



(c) crown copyright

(79) 8th
Conclusions

CABINET

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

THURSDAY 5 JULY 1979

at 11.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Lord Carrington
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

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 Humphrey Atkins MP
Secretary of State for Northern Ireland

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services

The Rt Hon Norman St John-Stevas MP
Chancellor of the Duchy of Lancaster

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Mark Carlisle QC MP
Secretary of State for Education and Science

The Rt Hon John Biffen MP
Chief Secretary, Treasury

The Rt Hon Angus Maude MP
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Norman Fowler MP
Minister of Transport

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

The Rt Hon Sir Michael Havers QC MP
Attorney General (Item 4)

SECRETARIAT

Sir John Hunt
Mr M D M Franklin (Items 2 and 3)
Mr P Le Cheminant (Items 4 - 6)
Mr P J Harrop (Item 1)
Mr R L Wade-Gery (Items 2 and 3)
Mr P Mountfield (Item 6)
Mr D E R Faulkner (Item 1)
Mr G D Miles (Item 5)
Dr N B W Thompson (Item 4)

CONTENTS

Subject	Page
1. PARLIAMENTARY AFFAIRS	1
2. FOREIGN AFFAIRS	
Tokyo Summit	1
Australia	1
Middle East	2
Vietnamese Refugees	2
3. COMMUNITY AFFAIRS	3
4. RHODESIAN SANCTIONS	
Further Inquiry	4
5. MPs' AND MINISTERS' PAY	5
6. REGIONAL INDUSTRIAL POLICY	7

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

2. THE PRIME MINISTER said that the Economic Summit meeting in Tokyo on 28-29 June had been dominated by energy questions. On the immediate need for reduced oil imports by the developed world, the United States, Japan and Canada had been unwilling to accept import targets unless the European Economic Community (EEC) global target which had been agreed previously by the European Council in Strasbourg was broken down on a national basis. This process was bound to present difficulty for some members of the EEC and she had argued that commitments should not be made until our EEC partners who were not at Tokyo had been consulted. She had not received support, especially from President Giscard, for this approach. Since accepting a national target presented no difficulty for the United Kingdom, which within a few years would cease to be a net importer, she had gone along with the views of the other Summit participants so that an agreement on specific targets could be presented to the Organisation of Petroleum Exporting Countries (OPEC) countries as a reduction in demand by the developed countries. The targets were somewhat diverse but the result was better than no agreement on import restraint. The Summit had been concerned about the vulnerability of the West to continued pressure from the OPEC countries and had accepted the need for increased use of nuclear power to become less dependent on oil in the longer term.

THE PRIME MINISTER said that, following the Tokyo meeting, she had paid a short visit to Australia. Her talks with Mr Fraser had largely concentrated on Rhodesia but one result of her visit had been to clear the way for the signing of a United Kingdom/Australia Safeguards Agreement for the supply of uranium. This had been blocked by the European Commission which was concerned, following rulings by the European Court, about the compatibility of the agreement with the EURATOM Treaty. She had personally taken this up with Mr Roy Jenkins who had now agreed to withdraw the Commission's objections on the understanding that the United Kingdom/Australia Safeguards Agreement would be reconsidered before the end of 1982 if no EURATOM/Australia agreement had been concluded in the meantime.

THE PRIME MINISTER said that she had talked to the Prime Minister of Bahrain, Sheikh Khalifi, during a refuelling stop on her flight home from Australia. He had emphasised the importance which Middle East oil countries attached to the safeguarding of the rights of the Palestinian people; but also the desirability of more frequent first-hand contacts between the Middle East oil countries and the Western world.

THE FOREIGN AND COMMONWEALTH SECRETARY said that on his way home from Japan he had visited Iraq, where the Government had agreed with him that the boycott on British trade should be lifted, but had proved unwilling to release an unjustly imprisoned British subject although they had agreed to improvements in his treatment.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had discussed the refugee problem in Hong Kong and Malaysia on his way back from Japan. We would now need to prepare our own policy line for the international conference which the United Nations High Commission for Refugees was holding in Geneva on 20 July; this could be worked out between the Prime Minister, the Home Secretary and himself.

THE PRIME MINISTER added that while in Australia she had urged the Australian Prime Minister, Mr Fraser, to help Hong Kong's difficulties by accepting refugees from there in addition to Australia's normal yearly quota of Vietnamese immigrants.

The Cabinet -

Took note.

