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CC(82) 31st
Conclusions

COPY NO 79

CABINET

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

THURSDAY 3 JUNE 1982

at 11.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

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

The Rt Hon Francis Pym MP
Secretary of State for Foreign and
Commonwealth Affairs

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 John Nott MP
Secretary of State for Defence

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 Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon John Biffen MP
Lord President of the Council

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

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Baroness Young
Lord Privy Seal

SECRET

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP
Chancellor of the Duchy of Lancaster
and Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Michael Havers QC MP
Attorney General (Item 1)

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Mr R L Wade-Gery
Mr P L Gregson (Item 4)
Mr D J S Hancock (Items 2 and 3)
Mr A D S Goodall (Items 1-3)
Mr R L L Facer (Item 1)
Mr M S Buckley (Item 4)

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FALKLAND
ISLANDS

Previous
Reference:
CC(82) 30th
Conclusions,
Minute 1

1. The Cabinet considered the situation in the Falkland Islands. Their discussion is recorded separately.

FOREIGN
AFFAIRS

Iran/Iraq

Previous
Reference:
CC(82) 30th
Conclusions,
Minute 3

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that Jordan's efforts to convene a meeting of the Security Council to discuss the continuing conflict between Iran and Iraq had failed to attract support. The course of the conflict did not at present pose a direct threat to King Hussein's own position.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

Council of
Ministers
(Labour
and Social
Affairs)
27 May

3. THE SECRETARY OF STATE FOR EMPLOYMENT said that the outcome of the Labour and Social Affairs Council had been satisfactory for the United Kingdom. A directive on lead in the work place had been agreed and some excessively ambitious and impracticable Commission ideas for dealing with unemployment were successfully blocked.

The Cabinet -

Took note.

INDEX-
LINKED
PENSIONS

Previous
Reference:
CC(81) 40th
Conclusions,
Minute 4

4. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(82) 14) about index-linked pensions in the public sector. The discussion and the conclusions reached are recorded separately.

Cabinet Office

3 June 1982

Sir R. Armstrong
(BV)

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CABINET

LIMITED CIRCULATION ANNEX

CC(82) 31st Conclusions, Minute 1

Thursday, 3 June 1982 at 11.00 am

THE SECRETARY OF STATE FOR DEFENCE briefed the Cabinet on the military situation.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the United Nations Secretary General had reported to the Security Council that his efforts to negotiate mutually acceptable terms for a ceasefire had failed. The Council was meeting in formal session and a vote was likely shortly on a draft resolution already tabled by Spain and Panama which called for an immediate ceasefire without mentioning withdrawal. Strong lobbying in New York and in capitals might prevent the resolution securing enough votes to pass; failing that, the United Kingdom would have to veto it. For the moment no further diplomatic efforts to secure a peaceful solution were in prospect; nor were any likely to prove successful so long as the Argentine Government maintained their present position. He was considering what should be done, following the repossession of the Islands, to restore good relations with the countries of Latin America.

In discussion the following points were made:-

- a. It should be possible to apply pressure on Spain to take a less hostile public position, eg at the United Nations, since she was an important trading partner and needed British support for entry into the European Community. But the Spanish Government's attitude was more moderate in private; and Britain had important interests at stake in the opening of the Gibraltar frontier due on 25 June and in the Anglo-Spanish talks scheduled to start simultaneously.
- b. There was likely to be Parliamentary concern about the supply of arms and military equipment to Argentina from Israel and from South Africa. There was no doubt that a substantial quantity of Israeli military equipment was reaching Argentina through third countries.

FALKLAND
ISLANDS

Previous
Reference:
CC(82) 30th
Conclusions,
Minute 1

SECRET

c. A decision would be needed on the future of the former Commander of the Argentine garrison in South Georgia, Lieutenant Commander Astiz, who was due to arrive in the United Kingdom on 6 June. Under the Geneva Convention he had the right to refuse to be questioned by the French and Swedish authorities in connection with alleged crimes committed against their nationals. He could be held as a prisoner of war until hostilities ended, but the possibility of retaliation against British prisoners of war in Argentine hands had to be faced, and the International Committee of the Red Cross might find it difficult to understand a decision to retain him in custody until the end of hostilities while other Argentine prisoners were repatriated. It would nevertheless be desirable to find some way of accommodating French concerns.

