

**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

COPY NO

75

CC(86) 210  
Conclusions

CABINET

CONCLUSIONS of a Meeting of the Cabinet  
held at 10 Downing Street on  
THURSDAY 20 MARCH 1986  
at 9.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon Viscount Whitelaw  
Lord President of the Council

The Rt Hon Lord Hailsham of St Marylebone  
Lord Chancellor

The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign and  
Commonwealth Affairs

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer

The Rt Hon Douglas Hurd 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 Fowler MP  
Secretary of State for Social Services

The Rt Hon Norman Tebbit MP  
Chancellor of the Duchy of Lancaster

The Rt Hon Tom King MP  
Secretary of State for Northern Ireland

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

The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport

The Rt Hon Lord Young of Graffham  
Secretary of State for Employment

The Rt Hon Kenneth Baker MP  
Secretary of State for the Environment

The Rt Hon Kenneth Clarke QC MP  
Paymaster General

The Rt Hon John MacGregor MP  
Chief Secretary, Treasury

The Rt Hon Malcolm Rifkind QC MP  
Secretary of State for Scotland

The Rt Hon Paul Channon MP  
Secretary of State for Trade and Industry

ALSO PRESENT

The Rt Hon John Wakeham MP  
Parliamentary Secretary, Treasury

**CONFIDENTIAL**

135

**CONFIDENTIAL**

SECRETARIAT

Sir Robert Armstrong  
 Mr D F Williamson (Items 2-4)  
 Mr C L G Mallaby (Items 2-4)  
 Mr A J Langdon (Item 1)  
 Mr R Watson (Item 1)

C O N T E N T S

Item	Subject	Page
1.	PARLIAMENTARY AFFAIRS	1
	Local Government Bill	1
	British Leyland	2
2.	FOREIGN AFFAIRS	
	Government Communications Headquarters	2
	France: Parliamentary Elections	3
	Channel Fixed Link	3
	South Africa	3
	Japan	3
	Republic of Korea	4
3.	COMMUNITY AFFAIRS	
	Community Budget 1986	4
4.	ECONOMIC AFFAIRS	
	Interest Rates	5
	Unemployment	5

PARLIAMENTARY  
AFFAIRS

1. THE PRIME MINISTER said that the Cabinet would wish to congratulate the Chancellor of the Exchequer on the content and presentation of his Budget.

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

Local  
Government  
Bill

THE LORD PRESIDENT OF THE COUNCIL said that the House of Lords had amended the Local Government Bill in a way that weakened the provisions relating to political advertising by local authorities. It was very doubtful if it was feasible to achieve the reversal of these amendments in the following week, immediately before the Easter Adjournment, and any attempt to do so would provoke a major contretemps between the House of Lords and the House of Commons. He had therefore intended to tackle the matter in a measured way after Easter. It had now become apparent, however, that, if the Bill did not receive its Royal Assent in the following week, the provisions in question would be retrospective, because they attracted a commencement date of 1 April that did not now appear to be amendable. Urgent efforts were being made to find a procedural way of avoiding retrospection, but they did not seem at all likely to be successful. The other alternative was for the House of Commons to accept the House of Lords' amendments, in which case the Bill would receive its Royal Assent before 1 April and its provisions would take effect before the local government elections in May. This course of action would disappoint some Conservatives, who had felt that in any event the Bill needed to be stronger rather than weaker. It would, however, be possible to undertake that strengthening legislation would be included in next Session's programme.

THE PRIME MINISTER, summing up a brief discussion, said that accepting the Bill in its weakened form was not at all palatable, but the other possible courses of action were even less acceptable in the circumstances. The Bill, as amended by the House of Lords on the advertising provisions, should therefore be taken to Royal Assent before Easter. It would certainly be necessary to give an undertaking to introduce strengthening legislation in the next Session.

The Cabinet -

1. Invited the Lord President, the Lord Privy Seal and the Secretary of State for the Environment to be guided by the Prime Minister's summing up of their discussion.