3. THE PRIME MINISTER said that, at the European Council in Strasbourg on 21-22 June, it had proved very difficult to get the other Member States to recognise that the United Kingdom had been badly treated over the Community Budget. Nevertheless, the Council had agreed to instruct the Commission to present an analysis, including the likely budget outcome in 1979 and 1980. This would go to the Council of Ministers (Finance) for comment and the Commission would then make proposals in time for the next meeting of the European Council in Dublin in November. Progress had thus been made but we faced a real battle if we were to secure an adequate response from the rest of the Community.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that, if the United Kingdom had accepted the original Commission proposals on Common Agricultural Policy (CAP) prices, it would have involved a higher United Kingdom contribution to the Community budget. As it was, the price increases agreed to by the Council raised the Community budget by far less than the figures which had been given to the Press by the Commission. Our contribution to this increased cost was more than offset by the higher subsidies to be paid to the United Kingdom on butter and school milk so that we would in fact be better off by some £34 million. He would circulate the details to the Cabinet.

In a brief discussion, some concern was expressed about the coming six months under the Irish Presidency. The Irish Prime Minister had been most unhelpful during the discussions about the United Kingdom budget problem at Strasbourg. There were close links between the Irish and the French who took a similar line on many issues of interest to us. For example, there was evidence that the French wanted to postpone a settlement of the fisheries issue in the expectation that our legal position would be weaker after 1 January 1982. They would try to persuade the Irish Presidency to put off the Fisheries Council scheduled for the autumn, although Commissioner Gundelach had assured the Minister of Agriculture privately that the Commission would not start proceedings in the European Court against the United Kingdom's national conservation measures before the Council had met.

The Cabinet -

Took note.

4. THE PRIME MINISTER recalled the Cabinet's discussion on 14 June on the undesirability of holding a further inquiry into breaches of Rhodesian sanctions (CC(79) 6th Meeting, Minute 8) when it had been agreed to defer a final decision until Lord Harlech, the Government's special representative in Africa, had returned from Nigeria. In deciding to defer a decision the Cabinet had been influenced partly by consideration of opinion in Africa and partly by the fact that the Director of Public Prosecutions (DPP) had still to reach his decision on whether any prosecutions should follow from the Bingham Report. Lord Harlech had now reported but the DPP had not yet taken a decision on prosecutions. The question remained whether the time was yet right for the Cabinet to reach a decision and announce it.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he favoured further deferring a decision. The Nigerian Government had reacted adversely to the British Petroleum (BP)-CONOCO oil exchange deal which would result in non-embargoed crude oil being supplied to South Africa. Even though that decision was entirely defensible, a decision now not to institute a further inquiry into Rhodesian sanctions would exacerbate relations with Nigeria in the run up to the Meeting of Commonwealth Heads of Government due to be held in Lusaka in the following month. There was moreover little pressure in Parliament for a Government announcement and, even if the Government were pressed for a decision, such pressure could easily be resisted.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed that a final decision on whether there should be a further inquiry should in any case be deferred until the intentions of the Director of Public Prosecutions were known on the question of prosecutions arising from the Bingham Report. To defer a decision and an announcement would have the additional advantage of avoiding prejudicing the atmosphere at the forthcoming Meeting of the Commonwealth Heads of Government. Any Parliamentary pressure for an announcement could continue to be met by saying that no decision had yet been reached. The Cabinet would return to the issue in the autumn when the decision of the Director of Public Prosecutions was known.

The Cabinet

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

5. The Cabinet had before them a memorandum by the Chancellor of the Duchy of Lancaster (C(79) 24) reporting on the soundings which had been taken on proposals for dealing with the pay of Members of Parliament and Ministers contained in the 12th Report of the Review Body on Top Salaries (TSRB).

THE CHANCELLOR OF THE DUCHY OF LANCASTER said that the Cabinet's original proposals had proved very unpopular with the House and in his view unless some concession were made there was a grave risk that the Motion to implement them would be defeated. The Chief Whip had discussed possible changes in the Government's proposals with the 1922 Committee and the Chairman of that Committee had subsequently written to make the specific proposals set out in paragraph 2 of C(79) 24. In his view the Government should accept these proposals with one change designed to bring them more closely into line with those recommended by the TSRB. This would involve paying 50 per cent of the increase recommended by TSRB in the first stage. This would be only slightly more generous than the 1922 Committee proposal for the majority of Members, but would avoid an anomaly by which certain Office-Holders would have been substantially worse off under the 1922 Committee proposals. It would also have the presentational advantage that the Cabinet would not be seen to accede completely to an approach recommended by a Committee of backbenchers. He would propose that the remainder of the TSRB increase should be paid in two further equal instalments in June 1980, and June 1981, and that the June 1980 figure should be updated to take account of inflation meanwhile, in a manner analogous to that adopted for other Review Body groups. The TSRB should also be asked specifically to seek one or more professional analogues to which the pay of MPs could be linked in the future. The aim should be to have these available for any updating that proved necessary in 1981.

