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Annual Volume

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CABINET

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

THURSDAY 1 NOVEMBER 1984

at 10.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Lord Hailsham of St Marylebone
Lord Chancellor

The Rt Hon Leon Brittan QC 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 Michael Heseltine MP
Secretary of State for Defence

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon John Biffen MP
Lord Privy Seal

The Rt Hon Tom King MP
Secretary of State for Employment

The Rt Hon Peter Rees QC MP
Chief Secretary, Treasury

The Rt Hon Douglas Hurd MP
Secretary of State for Northern Ireland

The Rt Hon Lord Young of Graffham
Minister without Portfolio

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1984) 35th
Conclusions

Rt Hon Viscount Whitelaw
President of the Council
Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Rt Hon Peter Walker MP
Secretary of State for Energy
Rt Hon George Younger MP
Secretary of State for Scotland
Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Rt Hon Norman Fowler MP
Secretary of State for Social Services
Rt Hon Michael Jopling MP
Secretary of State for Agriculture, Fisheries and Food
Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Rt Hon Earl of Gowrie
Chancellor of the Duchy of Lancaster

THE FOLLOWING WERE ALSO PRESENT

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

Mr John Gummer MP
Paymaster General

Rt Hon Paul Channon MP
Minister of State, Department of Trade
and Industry (Item 5)

Mr Norman Lamont MP
Minister of State, Department of Trade
and Industry (Item 4)

Mr John Cope MP
Treasurer of the Household

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson (Item 4)
Mr D F Williamson (Items 2 and 3)
Mr B G Cartledge (Items 2, 3 and 5)
Mr C J S Brearley (Item 1)
Mr R Watson (Item 1)
Mr J F Stoker (Item 4)

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

THE PRIME MINISTER said that members of the Cabinet would wish to join her in recording their sense of shock and grief following the tragedy of the assassination, on the previous day, of the Indian Prime Minister, Mrs Indira Gandhi. This was a very grave event which again demonstrated the onset of a phase of violence in world affairs. A cruel and despicable act had robbed India of a great and courageous leader and the Commonwealth of a statesman of outstanding stature and experience. Mrs Gandhi's unique and remarkable achievements, her service to her people and her country, and her contribution to good relations between India and the United Kingdom deserved warm recognition. Her son Mr Rajiv Gandhi, who had now succeeded his mother in the office of Prime Minister, was a figure who commanded respect and affection; he would be dedicated in his service to the Indian people and a leader around whom it was to be hoped that India would be able to unite at a time of national crisis.

The Cabinet -

1. Warmly endorsed the Prime Minister's tribute.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Indian Government, under Mr Rajiv Gandhi's leadership, would probably be able to contain the internal situation following Mrs Gandhi's murder. The Indian security forces were experienced and well deployed. The elections, which were due to take place in January 1985, might have to be postponed. There was clearly some risk of outbreaks of inter-communal strife in the United Kingdom, but this had been significantly reduced by the promptness of precautionary measures by the police. The police reaction to a small demonstration by Sikhs outside India House on the previous day had been a little slow, but other potential danger points had since been clearly identified and safeguarded. The British Broadcasting Corporation, however, had transmitted some statements which could provoke the majority Asian community, including two interviews with Dr Chauhan, the leader of the Khalistan National Organisation. Action had been taken by the Prime Minister's Office, the Foreign and Commonwealth Office and the Home Office to impress upon all the radio and television services the importance of avoiding provocation: the response to these representations, which were exceptional, had been reasonable but they should not have been necessary. The situation underlined the importance of the consultations which were in progress between the Foreign and Commonwealth Office and the Home Office on the problems created by the presence of politically controversial figures in the United Kingdom. The British High Commissioner in New Delhi had advised that British citizens planning to travel to India should postpone their visits, unless their journeys were essential, until the internal situation in India was more settled; this was a prudent precaution at the present stage.

