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CABINET

CONCLUSIONS of a Meeting of the Cabinet  
held at 10 Downing Street on  
THURSDAY 16 OCTOBER 1986  
at 10.30 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 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 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 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

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon John Wakeham MP  
Parliamentary Secretary, Treasury

The Rt Hon Baroness Young  
Minister of State, Foreign and Commonwealth  
Office

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SECRETARIAT

Sir Robert Armstrong  
Mr D F Williamson (Items 3 and 4)  
Mr C L G Mallaby (Items 3 and 4)  
Mr A J Langdon (Items 1, 2 and 5)  
Mr M J Eland (Items 1, 2 and 5)

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PARLIAMENTARY  
AFFAIRS

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

THE LORD PRESIDENT OF THE COUNCIL said that the House of Lords had a very heavy load of business, but he remained reasonably confident that they would keep abreast of it without major problems.

THE LORD PRIVY SEAL said that the House of Commons, too, would be under considerable pressure for the remainder of the Session as major Bills returned from the Lords. He still hoped, however, that Prorogation could take place on 7 November.

HOME AFFAIRS

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Immigration  
Control:  
Visa Regimes  
Previous  
Reference:  
CC(86) 31.3

2. THE HOME SECRETARY said that, thanks to the co-operation of the Foreign and Commonwealth Office, it had been possible to introduce visa requirements for nationals of India, Pakistan and Bangladesh on the previous day. There had been a last minute rush to beat the requirement, most of this influx consisting of single young men from Bangladesh who appeared to be acting on the advice of travel agents. Co-operation with the airline operators in India and Pakistan had been good, but it was thought that there might be some trouble with a flight from Bangladesh on the following day. At present there was a backlog of some 400 cases, 100 people had been sent back on the previous day and more were awaiting removal. There had been a good deal of media interest in the accommodation of would-be entrants at hotels, pending their examination. In the case of those who were refused admission and returned, however, this accommodation cost fell on the carrier and not on the taxpayer. He would be making a statement in the House of Commons the following week.

Social  
Security

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that he would be making a statement the following week on the uprating of social security benefits. The uprating would be in line with the change in the retail price index for the relevant period. The phasing in of the new April uprating date meant that this would be the third uprating in the past sixteen months and he would stress in his presentation that the increases needed to be viewed together.

Interest  
Rates

THE CHANCELLOR OF THE EXCHEQUER said that base rates had risen by 1 per cent earlier in the week. This had followed a long period of turbulence in the markets and pressure on sterling. There had been pressure to raise base rates in the previous week but in the circumstances then prevailing a 2 per cent rise would have been needed to satisfy the markets. As it was, he believed that a 1 per cent rise would now suffice. He was encouraged in this view by the fact that the

half-yearly figures for the Public Sector Borrowing Requirement which would be published later that day would show that borrowing was in line with the forecasts made at the time of the Budget. It remained to be seen, however, what would be the outcome and implications of the forthcoming meeting of the Oil Producing and Exporting Countries.

Changes in  
Stock  
Exchange  
Rules

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that on 27 October the Stock Exchange would abolish minimum commissions and the single capacity system of jobbers and brokers (the so-called "Big Bang"). The Stock Exchange were confident that the change would pass off smoothly. He would make every effort to ensure that in the publicity surrounding the change it was made clear that this was a further consequence of the Government's drive to promote competition and remove restrictive practices, and an integral part of its policy to strengthen the City of London's international position. The Chancellor of the Exchequer would be referring to the change in his speech that night at the Mansion House.

Deregulation  
of Bus  
Services

Previous  
Reference:  
CC(86) 31.4

THE SECRETARY OF STATE FOR TRANSPORT said that final deregulation of bus services would take effect from Sunday 26 October. He and the Minister of State, Department of Transport (Mr Mitchell) had planned extensive publicity to accompany this event. There would also be a series of advertisements highlighting opportunities for small businesses in the new deregulated industry. This would be accompanied by a guidance leaflet and booklet for potential new operators. He would send written briefing to Cabinet colleagues on the background to the change and the Minister of State would be writing to all Members of Parliament. The Opposition Parties would no doubt seek to exploit any initial problems in the period immediately after the change but he was confident that these would be confined to isolated incidents and would be only short-lived.

The Cabinet -

Took note.

Unemployment  
Figures

Previous  
Reference:  
CC(86) 31.4

THE SECRETARY OF STATE FOR EMPLOYMENT said that, contrary to alleged leaks in the newspapers and speculation by the Opposition, the unemployment figures being released later that day were in fact encouraging. Although the unadjusted headline total was 53,000 higher than in the previous month, this was a low increase for September and, when seasonally adjusted, showed a fall of 22,000, which was the greatest monthly fall since April 1979. The seasonally adjusted average for the previous six months was now flat, while vacancies stood at a

higher figure than at any time since December 1979. Although the full underlying reasons were not yet apparent, it was satisfactory to note that the number of school-leavers on the count was the lowest since 1980. The Restart programme, aimed at the long term unemployed, was also having an effect, and it was helpful that a Manpower Services Commission survey of the pilot programme showed 60 per cent of those responding stating that they were leaving the register because they had found jobs.

THE PRIME MINISTER summing up a short discussion, said that these figures were very encouraging. While it would be right to show quiet satisfaction, the Government should not depart from their practice of refusing to forecast future employment trends. An important point to stress was the sustained rise in vacancies.