British  
Leyland  
Previous  
Reference:  
CC(86) 10.1

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that the British Leyland Board had now talked to all the serious bidders for parts of their business. Contrary to stories in the press, the bidders had been given as full information as was consonant with normal commercial practice. The Board would finalise their views very shortly, as they were anxious for the uncertainty to end. He hoped to have clear proposals within a week or two.

The Cabinet -

Took note.

FOREIGN  
AFFAIRS  
---  
Government  
Communi-  
cations  
Headquarters  
Previous  
Reference:  
CC(86) 10.2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that, as he had reported at the previous meeting, letters had been sent on 14 March to members of Government Communications Headquarters (GCHQ) staff who remained members of unions, and the Head of the Civil Service had seen the General Secretaries of the Civil Service unions the same day. The representatives of the unions had concentrated on the position of those staff who had originally accepted the terms offered by the Government and withdrawn from unions but had later rejoined, and were now being told that, if they did not now resign from unions, they would face disciplinary proceedings for being in breach of the conditions of service at GCHQ. Union representatives had been told that disciplinary proceedings were a matter for the Director of GCHQ, and the outcome would depend on the management decision in each individual case; that dismissal was only one, and the most extreme one, of a wide range of disciplinary penalties available to management; and that in those circumstances the Government very much hoped that there would be no need for any dismissals. In subsequent press briefing the unions had presented this decision as indicating that GCHQ members who refused to resign from unions faced the threat of dismissal. They had asked to see him on 18 March. He had been able to tell the representatives of the unions at that meeting that the Director of GCHQ had now informed the Head of the Civil Service that on the information available to him he did not regard dismissal as an appropriate penalty in disciplinary proceedings for those who had rejoined unions in the circumstances of the past months. This had been welcomed by the unions, and it was to be hoped that on this basis stability could be restored at GCHQ at least until the next General Election. Press reports of his meeting with the representatives of the unions had led some other staff at GCHQ to ask if they were now free to rejoin unions; it was being made clear to them that they were not free, and that what the Director of GCHQ had said in his letter to the Head of the Civil Service applied only to those who had rejoined in the circumstances of the past months.

THE SECRETARY OF STATE FOR ENERGY said that he had informed the General Secretaries of the Electrical, Electronic, Telecommunication and Plumbing Union (Mr Eric Hammond) and the Engineers' and Managers' Association (Mr John Lyons) of the outcome of the Foreign and Commonwealth Secretary's meeting, and they were content with it.

France  
Parliamentary  
Elections

Previous  
Reference:  
CC(86) 10.2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the parties of the traditional right in France had won a slim overall majority in the Parliamentary elections on 16 March. Monsieur Jacques Chirac of the Gaullist Party (RPR) was likely to succeed in his current efforts to form a Government. The exact extent of the support for such a Government in the National Assembly would be known only on 27 March, when the Assembly reconvened. It was possible that the parliamentary majority would prove unstable in the longer term.

Channel  
Fixed Link

Previous  
Reference:  
CC(86) 10.2

THE SECRETARY OF STATE FOR TRANSPORT said that, following the Cabinet's discussion on 13 March, the Prime Minister had intervened with the President of France on the outstanding matters which had then been delaying signature of the concession agreement on the Channel Fixed Link. President Mitterrand had reacted rapidly; France had conceded the points at issue and the agreement had been signed on the basis of her understandings with the President when they announced the decision of the two Governments at Lille in January.

South Africa

Previous  
Reference:  
CC(86) 10.2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Commonwealth Eminent Persons Group had completed its visit to South Africa on 14 March. The Group had succeeded in maintaining discretion and avoiding publicity for its work. It had managed to see all the people it had wanted to see. It had made a good impression on both the South African Government and the African National Congress. Lord Barber, the British member of the Group, had played an outstanding role in the work of the Group and in the proposals that had been formulated. The Government was trying to promote a response by the South African Government which would enable the dialogue to continue.

