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Conclusions

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CABINET

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

THURSDAY 18 SEPTEMBER 1980

at 10.30 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 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 Michael Heseltine MP
Secretary of State for the Environment

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 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

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THE FOLLOWING WERE ALSO PRESENT

Rt Hon Lord Mackay of Clashfern QC
Advocate (Item 4)

Sir Ian Percival QC MP
Solicitor General (Item 4)

Rt Hon Norman Fowler MP
ister of Transport

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr M D M Franklin (Items 1, 2 and 4)
Mr P Le Cheminant (Item 3)
Mr R L Wade-Gery (Items 1 and 2)
Mr D M Elliott (Item 4)
Mr D J L Moore (Item 3)

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1. THE LORD PRIVY SEAL said that the most important international event in recent weeks had been the crisis in Poland. Major concessions had been made by the Polish Government. But industrial unrest continued and might grow if some of the concessions proved unworkable in practice or if the authorities under Soviet pressure sought to claw any of them back. Little was known about the new Polish leader, Mr Kania. The Soviet Government had no doubt been reluctant to contemplate military intervention in Poland in the wake of the Afghanistan crisis, particularly because the Polish Army could be expected to resist. But the danger of such intervention was by no means over; in Czechoslovakia in 1968 it had occurred after a considerable lapse of time. Britain's public stance was that current events in Poland were an internal matter for the Poles alone. More dramatic warnings against Soviet intervention might be necessary if it became clear that military preparations (which could not be concealed) were afoot, but would be counter-productive as things now stood. Difficult problems would arise over the Western response to Poland's need for economic assistance. The West Germans and Americans were already indicating readiness to help.

THE PRIME MINISTER, summing up a short discussion, said that developments in Poland were of exceptional significance. Soviet interests seemed certain to suffer severely whatever happened. Any consideration of British economic help to Poland would have to take into account the fact that the Export Credits Guarantee Department was already more exposed there than in any other country, and the very large subsidy currently involved in building ships in Britain for the Polish merchant navy. There were also conflicting political arguments about how far Poland should or should not have to rely on Soviet resources.

THE LORD PRIVY SEAL said that the coup d'etat in Turkey on 12 September had probably been inevitable. The political system had failed to cope with the mounting daily toll of political murders and had been unable for five months to elect a President. Another recent symptom had been the forced resignation of the Foreign Minister. Against this background there was little disposition among Turkey's allies to condemn the military takeover. Ministers of the European Community, meeting in Political Co-operation on 15 September, had avoided condemnation and agreed to continue economic aid. But it remained uncertain whether the new regime would be able to restore the country's economic health, or even to suppress terrorism.

THE LORD PRIVY SEAL said that dangerous situations were developing in Lebanon, on the Palistinian West Bank and on the Iraq-Iran border. The situation in Syria was complicated by the agreement announced on union with Libya, which was expected to prove a dead letter unless the Libyan Government were prepared to transfer resources on a larger scale than seemed likely.

THE LORD PRIVY SEAL said that the British Embassy in Tehran had been closed for the time being because of the risk of hostage-taking and because the Embassy had been prevented from carrying out its normal functions eg in relation to the four British subjects recently arrested in Iran. There had been some slight signs of progress over the American hostages. But the prospects were obscure, not least because of the increasing fragmentation of Iranian political life.

THE LORD PRIVY SEAL said that the fighting in Afghanistan continued with little apparent change in the situation. A Soviet soldier who had defected to the United States Embassy in Kabul and been interrogated with the help of a Russian-speaking member of the British Embassy, believed that the Soviet forces were gaining the upper hand but had suffered 12-15,000 fatal casualties. In fact, their casualties were probably much lower, with 2-3,000 dead and about 5,000 wounded.

THE LORD PRIVY SEAL said that it was still far from clear what would happen in the case of Mr Tekere, the Government Minister facing a charge of murder, who appeared to be guilty although he had in error killed the wrong man. Armed clashes had occurred between supporters of the Prime Minister, Mr Mugabe, and those of his main rival, Mr Nkomo. It was disturbing that some former guerrillas now being dispersed from their Assembly Points were reported to be being allowed to retain their arms. On balance, however, the British High Commissioner remained reasonably confident about the future.

THE PRIME MINISTER, summing up a brief discussion, said that some political embarrassment might be involved if legislation at Westminster proved necessary as a result of current political and constitutional difficulties in Canada. Past precedents, eg involving Australia, might offer some guidance.

The Cabinet -

Took note.

