassador at Beirut reported that he had now been given assurances from the Lebanese Government that no attack was contemplated and that the British Government would be consulted before any such move was made. On the express instructions of the Lebanese Prime Minister, the Lebanese Government had also issued a public denial of any intention to launch an attack.

THE PRIME MINISTER, summing up the discussion, said that the judgment on when the safety of the British contingent might require an urgent withdrawal and how that withdrawal should be made must lie in the first instance with the Commander of the British forces on the spot. In the light of the latest report from Her Majesty's Ambassador at Beirut, it would clearly be inappropriate for the Cabinet to decide

at this stage on a withdrawal. But the risks remained very real, and the attitude of the United States Administration was still in some doubt. Urgent action should therefore be taken in Washington, in the capitals of the other countries contributing to the MNF, and in Beirut to reinforce earlier representations. The wording of the communication to the United States Government would require careful consideration; but it should be made clear that in the British Government's view an attack by the Lebanese army of the kind under discussion would in effect destroy the mandate under which the MNF as a peace-keeping force was operating, and would put the British contingent in direct and particular danger, and that for these reasons such an attack, or information establishing a clear intention to launch such an attack, would be likely to lead to the withdrawal of the British contingent.

The Cabinet -

Invited the Foreign and Commonwealth Secretary to take action on the lines indicated by the Prime Minister in her summing up.

Falkland Islands

Previous Reference: CC(84) 2nd Conclusions, Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that, as agreed in separate Ministerial discussion, action had been taken through the Swiss, as protecting power for the United Kingdom in Argentina, to notify the Argentine Government of the British Government's wish to hold official bilateral talks with Argentina with a view to moving towards the normalisation of relations. It had been made clear that the talks should not be secret and that sovereignty would not, and could not, be on the agenda. The Swiss had passed this message on 26 January and it had been transmitted to the Argentine President, Senor Alfonsin, and to the Argentine Foreign Minister, Senor Caputo, both of whom were away from Buenos Aires. In a public statement the previous day, Senor Alfonsin was reported to have proposed the establishment of a United Nations force on the Falkland Islands and a resumption of negotiations about sovereignty under United Nations auspices, calling on the United Kingdom to cease fortifying the Islands and to lift what he called "the exclusion zone". Senor Alfonsin had, at the same time, repeated that Argentina would press its claim to the Falkland Islands by peaceful means. At first sight this was an unsatisfactory response to the British approach, but it was too soon to make a considered assessment. Meanwhile, British spokesmen would continue to take the line that the British Government was seeking a normalisation of relations with Argentina through the protecting powers, while standing by the assurances given to the Islanders (who had endorsed the need for a better relationship with Argentina); that sovereignty would not be on the agenda; that the Argentine Government had no need to seek assurances from the United Kingdom, which had never had aggressive intentions of any kind; and that the Government was not dismissive of the United Nations but saw no role for it over the Falkland Islands. Nothing should be said which might appear to recognise the Argentine claim; but there could be a cautious welcome for President Alfonsin's indication that Argentina had renounced the use of force in relation to the Falkland Islands

The Cabinet -

Took note.

3. THE PRIME MINISTER said that her meeting with the Italian Prime Minister, Signor Craxi, on 26-27 January had shown that the Italian Government had not carried their position forward significantly since the European Council in December. They recognised the strength of the United Kingdom case on the budget inequity, but were still hoping to avoid the real problem of agricultural surpluses by raising new sources of Community finance. It would be difficult to get an agreement at the next European Council in March.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD reported that the Commission had now accepted that payments from Community funds in the United Kingdom on milk in 1978-79 had been properly made. The problem had arisen because the Commission had launched infraction proceedings against the United Kingdom in the European Court as a result of the differential pricing of milk sold by the Milk Marketing Board for butter production and of skimmed milk sold by the Milk Marketing Board for various uses. The Commission had also objected to differential pricing for export. The Government did not accept that these practices were in breach of the regulations. There was, however, a risk that the Commission would disallow the payments which had been made from Community funds in the milk sector in the United Kingdom from 1980 onwards. He intended to meet the dairy industry immediately in order to deal with the problem. In discussion it was pointed out, on the one hand, that the financial implications were very serious, since the amount of public expenditure in the United Kingdom from Community funds which might be disallowed was about £1 billion. The specific cases of differential pricing by the dairy industry which had been attacked were not worth preserving at this cost. There was also a continuing risk that this issue would be a complicating factor in the wider negotiations within the Community and in relation to United Kingdom refunds. On the other hand, it was argued that a change on differential pricing might affect the arrangements between the Milk Marketing Board and the purchasers of milk from the Board and could make the sales of some dairy products less competitive. In practice dairy co-operatives elsewhere in the Community used differential pricing. There were many arrangements operated by other member states in the agricultural sector which were more open to criticism or attack.