d. Too much information on British military movements was appearing in the media. While the voice broadcasts from the journalists attached to British forces in the Islands were generally excellent, it was not always possible to control the information which they sent back. Technical problems had so far delayed the transmission of television film by electronic means from the South Atlantic. If these technical problems were solved, British servicemen could be exposed to television interviewers on the battlefield, which would be highly undesirable.

e. There was considerable public pressure for repatriating the bodies of British Servicemen killed in action. This could not be done until the fighting was over. It was unusual, except in cases where local graves were liable to be desecrated. In the case of the Navy and Air Force it was often impossible. The Commonwealth War Graves Commission had an excellent reputation for establishing and maintaining suitable local cemeteries.

f. There might be concern in Parliament if the Argentines were left in occupation of Southern Thule in the South Sandwich Islands. Their presence should be removed when other military preoccupations permitted.

g. It was important to be clear that the Government's military advisers had not put forward any proposal for the bombing of the Argentine mainland.

h. Psychologically there might be advantage in the present Governor of the Falklands returning after their repossession, if only for a token period or possibly in a different role.

i. Oil companies were unlikely to take the risk of exploration in the waters around the Islands unless there were some kind of accord with Argentina.

SECRET

THE PRIME MINISTER, summing up the discussion, said that for both military and diplomatic reasons a long siege of Port Stanley would be unwelcome. Early repossession was therefore the present priority; and it had been made very clear in public that it was open to Argentina to avoid unnecessary loss of life by immediate withdrawal. Further consideration would need to be given to the question of repatriating the bodies of British Servicemen who died in action. If they were buried locally, public funds would need to be made available to assist their families to visit the graves. As regards the future, after the Islands' repossession, she had invited Lord Shackleton to bring up to date his 1976 report on their economic development. He would begin his work at once. She had also seen representatives of the British Antarctic Survey. There would be a major task of reconstruction to be done and consideration would need to be given to the appropriate arrangements for its organisation and control.

The Cabinet -

Took note.

Cabinet Office

7 June 1982

SECRET

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CABINET

LIMITED CIRCULATION ANNEX

CC(82) 31st Conclusions, Minute 4

Thursday, 3 June 1982 at 11.00 am

INDEX-LINKED
PENSIONS

The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(82) 14) about index-linked pensions in the public sector.

Previous
Reference;
CC(81) 40th
Conclusions,
Minute 4

THE CHANCELLOR OF THE EXCHEQUER said that the Government was under considerable pressure, both in Parliament and more widely, to take action on index-linked pensions in the public sector. When it had last considered the subject, the Cabinet had agreed in principle not to legislate to remove or reduce the inflation-proofing of public service pensions, but to commission further work on a new system of employee contributions. This had now been carried out. It suggested that the best course would be to impose a new 'upper tier' of employee contributions, based on the cost of inflation-proofing public service pensions to a greater extent than the private sector average. It would be necessary to distinguish public service pension schemes into two broad groups:

- i. Schemes providing for staff with a normal retiring age of between 60 and 65 years; and
- ii. schemes providing for staff, such as policemen, firemen and prison officers, with a substantially lower retiring age.

In schemes in the second group pension benefits accrued more rapidly than under schemes in the first group and were substantially more valuable. It was therefore right that members of such schemes should pay total contributions that were higher than members of schemes in the first group, though not necessarily by an amount reflecting the full additional value of the pension benefits they received. The Armed Forces pension scheme fell into the second group; but its members already paid broadly adequate contributions through reductions in pay; and he proposed no change in existing arrangements.

The public service trade unions would be bound to resist suggestions that their members should pay higher pension contributions for unchanged benefits, and would seek compensation through larger pay increases. It would be necessary to resist these, so far as possible.

It would not be possible to apply the proposed new arrangements directly to the nationalised industries. But each industry should be invited to review its own level of pension contributions from employees in the light of the changes proposed for the public services.