THE FOREIGN AND COMMONWEALTH SECRETARY said that problems had arisen over positioning in Ethiopia the Hercules aircraft which the British Government had agreed to make available for famine relief; and over the arrangements for transporting the growing volume of aid to the areas where it was needed. The attitude of the Ethiopian regime to British offers of help had been unhelpful but appeared to have improved during the past 24 hours. The Ministry of Defence and the Foreign and Commonwealth Office were together endeavouring to accelerate the completion of arrangements for the departure of the Hercules aircraft. In the meantime, it was noteworthy that the Soviet Union had at last come forward with a substantial offer of help to Ethiopia, including 24 aircraft a large number of vehicles and substantial quantities of rice. It was worth recalling that the United Kingdom's bilateral aid programme for Ethiopia had tried to concentrate, over a considerable period, on the long term improvement of Ethiopia's agricultural performance; but these efforts had been disrupted by the policies of the Ethiopian regime, including the collectivisation of agriculture.

In a brief discussion, it was pointed out that the delay in the departure of the Hercules aircraft from the United Kingdom to Assab, for which the Ethiopian authorities were responsible, would inevitably provoke adverse publicity, since representatives of the media were on board the aircraft and present at the airfield where they were waiting. An alternative base in Ethiopia for the aircraft had been suggested but had been found, on investigation, to have no facilities for the provision of fuel or water. Efforts were being made to obtain clearance from the French Government for the aircraft to fly to Djibouti. It was emphasised that it would be essential to establish that any potential base for the aircraft in Ethiopia was secure and to minimise the risk of hostile action against them by terrorist groups.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had just returned from a visit to Israel, which had been preceded by a brief stop in Lebanon on 28 October. In the Lebanon he had met the President, Mr Gemayel, and the Prime Minister, Mr Karame. President Gemayel was displaying high courage and determination in a very difficult situation. His first priority was to reach an agreement with Israel on the withdrawal of Israeli troops from southern Lebanon and to set up arrangements for the security and stability of that region thereafter. There might be a role in this for the United Nations International Force in Lebanon; but he had discouraged any expectation of the involvement of United Kingdom troops on the ground. The Foreign and Commonwealth Secretary said that during the course of a two day visit to Israel, he had made a comprehensive presentation of the United Kingdom's approach to the Israel/Arab dispute and had also discussed financial matters. In Jerusalem he had met a group of Palestinians from the West Bank. He had been struck by the scale of Israel's economic problems: Israel's public expenditure was now equivalent to the entire Gross Domestic Product of the country. As a result of his visit, which had taken place in an

excellent atmosphere, he was better placed to consider what the next moves in the Middle East should be following the United States Presidential Election.

The Cabinet -

- 2. Took note.

THE SECRETARY OF STATE FOR TRANSPORT said that the British Government had been obliged to disallow certain reduced transatlantic air fares, since they could provide no assurance that these would not lead to further proceedings in the United States under the United States anti-trust laws. This action had encouraged the United States authorities to look seriously at the air services problem. This more serious approach had come too late to have a useful effect on the resolution of the problems arising from the collapse of Laker Airways but should be helpful for the future. To this extent, the situation could be said to have improved.

The Cabinet -

- 3. Took note.

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that negotiations on the new Lomé Convention were not completed. The main point outstanding was the size of the European Development Fund to accompany the Convention. The German Government continued to be in favour of a figure no higher than 7 billion ecu but would support a higher total if their own contribution did not increase. The United Kingdom could take a similar position in relation to its own contribution.

The Cabinet -

Took note.

4. THE SECRETARY OF STATE FOR ENERGY reported to the Cabinet on the latest position in the coal industry dispute. The Cabinet's discussion is recorded separately.

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Civil Aviation

COMMUNITY AFFAIRS

Lomé Convention

Previous reference: C(84) 34th conclusions, minute 3

INDUSTRIAL AFFAIRS

Coal Industry Dispute

Previous reference: C(84) 34th conclusions, minute 4

5. The Cabinet considered a memorandum by the Minister of State, Department of Trade and Industry (Mr Channon) (C(84) 31) on the question of credit support for the sale of 40 Tornado aircraft to the Turkish Government.