In discussion it was agreed that the main principle to be preserved was that the settlement should not be more generous than the treatment that had been accorded to other Review Body groups. That implied three stages, spread over two years. No commitment could be given to updating of the third stage. Although there were considerable problems with establishing "linkage", opinion in the House was such that unless the Cabinet made some recommendation on this, it seemed likely that amendments to provide for linkage would be made to the Government's Motion and carried. There were grave disadvantages in the use of a general index of earnings or in linking, directly or in percentage terms, to hierarchical, and incremental, salary scales, such as that of the Assistant Secretary in the Civil Service. The suggestion from the 1922 Committee for a link with professional salaries therefore had attraction, and would result in periodic reviews by an independent body outside the control of the House.

For Ministers' salaries it was argued that the biennial reviews suggested by the TSRB should be adopted, and that some form of updating between reviews was desirable for Ministerial salaries, as for Parliamentary salaries. However it was noted that with 75 per cent of the TSRB increase now proposed for payment from June 1980, updating at that time could well take the Ministerial salaries above the final level recommended by TSRB. It was felt that Cabinet Ministers should impose a ceiling on the uprating of their own salaries, to the final level recommended by the TSRB Report.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed that the TSRB recommendations should be implemented in three stages, spread over two years. 50 per cent of the increases would be paid immediately, and the remainder in two equal instalments in June 1980 and June 1981. The June 1980 increase would be further updated, in a manner analogous to that adopted for other Review Body groups. These conclusions would apply to the salaries of Members of Parliament, Ministers and other Office-holders, but for Cabinet Ministers the amount payable in June 1980 for their Ministerial salary would be limited to the figures recommended in the 12th Report of the TSRB. The Government would invite the TSRB both to carry out the 1980 uprating and to make recommendations about one or more analogues in the professions to which Members' salaries could be related from 1981 onwards. Ministerial salaries would be subject to a biennial review by the TSRB beginning in 1981. There had already been extensive consultation, and there was no need for a further Government announcement. Subject to further consultations during the course of the day, through the usual channels, the Government should put down Motions, on the lines agreed, on Friday 6 July which would allow sufficient time for Members to prepare for a debate on Wednesday 11 July.

The Cabinet -

Took note, with approval, of the Prime Ministers' summing up of their discussion, and invited the Chancellor of the Duchy of Lancaster, and other Ministers concerned to be guided accordingly.

6. The Cabinet had before them a memorandum by the Secretary of State for Industry (C(79) 23) recommending substantial changes in the level of Government support for regional industrial development, and reporting discussion in the Ministerial Committee on Economic Strategy, Sub-Committee on Economic Affairs (E(EA)).

THE SECRETARY OF STATE FOR INDUSTRY said that his proposals were intended to make regional policy more effective, and at the same time secure substantial reductions in public expenditure. At present, 40 per cent of the population lived in assisted areas, and the boundaries had not been substantially altered since 1972. As a result there were substantial anomalies in the present system. An urgent decision was now needed, both to remove uncertainty on the part of investors, and to secure the earliest possible savings. A debate would be necessary on the Order to reduce the level of grant. His proposals had been discussed in E(EA) where there had been general agreement on the need for a more cost-effective policy, but disagreement on the speed and extent of change. In subsequent discussion, he had modified his proposals to meet some of these objections. There remained four areas of difficulty. First, it would be useful presentationally to link the announcement of changes in regional policy with some more positive measures to help industry. But it might not be possible to reach agreement on these in time for an announcement before the summer recess. Some of his colleagues placed considerable emphasis on this. Second, some Ministers felt that the proposed reduction in the rate of grant in Development Areas (DAs) were too steep. It might be sufficient to reduce it from 20 per cent to 15 per cent, although this would slightly reduce the available savings. Third, he was prepared to reconsider the proposed downgrading of the Rhondda Valley from Special Development Area (SDA) to DA status, although the precise boundaries of the SDA would need to be considered further. Changes of this kind, however, risked creating grave anomalies and should be kept to a minimum. Fourth, he proposed that all areas being downgraded should retain their present rate of Regional Development Grant for one year. Thereafter the present Intermediate Areas which it was proposed should lose their Assisted Area status would retain the new style Intermediate Area benefits for a further 2 years before losing their status. Assisted Areas which it was proposed to downgrade by more than one step would in any case retain Assisted Area status until the end of the 3-year transitional period. Before that period expired their future status should be reviewed in the light of the developing situation.

