

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 2 OCTOBER 1986
at 10.15 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 Peter Walker MP
Secretary of State for Energy

The Rt Hon George Younger MP
Secretary of State for Defence

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 the Environment

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

The Rt Hon Kenneth Baker MP
Secretary of State for Education and Science

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

The Rt Hon John Moore MP
Secretary of State for Transport

ALSO PRESENT

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong
Mr D F Williamson (Items 2 and 3)
Mr C L G Mallaby (Items 2 and 3)
Mr A J Langdon (Item 1)
Ms R Mulligan (Item 1)

C O N T E N T S

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PARLIAMENTARY
AFFAIRS

1. THE LORD PRESIDENT OF THE COUNCIL said that the House of Lords would return on Monday 6 October and would then sit until Prorogation. The Public Order Bill, the Housing and Planning Bill and the European Communities (Amendment) Bill would be considered in the first week. Each of these would generate some controversy, but he did not at present anticipate any major difficulties for the Government.

FOREIGN
AFFAIRS

India

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Prime Minister of India, Mr Rajiv Gandhi, had escaped an assassination attempt that morning. The Prime Minister would be sending him a message.

Previous
reference:
C(86) 22. 2

Togo

THE FOREIGN AND COMMONWEALTH SECRETARY said that an attempted coup d'état in Togo between 23 and 25 September appeared to have been foiled. French troops had been sent to the capital, Lomé, at the request of the Togolese President. It was possible that Ghana had been involved in the attempted coup.

East/West
relations

Previous
reference:
C(86) 31.1

THE FOREIGN AND COMMONWEALTH SECRETARY said that the successful conclusion of the Conference on Disarmament in Europe in Stockholm, like the preparations for the next stage of the Conference on Security and Co-operation in Europe which would begin in Vienna in November, formed part of the background to the intensive discussion in the previous week between the Soviet Union and the United States. Those discussions had led to agreement on a meeting between the United States President, Mr Ronald Reagan, and the General Secretary of the Communist Party of the Soviet Union, Mr Mikhail Gorbachev, in Reykjavik on 10-11 October, which was seen as a preparatory meeting for a full Summit between the two leaders. This arrangement had been a good way of putting an end to the difficulties in United States/Soviet relations caused by the arrest in Moscow of Mr Nicholas Daniloff, a correspondent of US News and World Report, who had now been released. Both sides had evidently tried to find a way of overcoming the difficulties in their relations such that neither need lose face. The Prime Minister had received a message about the proposed meeting in Reykjavik from Mr Gorbachev and would be putting views on the matters for discussion there to Mr Reagan. The proposed meeting was a positive sign that further improvement in East/West relations might be possible.

Libyan Arab
Airlines

THE FOREIGN AND COMMONWEALTH SECRETARY said that the trial had ended in London on 26 September of two Arabs, one of whom had been convicted of conspiring to engage in terrorism and the other had been acquitted but would now be deported. It had come out in the proceedings that fragmentation grenades had been handed over in the offices of Libyan Arab Airlines (LAA) at London Heathrow Airport by a man wearing the uniform of an officer of that airline. That man had been confirmed to be a member of LAA aircrew, who had arrived at London Airport on an LAA flight.

This showed that Libya was likely to use LAA in support of terrorist activities, and might be even more likely to do so in the absence of a Libyan People's Bureau.

The Ministerial Group on Libya had agreed on 1 October that the services of LAA to London should be terminated by the non-renewal of the airline's current operating permits, when they expired at the end of October. This would be done on grounds of national security. Stricter security controls would be applied to LAA flights at Heathrow until they ceased. These decisions would be announced by the Secretary of State for Transport later that day. Care would be taken not to create a public impression that the action taken against LAA would always be necessary when a foreign airline was accused of being implicated in terrorist acts, since the circumstances and degree of involvement would vary. He and the Secretary of State for Transport would seek the support of other countries in the European Community (EC) for the actions against LAA, for instance in the form of a statement that the other Governments were examining the implications of LAA services to their countries. In any future cases, efforts would be made, through early contact with EC countries and with the countries participating in the seven power Economic Summits, to secure parallel action by as many countries as possible.

International
Financial
Discussions

THE CHANCELLOR OF THE EXCHEQUER said that, during the informal meeting of Finance Ministers of European Community countries at Gleneagles the previous weekend, discussion had focussed on the avoidance of public dispute with the United States about national economic policies. The United States Ambassador in the Federal Republic of Germany (FRG) had put pressure on the Bundesbank to reduce interest rates by 0.5 per cent. One reason for this clumsy move had been that the United States Secretary of the Treasury, Mr James Baker, was genuinely concerned about protectionist sentiment in the United States Congress and wanted to be able to point to reflation in the FRG as a means of countering such sentiment. The Federal German authorities had reacted badly.