THE PRIME MINISTER, summing up a brief discussion, said that the United Kingdom had no intention of accepting the disallowance of this expenditure. It was important that the discussions which the Minister of Agriculture, Fisheries and Food was having with the dairy industry should be carried forward, in order to reduce the risk of any proposal for disallowance being made by the Commission.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that there was real disquiet in the farming industry about the agricultural support price proposals for 1984-85 from the European Commission, which in the view of the National Farmers' Union would lead to a further substantial drop in

United Kingdom farmers' incomes. The Commission was proposing a freeze in support prices for important products such as milk and most cereals. They were also proposing corrections of green rates which, for countries with positive monetary compensatory amounts including the United Kingdom, meant a reduction in support prices in national currency. At the Council of Ministers (Agriculture) on 6-7 February he would continue to present the United Kingdom view that in some surplus sectors reductions in Community support prices were required. He would oppose, however, proposals in relation to monetary compensatory amounts or other matters which discriminated against the United Kingdom. He would be circulating a note to his colleagues before the Council. In discussion it was pointed out that, although it was important to be aware of the disquiet among United Kingdom farmers, this did not call in question the United Kingdom's wider objectives on the control of agricultural expenditure in the post-Stuttgart negotiations. It was important that those in Parliament and elsewhere who were concerned about Community expenditure and own resources should be made fully aware of the tough line which the United Kingdom was already taking on agriculture in the Community.

Export of
Live Animals
and Pigmeat
to France

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD reported that he had been in touch with the French Government about their intention to reduce the number of entry ports into France for live animals and fresh pigmeat. The United Kingdom's trade was unlikely to be affected.

United
Kingdom
Imports of
Poultry

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD reported that there had been an adverse judgment of the European Court on certain powers to control imports of poultry which the United Kingdom retained. This did not affect, however, the present licensing arrangements which applied to United Kingdom imports of poultry in the interests of animal health.

Fisheries

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD reported that the Council of Ministers (Fisheries) on 31 January had reached agreement on total allowable catches and quotas for 1984. The quantities agreed were satisfactory and the decisions had been welcomed by the United Kingdom fishing industry.

Previous
Reference:
CC(83) 37th
Conclusions,
Minute 3

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that at the Council of Ministers on 26 January Italian resistance to cuts in their steel industry had been overcome and agreement had been reached to prolong the Community's quota arrangements. The Council had also agreed on the response to United States action on special steels and has asked the Commission to be in touch with the United States about the latest situation on carbon steels, following the decision by Bethlehem Steel Corporation to file an action under section 201 of the United States' Trade Act against all carbon steel imports. He had obtained the agreement of the Commission to further aid for the British Steel Corporation which would allow a revised plan to go forward later. The restructuring of Sheerness Steel was also now going ahead following a large reduction in the Commission's fine on the company for a breach of quota.

The Cabinet -

1. Took note.
2. Invited the Minister of Agriculture, Fisheries and Food to circulate to the Prime Minister, the Lord President of the Council and the members of the Sub-Committee on European questions of the Ministerial Committee on Defence and Oversea Policy a note on the European Commission's agricultural support price proposals for 1984-85 and their implications for the United Kingdom.
4. The Cabinet considered a memorandum by the Minister of Agriculture, Fisheries and Food (C(84) 2) about the price of liquid milk in England, Wales and Northern Ireland.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that in England, Wales and Northern Ireland the Government controlled the maximum retail and wholesale prices of milk for consumption in liquid form. As required under the existing arrangements, he had reviewed prices in the autumn of 1983. A statement of the Government's decision was now overdue. Producers' net margins had fallen to about one half of their level in the last two years of the previous Labour administration; the outlook for 1984-85 was even more gloomy. Although distributors had received to date larger cumulative payments than they were entitled to under arrangements based on the recommendations of the accountants Binder Hamlyn and agreed between the Government, the milk producers and the trade, that over-payment was being rapidly eroded. He accordingly proposed that the maximum retail price of milk should be increased by 1p a pint from 3 June 1984, and the maximum wholesale price by 0.58p a litre from 1 March 1984. The effect would be to give producers a little less than one half of the proceeds of the retail price increase and to leave distributors neither underpaid or overpaid at the end of March 1985. Milk producers would receive the equivalent of a price increase of 1½ per cent. Some of his colleagues had argued that such an increase would be wrong because there was substantial over-production of milk in

the European Community and the United Kingdom was arguing in the context of discussions of the Common Agricultural Policy (CAP) for a freeze on milk prices. He did not accept these arguments. Liquid milk prices had increased at a faster rate in other member states of the Community than in the United Kingdom, and the average returns to our producers from milk sales were lower than in most other member states. Moreover, British milk producers faced serious difficulties. Proposals under consideration within the Community, including the so-called 'super levy' on production above a stated threshold, would have an effect equivalent to a reduction in producer prices of between 7 and 8 per cent. The industry was surprisingly realistic about the need for strong measures within the CAP to reduce excessive production of milk, but they would bitterly resent what they would regard as unilateral and discriminatory action by the Government if Ministers refused to operate fairly the existing arrangements for controlling milk prices.