In discussion there was general support for the modified proposals, and welcome for the concessions which the Secretary of State for Industry had suggested. It was however argued that the political situation in Scotland and Wales remained very delicate, and that even the modified proposals would expose the Government to much criticism. Some of the areas affected were those where the Government had only recently made electoral gains, often by small margins, and some

members might have difficulty in supporting them. In presenting the changes, it should therefore be made clear that the proposal to withdraw assistance at least in those cases where a double downgrading was involved would be reviewed before the end of the three year transitional period and that no area should be downgraded by more than one step a year. Even with these changes, the sharp differentiation between SDA and DA status would make it more difficult to operate a sensible regional policy in areas like South Wales, where the SDAs were geographically unattractive to internationally-mobile industry. In addition, it would be important to maintain the operations of the Welsh Development Agency and analogous bodies in the rural areas which would lose assisted area status.

In further discussion, it was argued that the proposed regional package would gain in presentation, if it were linked to an announcement of more positive measures to help industry. A number of so-called 'accelerator' schemes were under consideration. But these would take time to work out in sufficient detail, and could not be announced before the summer recess. A simpler alternative might be to create 'pilot areas' in places such as Shotton and Merseyside, where a five-year tax holiday might be given, and where quick decisions could be promised on planning applications for new industrial development. It might be possible to devise a limited scheme on these lines in time for announcement before the recess.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed upon the need for a major change in the direction of regional assistance for industry, so to concentrate help on the areas of greatest need. The rates of Regional Development Grant payable in SDAs should remain at 22 per cent. The rates in DAs should be reduced from 20 per cent to 15 percent. Regional Development Grant should be abolished in Intermediate Areas. Minimum values for eligibility for grants should be increased as proposed by the Secretary of State for Industry. The coverage of assisted areas should be modified in the way proposed by the Secretary of State for Industry, and set out in Map 2 annexed to his paper C(79) 23. However, the Rhondda Valley should remain a SDA, and the exact boundaries of that area should be settled between the Secretary of State for Industry and the Secretary of State for Wales. The areas to be downgraded should retain their present entitlement to Regional Development Grant for one year. Thereafter the present Intermediate Areas which it was proposed should lose their Assisted Area status should remain eligible for selective assistance and for access to the European Development Fund for two more years. Assisted Areas which it was proposed to downgrade by more than one step should not be downgraded by more than one step a year, nor should such areas lose their Assisted Area status before the end of the 3-year transitional period. In addition the position of areas suffering more than one downgrading should be reviewed before the end of the transitional period to see whether they should continue to receive Assisted Area status thereafter in the light of the developing situation. The review should be

genuine and carry no presumption that the present decision was irreversible. The areas subject to review should be separately distinguished as review areas on any published maps. The Welsh and Scottish Development Agencies, the Development Board for Rural Wales, and the Highlands and Islands Development Board should retain their present functions in the areas being downgraded, subject to a review during the transitional period. Industrial Development Certificates (idc's) should no longer be required in Intermediate Areas and the exemption limits for idc's in the non-assisted areas should be raised to 50,000 sq. feet. The Secretary of State for Industry should announce the Government's decisions on these matters in the week of 16 July, and the necessary Order should be introduced and debated thereafter. Precise timing should be agreed between the Secretary of State and the Leader of the House. The exact terms of the announcement should also be agreed between the Secretary of State for Industry, the Secretary of State for Scotland and the Secretary of State for Wales. The Government's decisions should be discussed with the European Commission as necessary. The Secretary of State for Industry should invite the British Steel Corporation to defer an announcement of their intention to close steel making at Shotton until after the Government's announcement on Regional Industrial policy. The Chancellor of the Exchequer should consider urgently, in consultation with the Secretary of State for Industry and the Secretary of State for the Environment, what might be said at the same time as the announcement about the proposed 'pilot' schemes. A reference to the schemes should if possible be included in the announcement.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion, and invited the Ministers concerned to be guided accordingly.

Cabinet Office

5 July 1979