2. THE LORD PRIVY SEAL, reporting on the meeting of the Council of Ministers (Foreign Affairs) on 15-16 September, said that owing to French intransigence, especially over access for sugar and beef, it had only been possible to agree upon an unsatisfactory mandate for the negotiation over Zimbabwe's accession to the Lome Convention. The Commission had said that they would prefer to start negotiations on this basis rather than have no mandate at all. He had therefore given his agreement but had firmly registered the United Kingdom's view that the terms being offered to Zimbabwe were inadequate and that we expected the matter to come back to the Council. We had to be careful not to undermine the Commission's negotiating position but he had sent a suitably worded message to the Zimbabwe Government encouraging them to enter into negotiations with a view to eventually reaching a satisfactory settlement. It was clear that Zimbabwe would not join the Lome Convention without an adequate quota for sugar such as it had enjoyed under the former Commonwealth Sugar Agreement.

Some progress had been made in agreeing upon the type of programme which would be assisted under the arrangements to reduce our net contribution to the Community budget, but no agreement had been reached on the procedure by which the programmes would be approved. We favoured a consultative procedure with the member states while France was asking that the programmes should require the unanimous approval of the member states. A compromise had been proposed under which the programmes would be approved unless a majority of member states was against them. There were indications that the French wanted to withhold their agreement to the budget regulations to put pressure on us over the fisheries negotiations. We were not willing to accept a link either with fisheries or with next year's agricultural price fixing. These questions would be discussed further at the Anglo-French Summit meeting on 19 September.

The Council had not been able to agree upon financial aid to Portugal. It had been decided that, because of her exceptional situation, the Community would offer Portugal financial help prior to her accession. The Portuguese and the Commission had suggested amounts which were unacceptably high. During the Council meeting, the Luxembourg Presidency had suggested a figure of 275 million units of account (mua) of which 125 mua would be in the form of aid and 150 mua in the form of loans from the European Investment Bank (EIB), but the Portuguese had indicated that this was inadequate. Neither we nor the French had accepted these figures. We particularly wished to see a higher proportion given in the form of loans. This would now be considered by the Governors of the EIB. The Council would be under pressure to take a decision at its next meeting in view of the impending Presidential elections in Portugal.

The Lord Privy Seal also reported that the French were making difficulties over the negotiations with New Zealand and other suppliers of sheepmeat to the Community market and over the arrangements for imports of New Zealand butter. In the latter case, the French had sought to overturn a decision which had been taken by the Council of Ministers (Agriculture) in July. Commissioner Gundelach, following talks in Paris, was now optimistic that the outstanding questions on sheepmeat could be settled at the Agriculture Council later in the month and that agreement could be reached on arrangements for New Zealand butter imports in 1980.

In a brief discussion it was noted that these questions would be pursued at the forthcoming Anglo-French Summit. It was of vital importance to our own producers that the Community sheepmeat arrangements should come into operation in October.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that we had been obliged to change our requirements for the language qualifications for European doctors and nurses practising in the United Kingdom since the Law Officers had advised that they would probably be found to contravene the provisions of the Treaty of Rome if a case were taken to the European Court. We were now attaching the language requirement to the conditions of service for work in the National Health Service. The practical consequences of the change would not be serious, but it was likely to provoke public criticism of the Community.

The Cabinet -

Took note.

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3. THE SECRETARY OF STATE FOR EMPLOYMENT said that it now seemed probable that the Transport and General Workers Union (TGWU) would withdraw their threat of a national dock strike over redundancies in the Port of Liverpool. The employers had agreed with the TGWU that the redundant workers should not be placed on the Temporary Unattached Register which would continue to be used only under the terms of the 1972 Aldington-Jones agreement. They had also offered improved severance arrangements. As a result the Mersey Docks and Harbour Company (MDHC) would have to take on those redundant workers who did not accept severance terms and they would then have up to 800 men surplus to their requirements. They had agreed to do this in response to an assurance that the costs of taking on these workers would be taken into account by the Government in the current review of their financial position. At some later stage, if a suitable opportunity arose, he would wish to put forward proposals for the repeal of the Dockworkers Regulation Act 1976.

THE MINISTER OF TRANSPORT said that he would put forward proposals later on the financing of the MDHC.

The Cabinet -

1. Took note.

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THE HOME SECRETARY said that, with the agreement of the Secretary of State for Wales, he had announced on 17 September that the Government would withdraw its plans to share Welsh language programmes between two television channels. Instead the programmes would, for an experimental period of three years, be broadcast on one channel, as had been proposed in the Party Manifesto. He still thought that the previous plans were preferable but he had agreed to change them in response to representations, put to him by Lord Cledwyn and others, of the views of informed and responsible opinion in Wales. The change would have the advantages of avoiding a likely defeat in the House of Lords during the Committee Stage of the Broadcasting Bill and of persuading Mr Gwynfor Evans, the leader of Plaid Cymru, to withdraw his threat to fast to death.