This had been part of the background to the annual Ministerial meetings in Washington of the International Monetary Fund (IMF) and the World Bank, which had begun on 28 September. These meetings had gone well; there had been some agreement on fundamental issues. The economy of the FRG was in fact doing well but, if it was necessary after the Federal

elections in 1987, the authorities there would be willing to take action to stimulate growth. The foreign exchange markets had expected the meeting of Finance Ministers of the Group of Five to produce some new agreement on exchange rates. When this expectation had proved mistaken, the markets had reacted very nervously. As had happened before in such situations, there had been pressure on sterling, fuelled on this occasion by an element of apprehension related to the approach of an election in the United Kingdom. Earlier that week there had been intense pressure for a rise in interest rates in the United Kingdom. The Chancellor of the Exchequer had seen the Finance Minister of the FRG, Dr Gerhard Stoltenberg, and the Chairman of the Bundesbank, Dr Karl-Otto Poehl, on 30 September, and the German authorities had joined the British in intervening in the market to support sterling. This had calmed the market somewhat. But the situation was still precarious and would continue so for some days to come.

Negotiations between Mexico and the Central Banks about Mexico's debts had come close to collapse but in the end had produced a satisfactory agreement. Nigeria had reached agreement with the IMF and the World Bank but needed bridging finance until that agreement could take effect. The Federal German authorities had been reluctant to participate in bridging finance but had eventually been persuaded to do so. Nigeria had been grateful for the role played by the United Kingdom.

In discussion, it was noted that the turbulence in the foreign exchange markets had been caused in part by disappointing figures on the United Kingdom trade balance. It was most important that nothing should be said which could add to the pressure on sterling. This reinforced the need for Departments to reach agreement with the Chief Secretary, Treasury in the current public expenditure round. A Ministerial Group on Public Expenditure was now being set up to discuss matters which could not be agreed between Departments and the Chief Secretary, Treasury and would make recommendations to the Cabinet.

The Cabinet -

Took note.

COMMUNITY
AFFAIRS

Terrorism

3. THE HOME SECRETARY said that the meeting of Interior Ministers of the twelve member states, which he had held on 25 September, had been of value. Although the French Government had asked for this meeting, they had brought no new specific ideas; but they were ready to act with their partners. Most of the ideas for improved co-operation against terrorism had come from the United Kingdom and the Federal Republic of Germany. The meeting had agreed that the exchange of counter-terrorist intelligence should be put into higher gear and that it would be desirable to concentrate co-ordinated action on a priority list of undesirables. A decision had also been taken on the establishment of new secure communications between the police forces of the twelve member states. There were other difficult issues ahead, including the

strengthening of the external frontier controls of the Community, and he would be holding a further meeting in October. There was now, however, a much greater readiness among all the twelve member states to give serious attention to European preparations against terrorism.

In discussion it was pointed out that the public would expect the co-operation between the twelve member states after recent terrorist attacks to be very close. It was important to be absolutely sure that the maximum was being achieved. In response it was said that the machinery for such co-operation was fully in place and that the United Kingdom had taken the lead in accelerating the maximum use of the machinery in practice by agencies and police forces. One beneficial outcome from recent developments was a greater readiness to accept the need for co-operation, both between countries and between the various security agencies within each country.

GATT Trade
Negotiations

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that the results of the recent meeting in Punta del Este, Uruguay, had been very satisfactory. The new round of trade negotiations under the General Agreement on Tariffs and Trade (GATT) was now launched. The issues to be covered, including agriculture and services, included all those which the United Kingdom wanted. There had been difficulties in Community co-ordination and more generally because of the French position on agriculture but he had been able to resolve them. In discussion it was pointed out that important difficulties with the United States, Brazil and other countries had also been overcome. The round was an important counter-weight to protectionist pressures. The Secretary of State for Trade and Industry was to be congratulated on his contribution to the launching of these international trade negotiations.

Fisheries

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Fisheries Council on 22 September had successfully adopted a complicated and important measure on the conservation of fisheries. The Dutch, whose record in this respect was not good, had opposed, but he had considered it fully justifiable to go forward on the basis of a qualified majority.

The Cabinet -

Took note.

Cabinet Office

2 October 1986