For the longer term, he would like to get away from the system of controlling milk prices, as had already happened in Scotland. A decision in that sense would need careful preparation and staging. Nevertheless, he was willing to indicate, in announcing the proposed price increases, that the Government intended to consult interested parties with a view to decontrolling milk prices by the end of 1985 at latest. He was also willing to examine wider questions about milk marketing arrangements; he proposed to examine these in consultation with other Departments and to bring forward recommendations for discussion with his colleagues by the summer. It would be necessary to approach this review, and in particular its possible implications for the future of the Milk Marketing Boards (MMBs) with the utmost circumspection. The MMBs had long been regarded as the jewel in the crown of agricultural marketing. At risk was milk production in remote and hill areas; and availability of cheap fresh milk in the inner cities; and the whole regional balance of agriculture.

In discussion, the following main points were made:-

- a. Several arguments could be advanced against an increase in milk prices. Other industries whose products were in surplus had had to accept the need for price reductions. An increase in the price paid to producers of milk would fail to reflect this economic reality, and would appear inconsistent with the British approach in the CAP negotiations. This point was reinforced by the fact that it was likely to be preferable to reform the CAP, as it affected milk production, by working through prices rather than by such devices as the proposed 'super levy'. There were other threats than price to the system of doorstep delivery of milk, which was of great political sensitivity. Perhaps the greatest was competition from the supermarkets. An increase in margins paid to distributors would tend to strengthen that competition.
- b. On the other hand, the milk producers undeniably faced serious problems. The fact that returns to them had fallen sharply, and that the retail price of milk would have been frozen, under the

proposals in C(84) 2, between November 1982 and June 1984, would be powerful arguments against accusations within the Community that the United Kingdom was inconsistent in her actions. The Minister of Agriculture, Fisheries and Food had an extremely difficult task in conducting successful negotiations on the CAP without arousing adverse opinion domestically, and in particular within the farming community; the Cabinet should not without very good cause override his judgment of the best way of carrying out that task.

c. Some members of the Cabinet suggested that it would be premature to announce that the Government intended to abolish control of milk prices until the results of the proposed review of marketing arrangements were available. Against that, it was argued that price control was fundamentally inconsistent with the Government's economic philosophy; and that experience in Scotland did not suggest that abolition of price control elsewhere in the United Kingdom, on a suitable timescale, would raise insuperable difficulties.

d. As was pointed out in C(84) 2, it would be necessary to approach the proposed review of milk marketing arrangements with great circumspection. It should not be suggested that the Government had already decided to abolish the MMBs, or radically to alter their functions. Rather it should be pointed out that some reconsideration of the existing arrangements was the natural consequence of the prospective abolition of price control and current disputes within the Community concerning the pricing arrangements of the MMBs. In any public comment all Ministers, whatever their initial views on the merits of the existing marketing system, should be scrupulously neutral and make it clear that the eventual decisions would be taken dispassionately and on their merits.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed, on balance, with the proposals set out by the Minister of Agriculture, Fisheries and Food in C(84) 2. Prices should be increased on the lines set out in the Annex to C(84) 2. In announcing these changes, it should be made clear that the Government intended to consult interested parties with a view to de-control of milk prices by the end of 1985 at the latest. It was also agreed that the future marketing arrangements for milk should be examined, but that this should be done with the utmost circumspection. The examination should be carried out by officials of the Ministry of Agriculture, Fisheries and Food, in consultation with other Departments. The Minister of Agriculture, Fisheries and Food should bring forward the results of the examination for discussion by the summer or as soon as possible after that.

The Cabinet -

1. Agreed that the price of liquid milk should be adjusted as proposed in the Annex to C(84) 2.

2. Invited the Minister of Agriculture, Fisheries and Food, in announcing the price changes, to say that the Government intended to consult interested parties with a view to de-control of milk prices by the end of 1985 at the latest.

3. Invited the Minister of Agriculture, Fisheries and Food, in consultation with other Ministers concerned to examine future marketing arrangements for milk and to bring forward the results of the examination and his recommendations for discussion by the summer or as soon as possible thereafter.

Cabinet Office

2 February 1984