THE SECRETARY OF STATE FOR WALES said that he had made clear to the Press that the change had been made in response not to violence but to moderate opinion following very wide consultations in Wales. This had been generally well received. Further work would be necessary to ensure that the arrangements for financing the new service were adequate.

The Cabinet -

2. Took note.

THE CHANCELLOR OF THE EXCHEQUER said that the increases in the money supply reported for July and August were largely attributable to the removal of the "corset" arrangements introduced by the last Government. The underlying rate of monetary growth was nevertheless above the target range, and it was crucial to the credibility of the Government's economic policies that it should be brought back on course.

At the same time private sector manufacturing firms were under formidable pressure, and were complaining of high exchange and interest rates and of the continuing high level of public expenditure. There were however limitations to the possibilities for action to reduce the exchange rate. Its present level was largely a function of North Sea oil revenues, of high interest rates and of confidence in the Government's policies. Moreover a strong pound was helpful in reducing the rate of inflation. There were difficulties, too, in bringing down interest rates, which in part reflected high interest rates world-wide. Any premature reduction, in advance of improved monetary prospects, could make problems worse and require more painful steps to get back on course. The recent decision to sell more index-linked savings certificates ("Granny Bonds") should attract additional savings from the personal sector and so be helpful to the prospects of reducing interest rates. He could not yet say however when interest rates would come down and, in the meantime, it was important not to encourage speculation over the timing and size of any decrease.

If the money supply targets were to be met, and interest rates brought down, it would be essential to keep control of the Central Government Borrowing Requirement (CGBR) and the Public Sector Borrowing Requirement (PSBR), and for the markets to be convinced that this was happening. In part the present underlying rate of the monetary growth reflected the high level of Government borrowing in the first part of the year - in the first five months the CGBR had been £7 billion compared with £9.3 billion forecast for the whole year; and in the first three months the PSBR had been £4.5 billion against £8.5 billion forecast for the year. To an extent the figures represented a seasonal element in the pattern of borrowing and a number of major receipts of revenue were due in the second half of the year. It nevertheless remained essential to look for all possible savings in the current year where prospective overruns of expenditure by the nationalised industries represented a particular problem. For 1981-82 to 1983-84 it was essential to achieve the objective of containing public expenditure within the net totals in the last Public Expenditure White Paper, Cmnd 7841, as reduced by the European Community settlement. The Cabinet would be considering these matters in the following month. Reaching the objective and accommodating any additional bids which might be put forward would necessitate making at least the net cuts proposed by the Chief Secretary, Treasury, in the summer and he could not exclude the possibility of a need to ask colleagues to go further than this. It was also crucial to control public sector pay and to bring it into line with the much more modest expectations now apparent in the private sector. Otherwise painful cuts in public expenditure programmes would in effect be financing excessive public sector pay.

In discussion the following points were made -

a. While the present high interest rates were undoubtedly one of the factors constraining the private sector, for many companies increases in their interest costs were insignificant by comparison with increases in their wage costs.

b. The administrative and clerical staff of the National Health Service had traditionally based their pay claims on comparisons with analogous Civil Service grades. For this year however they had now accepted a settlement below that for those analogues and within the cash limit applying to the National Health Service. This was a significant development which should serve as a good precedent for other public sector settlements. It showed that the Government's determined efforts to reduce expectations in the public sector were beginning to bear fruit.

The Cabinet -

3. Took note.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he would announce later in the day his proposals for dealing with over-spending in 1980-81 by local authorities in England and Wales. In the light of the revised budgets submitted to him, and with allowance for probable shortfall, he had assumed that they might be overspent by around £200 million by the end of 1980-81. He proposed to adjust the sums payable under the first Increase Order in respect of the 1980-81 Rate Support Grant accordingly on the understanding that the sums deducted might be reinstated at the second Increase Order in the light of actual expenditure performance. This action was indiscriminate between authorities but it had the advantage of giving them every incentive to meet their targets. He was also taking action to reduce the grants available to a number of high-rating authorities. In addition to these measures, which had been approved by the Ministerial Committee on Economic Strategy, he proposed to publish the figures for each authority rather than, as previously, to give national totals. This would undoubtedly cause a storm but would have the advantage of showing clearly which authorities were overspending. In general the performance of the Conservative-controlled authorities compared well with others and he was confident that the majority of them would end the year on target, though some of them would be shown to be overspending considerably. The latest returns of manpower reductions in the local authorities were highly encouraging The reduction of 29,000 in the last year was the highest annual drop ever and a reduction of 12,000 in the last quarter would be probably exceeded in the coming quarter.