Japan

Previous  
Reference:  
CC(85) 22.4

THE SECRETARY OF STATE FOR WALES said that, during a visit to Japan which he had just completed, he had found wide realisation that the European Community and the United States meant business in their pressure on Japan for more equal trading and financial arrangements. Some people in Japan now seemed determined to open up their markets to imports and to move on the other steps which the European Community was urging. On the other hand, the recent appreciation in the value of the yen against the dollar was beginning to arouse concern in Japanese industry. The Prime Minister, Mr Yasuhiro Nakasone, had begun to talk publicly of unspecified emergency measures to protect Japanese industry from excessively rapid movement in exchange rates. Thus while there was now momentum in Japan behind the changes which the European Community sought, there was also a possibility of a domestic political reaction in Japan against such changes. The European Community would need to redouble its efforts to secure the desired changes.

In a brief discussion, it was noted that Japan was unlikely to take major measures to protect its industry before the Economic Summit of the seven major industrialised countries in Tokyo in May. There would be a good opportunity for discussion of the appreciation of the yen when the Finance Ministers of a number of key countries were in Washington in April for meetings of the Interim Committee of the International Monetary Fund and the Development Committee of the Fund and the World Bank.

The Cabinet -

Took note.

Republic of Korea

THE SECRETARY OF STATE FOR WALES said that he had just returned from a visit to the Far East. The President of the Republic of Korea, Mr Chun Doo Hwan, would be visiting the United Kingdom from 7 to 10 April and was clearly expecting a serious discussion of trade matters when he called on the Prime Minister. He would be bringing a group of some 30 prominent Korean industrialists to the United Kingdom. These people were influential and worthy of attention from the Government.

The Cabinet -

2. Invited the Foreign and Commonwealth Secretary and the Secretary of State for Trade and Industry to arrange for the industrialists accompanying the President of Korea to have an appropriate programme in the United Kingdom.

COMMUNITY AFFAIRS

---  
Community Budget 1986

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the European Court of Justice had ruled in favour of the United Kingdom in the case which the United Kingdom had brought against the European Parliament on the Community's 1986 budget. This decision related only to interim measures but had the effect of reducing, for an interim period, the United Kingdom's contribution to correspond to the budget level established by the Council of Ministers rather than to the level adopted by the European Parliament. It was necessary now to concentrate on winning later in the year the substantive case which the Council of Ministers and a number of member states, including the United Kingdom, had brought against the European Parliament. In discussion it was said that no other member state had been prepared to join the United Kingdom in seeking interim measures. The result however, was very satisfactory, even if slightly unexpected.

The Cabinet -

Took note.

ECONOMIC  
AFFAIRS

---  
Interest  
Rates

THE CHANCELLOR OF THE EXCHEQUER said that financial markets had responded very well to the Budget. As a result the Bank of England had been able to reduce its dealing rates by 1 per cent. The big four clearing banks had immediately responded by reducing their base rates by the same amount. The two largest building societies - the Halifax and the Abbey National - had also moved immediately to reduce their normal mortgage rate by  $\frac{3}{4}$  per cent and their endowment mortgage rate (which had been  $\frac{1}{2}$  per cent higher than the normal rate) by  $1\frac{1}{4}$  per cent. The new rate was the lowest since 1984. He expected that other building societies would follow. The foreign exchange market, although still volatile, was showing confidence, with the pound at or about \$1.50. The stock market response was also good.

In discussion it was agreed that in present market circumstances, in which the oil companies had been holding back in reductions in the price of petrol at the pump, despite the fall in oil prices, until the Budget, it would not be reasonable for the duty increase of 7 $\frac{1}{2}$ p a gallon on petrol to be fully passed on to the consumer. The decision of Shell and British Petroleum to pass it on fully had been widely criticised. It was likely, however, particularly in view of the criticism of the companies' action and of the competitive situation in the market, that petrol prices would fall back again. There were already quite big variations in price in different areas of the United Kingdom.

Unemployment

Previous  
Reference:  
CC(86) 8.4

THE SECRETARY OF STATE FOR EMPLOYMENT said that he had made clear to the press the further measures which the Government was taking to combat long-term unemployment. This had been well received, but it would take some time before the employment figures began to reflect these initiatives.

The Cabinet -

Took note.

Cabinet Office

20 March 1986