

PRIME MINISTERBILATERAL WITH THE CHANCELLOR - 18 FEBRUARY

There are four items for the agenda although, given the shortage of time tomorrow morning, you may like to defer the last until next week.

1. Handling of Cabinet discussions on the economy

You may like to discuss with the Chancellor the terms of your summing-up of the Cabinet discussion and the guidance that Bernard will give to the lobby afterwards.

I enclose a letter of 17 February from Alex Allan setting out the Chancellor's proposals. The key point is his wish to use your summing-up and Bernard's briefing to kill-off continuing speculation of extra NHS spending being announced in the Budget. I think this needs careful thought. Any such explicit briefing to the lobby would create quite a big story.

In summing-up last year's Cabinet discussion you said that "The Cabinet congratulated the Chancellor on the management of the economy, which had produced very satisfactory results and prospects. They fully endorsed the maintenance of the prudent and consistent policies which had led to this outcome." The Cabinet Office brief (in your Cabinet folder) does not include any reference to "prudence" or "caution" in the suggested conclusions; I think it will be important for you to use some such phrase.

2. Merchant Shipping

You endorsed the suggestion in Charles's minute of 5 February that you should have a word first with the Chancellor about Mr. Channon's paper of the same date, prior to a wider meeting with colleagues. The wider meeting has now been arranged for next week. The key issue for tomorrow is Mr. Channon's taxation proposals (see paragraphs 20-22 of his paper).

I think you will find the Chancellor strongly resistant any such ideas, as in his minute of 12 February. You need to consider whether you want to keep any of them on the table for next week's meeting or to restrict that discussion to other possibilities.

3. Britoil Golden Share

I think the Chancellor will want to bring you up to date with the present state of play.

I gather the Treasury and BP have made substantial progress in their discussions of undertakings. They seem to follow fairly closely the ideas in the paper attached to the Chancellor's minute of 1 February (included in the folder).

BP are apparently prepared to send a letter which gives undertakings about:

- expanding investment in Scotland;
- maintaining employment;
- a non-executive chairman with no BP link.

In response, the Treasury would send a letter saying that, as long as these understandings were honoured, it would not ~~lose~~ use the powers of the golden share and would consider "in due course" whether to surrender the golden share rights.

Drafts of these two letters may well be agreed tomorrow. If so, the Chancellor will be discussing the position with other colleagues later in the day and then formally putting the position to you at the weekend with a view to an announcement next week.

4. Budget details

I enclose more details the Treasury have now provided. It may be best to defer consideration until your next bilateral with the Chancellor on Wednesday 24 February. But you may want to consider whether there are other aspects of the package on which you want to see further details before then.

*REG.*

PAUL GRAY

17 February 1988

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