The Cabinet -

4. Took note.

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4. The Cabinet considered a memorandum by the Lord President of the Council (C(80) 53) seeking a decision on whether the United Kingdom should challenge in the European Court of Justice a Commission Directive, adopted under Article 90(3) of the Treaty of Rome, aimed at bringing greater transparency into the financial relations between the member states and their public undertakings.

THE LORD PRESIDENT OF THE COUNCIL said that a decision was urgent because, if we wanted to challenge the Directive, we would have to institute proceedings no later than 22 September to meet the two-month deadline prescribed in Article 173 of the Treaty. Draft pleadings had been prepared on a contingency basis. The Directive enabled the Commission to examine the financial relations between member states and their public sector undertakings in order to assess whether any national aids or subsidies had been granted contrary to the provisions of the Treaty. Its adoption had created a conflict, which the Sub-Committee on European Questions of the Defence and Oversea Policy Committee had been unable to resolve, between our industrial and commercial interest in supporting a measure which could help to improve our industries' competitiveness and our constitutional and legal interest in seeing that the Commission did not gain power at the expense of the Council of Ministers. The case against a challenge centred on the fact that, since the Government's relations with the public sector were already much more transparent than was the case in other member states, we had nothing to lose and much to gain from letting the Commission probe into the hidden subsidies provided by France and Italy in particular. There was no prospect of the Council taking similar action itself because France and Italy would veto it. The case for a challenge turned essentially on the argument that it was contrary to our broader interest to acquiesce in an extension of the Commission's powers at the expense of the Council. The Solicitor General had advised that we had a substantial and respectable case to put before the Court and that we had a good fighting chance of succeeding. Since the discussion in the Ministerial Sub-Committee on European Questions it had become clear that both France and Italy intended to challenge the Directive themselves. It was therefore open to us to take no action, leaving the Italians and French to bring the issue to the Court; to intervene later in their actions, in which event the terms of our intervention would to a large extent be dictated by the pleadings of the parties to the case; or to mount a direct challenge ourselves before 22 September. He invited the Cabinet to decide which of these courses best accorded with our national interest.

In discussion it was argued that we should find it hard to explain to our industries, who were much concerned about the unfair competition they suffered as a result of concealed subsidies granted by other member states, why we were seeking to prevent the Commission investigating the very practices which harmed their commercial prospects. It would be all the more quixotic for the United Kingdom to take issue with the Commission on a Directive which helped us now that it was clear that it would be challenged anyway by Italy and France. We could have the best of both worlds in allowing them to make the running, which would ensure that the legal case was tested, while at the same time gaining political advantage with our industry and agriculture. The substance of the Directive as it stood would benefit our industry, while the relative openness of our system meant that we would have much less to fear than other member states from any future extension of its scope. It was in any event difficult to envisage any areas in which the implementation of the Directive or any likely extension of it would affect us adversely in practice.

On the other hand, it was argued that the Directive raised long-term constitutional and political issues which should outweigh any short-term advantage the Directive might bring to our industry. The implications of the Directive went far wider than its questionable vires, for if it went unchecked it would mean that the Commission would have the power to make law, not just to police it, without being subject to a Council veto or the need to consult the European Parliament, in all areas affecting public undertakings. Moreover Article 90, on which the Directive was based, did not refer to state aids alone: it applied to all the rules of the Treaty. The Directive would thus seriously prejudice the existing institutional balance in the Community, while the extension of the Commission's powers in this field would be seen in this country as a further erosion of the authority of Parliament and the Government. There would be criticism if we let the matter pass unchallenged while Parliament was in Recess. Moreover, we could not be sure either that the French and Italians would mount an effective case against the

Directive or that it would not be amended or extended in future in ways that would be inimical to our interests. It should not be too difficult to convince our industry that it was in their long-term interests as well as the Government's for the Commission's powers to be tested in the Court.

THE PRIME MINISTER, summing up the discussion, said that the preponderant opinion in the Cabinet was that we should not let the Directive go unchallenged and that it would be unwise to leave the French and Italians to take the issue to the Court on grounds of their choosing.

The Cabinet -

Invited the Solicitor General, in consultation with the Lord Privy Seal, to arrange for the United Kingdom to institute proceedings against the Directive in the European Court of Justice under Article 173 of the Treaty of Rome before 22 September.

Cabinet Office

18 September 1980