THE MINISTER OF STATE, DEPARTMENT OF TRADE AND INDUSTRY said that the order for 40 Tornado aircraft, for which the Turkish Ministry of Defence had issued a Letter of Intent, was important not only by virtue of its size (£985 million, of which the United Kingdom share would be £573 million) but also because of its political and strategic implications. He recognised that there were problems over the financial aspects of the order. In the light of these, British Aerospace (BAe) had discussed with the Turkish authorities a variation on the financial package which had been considered by the Defence and Overseas Policy Committee at its meeting on 22 October; under the revised proposals the Turkish Government would pay for 25 per cent of the order in cash and the proportion of the credit to be guaranteed by the Export Credits Guarantee Department (ECGD) would be reduced from 40 per cent to 30 per cent. BAe, for their part, were prepared to take on a substantial share of the credit risk; the attitude of the commercial banks who had been asked to take on the balance would remain cautious until a decision had been taken on the extent of ECGD cover but they would probably be prepared to make up the difference. If the British Government decided to enable the deal to go ahead, the Italian Government had confirmed that they would follow suit and the Federal German Government would be likely to do the same. There would be significant benefit in terms of employment in the British aerospace industry, affecting a large number of sub-contractors as well as BAe itself: the slower run-down of Tornado production would produce a gain of up to 10,000 jobs. Finally, it should be borne in mind that Turkey had never defaulted on its payments for purchases of military equipment from overseas.

In discussion, the following main points were made -

- a. The key question to be addressed was not the value of the order for Tornados but the capacity of the Turkish Government to pay for them. The Turkish economy was currently in a poor way and Turkey had been obliged to reschedule its debts three times in the past six years. 35 per cent of Turkey's foreign exchange earnings were allocated to debt servicing and, in the view of the International Monetary Fund, a further rescheduling operation could not be excluded. Turkey's good record in not defaulting on cash payments for military equipment would not be relevant to a deal involving a high credit element, since this would fall within any rescheduling regime.
- b. Bad debts insured by the ECGD had already added £224 million to the Public Sector Borrowing Requirement (PSBR) in the current financial year and this was likely to rise to £450 million in 1985/86. This existing burden on the PSBR should not be further increased.

c. Of the current ECGD limit of £100 million on credit insurance for Turkey, only £30 million now remained, assuming that the Turkish purchase of Airbus aircraft went ahead. This should be seen in the light of significant prospects for the United Kingdom in civil business with Turkey, which included a fair chance of winning the order for the second Bosphorus Bridge (worth £25 million) and major power station projects from which a number of British firms could benefit. Her Majesty's Ambassador in Ankara had advised that, at a time when British exports to Turkey across the board were on a strongly upward curve, with the prospect of an increase of 30 per cent in the current year, it would be a mistake to put all our eggs in the Tornado basket. It was pointed out, on the other hand, that civil contracts would be as much affected by a rescheduling of Turkish debts as would defence contracts, although at a lower order of magnitude.

d. It was argued that enhancement of the equipment of the Turkish armed forces was a crucial element in strengthening the security of the North Atlantic Treaty Organisation's southern flank. It was, nevertheless, pointed out that the overall defence interests of the Alliance would be equally well served if Turkey were to purchase military aircraft from a Western country other than the United Kingdom, however mortifying this might be to British pride; and that defence contracts involving such a high degree of financial risk could fairly be regarded as defence burden-sharing rather than as export sales. It was pointed out that the sale of Tornados to Turkey would create significant potential for follow-on sales of weaponry and defence equipment and could also enhance the prospect of selling 20 Tornado aircraft to Saudi Arabia. Against this it was argued that, apart from Saudi Arabia and Oman, all the countries which might have been potential purchasers of Tornado had already chosen less sophisticated aircraft types instead.

e. It was pointed out that the employment benefit of a successfully concluded contract for the supply of 40 Tornado aircraft to Turkey would be equivalent to 21,000 man-years which was likely to exceed any comparable benefit from the successful conclusion of civil contracts (although, if a British consortium won the contract for the second Bosphorus Bridge, the steel fabrication would be carried out in the United Kingdom).

f. When the question was raised whether the financial problems arising from the possible sale of Tornados to Turkey should not have been foreseen at an earlier stage, it was pointed out that as a matter of commercial good sense a company such as BAe could seek governmental support only after a deal had been virtually concluded.