Legislation would be required in order to give effect to most of his proposals. This might be undertaken in the 1982-83 Session of Parliament. Alternatively, it might be deferred to the following Session; the legislation would then not take effect until after the next General Election. An early announcement of the Government's intentions was desirable, in order to allow time for consultation and for discussion in Parliament. He had originally envisaged a short announcement by means of an Answer to a Written Question, accompanied by the making available to Parliament of a fuller description of the details. This would pave the way for a debate before the summer recess. However, he now recognised that this timing might not be feasible.

In discussion, the following main points were made:-

a. If early action was to be taken on index-linking, the proposals in C(82) 14 were the only realistic possibility. They had demerits as well as merits; but they were clearly superior to the alternatives. Among the groups of staff that would be affected by them, considerable resistance could be expected from, in particular, the prison officers; but there was demonstrably good justification for their paying a higher level of contributions than the generality of public servants. Soundings of public opinion indicated that there would be considerably wider support for an approach to the problem of index-linking which required those benefiting from it to pay adequate contributions than for withdrawal of the benefit. It would also be more consistent with statements made by Government spokesmen during the 1979 Election campaign.

b. As soon as an announcement was made to the effect that the Government intended to implement the proposals in C(82) 14, there would be serious adverse effects on pay negotiations, both those still in train as part of the current pay round and those which would form part of the 1982-83 pay round. This would be true even if it was not intended to bring the proposals into effect immediately. Many groups of public servants would claim higher pay to offset higher pension contributions. The non-industrial Civil Service, for example, would claim that the existing notional deduction from pay for pension purposes already took account of index-linking. A large number of such claims would have to be conceded wholly or in part. This would greatly reduce the prospective savings in public expenditure from the proposals. There would also be consequential effects on pay

negotiations in other parts of the economy, even though the argument of higher pension contributions would not apply there. It was of central importance to the Government's economic strategy to secure a satisfactory outcome to the 1982-83 pay round.

c. There would be much public criticism of the fact that the proposals would not apply directly to the nationalised industries. Although some industries, particularly those in financial difficulty, might be willing to follow the Government's lead, others would argue that they could afford to finance existing pension benefits, including index-linking. However, many in the private sector would resent the level of charges that was required to provide this finance.

d. It was not realistic to suppose that legislation to give effect to the proposals in C(82) 14 could be carried in the 1983-84 Session. If legislation were presented in 1982-83, at least one other major measure would have to be abandoned in order to make room. It was far from clear that this would accord with the Government's political priorities. On the one hand, it was argued that to fail to announce a decision on the question of index-linking would expose the Government to serious criticism, since it had already had the matter under study for over three years; the delay also contributed to unrest and dissatisfaction in certain parts of the public services. The Government would come under heavy pressure to announce its intentions both before and during the next Election campaign. On the other hand, it was argued that to announce a decision which because of legislative and other difficulties it might be impossible to implement for a considerable time would be most unwise; and that the Government could avoid being drawn into a statement of its intentions before it was ready to make one.

e. Acceptance of the proposals in C(82) 14 would be tantamount to accepting that indexation would continue indefinitely in an important area of public expenditure; it would also fail to satisfy those who regarded it as unacceptable that public servants should enjoy a benefit which could not be made universally available. It would be better to wait until the time was more propitious for a withdrawal of indexation in this and other areas.

f. There would be attractions in legislating to prevent people from receiving larger pensions, including index-linking, than those who retired at a later date from the same post. However, such a provision would have little effect on the central problem. There could also be serious administrative difficulties in specifying what was to be regarded as the 'same post', for example, if a service experienced a substantial reorganisation or re-grading.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet was not yet ready to reach a decision on the matter. A Parliamentary Debate before the summer recess was probably unavoidable; but this could be handled in a variety of ways. Possibilities such as a Green Paper outlining the proposals in C(82) 14 as a basis for further public discussion should not be ruled out, though they would also have their drawbacks. It was clear that if any action was to be taken which required legislation, this would have to be presented in the 1982-83 Session. That would raise important questions of timing and of political priorities; and the effects on the 1982-83 pay round, which was of cardinal importance, would also need careful consideration. She would discuss the issues further with the Chancellor of the Exchequer and certain other Ministers and would then consider how best to proceed.

The Cabinet -

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

Cabinet Office

7 June 1982