THE PRIME MINISTER, summing up the discussion, said that the balance of view in the Cabinet was clearly against the commitment of credit liability amounting to £228 million to the sale of Tornado aircraft to Turkey. The Turkish Government had made it clear that they were

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unwilling to contemplate the purchase of a smaller number of aircraft. The impact on possible civil contracts of such a massive level of ECGD exposure in Turkey could be serious. It was clear, for example from Turkey's purchase of F16 aircraft from the United States in 1983 at a cost of \$4,000 million, that Turkey was spending beyond its means. Much as the United Kingdom would like to sell its Tornado aircraft to Turkey, it could not in effect give them away.

The Cabinet -

Invited the Secretary of State for Defence and the Minister of State, Department of Trade and Industry, to be guided by the Prime Minister's summing up of their discussion.

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*Air Robert Armstrong
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CABINET

LIMITED CIRCULATION ANNEX

CC(84) 35th Conclusions, Minute 4

Thursday 1 November 1984 at 10.30 am

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INDUSTRIAL
AFFAIRS

Coal Industry
Dispute
Previous
Reference:
CC(84) 34th
Conclusions,
Minute 4

THE SECRETARY OF STATE FOR ENERGY said that the number of miners working continued to increase. There were grounds for optimism that further pits might begin to produce some coal shortly. The pattern of picketing had now settled down at the reduced level of two major demonstrations a day, usually at pits in the Yorkshire area. This might reflect restrictions on the funds available to the National Union of Mineworkers (NUM), sequestration of whose national assets was proceeding following a ruling by the High Court the previous week. Movements of coal that week were likely to exceed 900,000 tonnes. It was possible that there would be a small increase in power station coal stocks, which remained slightly higher than in August. Disclosure the previous weekend of the involvement of the leadership of the NUM with Libya had had an important impact on public opinion and on the morale of strikers. There were clear indications that the General Secretary and National Executive of the Union, including the Vice-President, had not been informed of the visit. The disclosures should tend to strengthen the hand of moderates on the National Executive, which was meeting that morning. Attention had to some extent been distracted from them, however, at the beginning of the week, by cancellation of a number of planned contacts between the National Coal Board (NCB) and the press which had not been well handled. Talks between the NCB and NUM under the auspices of the Advisory, Conciliation and Arbitration Service (ACAS) had broken down the previous day. The Chairman of ACAS had made it clear that he saw no basis for their resumption in the near future. The NCB would now increase efforts to encourage miners to return to work. A letter was being sent to each striker, backed with advertising in the national and local press, setting out details of the terms on offer and pointing to certain financial advantages for individuals returning to work during November. Since the breakdown of talks, the Trades Union Congress (TUC) had again promised full support to the NUM, though in the past such promises had had little practical effect. The TUC were known to be dismayed at recent developments in the dispute, there was some prospect that they themselves might seek to take an initiative aimed at achieving a settlement, though this remained uncertain. A leaked NCB document claimed by the President of the NUM to be a "hit list" of pits was in fact an engineering assessment aimed at identifying investment needs. He (the Secretary of State for Energy) and the NCB had been taking steps to put the record straight.

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THE PRIME MINISTER, summing up a brief discussion, said that the line to take following the breakdown of the ACAS talks should be to point out that one-third of NUM members had voted, by a majority of two to one, not to strike and were at work, that the National Association of Colliery Overmen, Deputies and Shotfirers (NACODS) had reached a satisfactory understanding with the NCB not only on the matters of particular concern to its members but also on the fundamental issues in the dispute, and that the remaining union in the mining industry, the British Association of Colliery Managers, had remained at work throughout the dispute. The remaining NUM members on strike had been deprived of the opportunity for a ballot. It was for all those concerned - and particularly the Labour Party and the TUC - to decide whether to side with an NUM leadership which was involved with the Libyan regime, had divided mining communities, plunged miners into debt and destroyed market prospects for their industry or with those in the industry who had decided democratically to continue working. The Secretary of State for Energy should circulate to the Cabinet a passage on these lines for use in speeches and in dealing with the media and should annex to it the text of the agreement between the NCB and NACODS.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Secretary of State for Energy to circulate to members of the Cabinet material on the lines indicated by the Prime Minister in her summing up.

Cabinet Office

2 November 1984