The Cabinet -

Took note

FOREIGN  
AFFAIRS

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Meeting  
between the  
United States  
and Soviet  
Leaders in  
Iceland

3. THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE (BARONESS YOUNG) said that the initial public reaction to the meeting the previous weekend in Reykjavik between the United States President, Mr Ronald Reagan, and the General Secretary of the Communist Party of the Soviet Union, Mr Mikhail Gorbachev, had been one of disappointment. Both sides were now, however, emphasising the possibility of building on the progress that had been made in Reykjavik on various aspects of nuclear arms control. The members of the North Atlantic Treaty Organisation had rallied to the support of the handling of the Reykjavik meeting by the United States.

The surprisingly wide areas of potential agreement at the meeting had included the elements that there should be 50 per cent cuts in the strategic nuclear forces of both powers over five years and that over ten years all their ballistic missiles (in the United States view) or all their offensive nuclear weapons (in the Soviet view) should be eliminated. In the category of intermediate nuclear forces (INF), there had been agreement on the complete removal from Europe of missiles of the longer ranges, while each side would retain 100 warheads, those of the Soviet Union being held in Asia and those of the United States in the United States. There would be a freeze on the levels in Europe of shorter range INF, with negotiations being held subsequently to reduce the levels. According to the Soviet side, there had been virtual agreement on a phased approach to constraints on nuclear weapons tests, probably starting with steps to improve the measures of verification that had been foreseen in two United States/Soviet treaties which had not yet been ratified by the United States - the Threshold Test Ban Treaty and the Peaceful Nuclear Explosions Treaty. This emphasis on verification would be helpful to the Government's public position on nuclear test constraints. Mr Gorbachev's explicit confirmation to Mr Reagan that the modernisation of the British nuclear deterrent was not

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relevant to a United States/Soviet agreement on INF vindicated the firm position which the Government had taken in this matter and would be useful in the debate in the United Kingdom about the Government's decision to acquire the Trident weapon system. The failure to achieve full agreement on any of the matters discussed in the meeting at Reykjavik had been caused by the Soviet insistence that research under the United States strategic defence initiative should be confined to laboratories.

Not all the ideas discussed at Reykjavik would have accorded with the interests of the North Atlantic Alliance or of the United Kingdom. But on one of the matters which accorded fully with British policy, namely reductions in longer range INF and constraints on short range INF, the Soviet Union might seek to retreat from the position it had taken in Reykjavik; the United Kingdom should continue to press for progress in this field.

In discussion the following points were made -

- a. The meeting in Reykjavik had been prepared as a meeting which might lead on to a full-scale United States-Soviet Summit in the United States. In fact, the meeting had gone much further than preparatory discussion prior to a full-scale Summit. The position taken by the United States on INF had accorded fully with prior consultations among the Allies. The proposal to reduce the strategic nuclear forces of the United States and the Soviet Union by 50 per cent within five years was also welcome. The United Kingdom should support President Reagan's refusal to renounce the possibility of strategic defences against nuclear weapons, not least because the Soviet Union already had a shield of anti-ballistic missiles around Moscow.
- b. Detailed negotiations between the United States and the Soviet Union would be needed, to see what progress could now be made. Those negotiations should pay full attention to the importance of verification. The negotiations should take place against the background of the importance of nuclear deterrence to the West in preventing war and of the major significance of the Soviet preponderance in conventional forces in Europe and in chemical weapons.
- c. The points which the Government should stress in public included the Soviet Union's possession of nuclear defences already and its continued research in this field; the Soviet Union's consequent interest in maintaining a lead by constraining research by the United States; the significance of Mr Reagan's agreement in Reykjavik that deployment of strategic defences should not take place for ten years; and the Soviet Union's conventional superiority and major investment in chemical weapons and the consequent need for arms control agreement, in these fields as well as in the nuclear field.

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d. The history of the negotiations between the United States, the Soviet Union and the United Kingdom which had led to the conclusion of the Partial Nuclear Test Ban Treaty in 1963 provided a good example of the need for thorough and private preparation of arms control agreements.

El Salvador

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that almost 1,000 people had been killed, 10,000 injured and 150,000 rendered homeless in the earthquake in El Salvador on 10 October. The United Kingdom had reacted rapidly with the provision of assistance. This had included a helicopter of the Royal Air Force, which had reached El Salvador from Belize on 12 October, bringing medical supplies, water purification kits and generators as well as army doctors. Her Majesty's Ambassador in Washington would that day be visiting El Salvador as representative of the British Presidency of the European Community together with the United States Secretary of State and others, and would see the situation on the ground.

The People's Republic of China

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE drew attention to the great success of the current visit by Her Majesty The Queen (with the Foreign and Commonwealth Secretary in attendance) to the People's Republic of China.

Previous Reference: CC(86) 23.2

Immigration Control: Visa Regimes

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that the Prime Minister of India, Mr Rajiv Gandhi, had said in Australia that the introduction of United Kingdom visas for citizens of India was a racist move which accorded with the Government's racist policy towards South Africa. These unjustified and provocative remarks by the Indian Prime Minister would be raised with the Indian High Commissioner when he called at the Foreign and Commonwealth Office that afternoon.

Previous Reference: CC(86) 31.3

The Cabinet -

Took note.

COMMUNITY  
AFFAIRS  
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Agriculture

4. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Agriculture Council on 13-14 October had examined the Commission's proposals to deal with the critical situation in the milk sector. The milk quota system was not working as efficiently as it should: some farmers had concluded that it was still worthwhile to raise their production above the quota levels. It was clear that only a part of the Commission's proposals had any chance of acceptance. The United Kingdom Presidency had therefore sought to explore other methods of tackling the problem, in particular a further reduction in quotas and an increase in the levy to be paid on milk produced above the quota. He hoped that this would enable the Commission to adjust its package and to facilitate progress at the next meeting. The Council had reached with difficulty an agreement on the treatment in the immediate future of monetary compensatory amounts for eggs and poultry.

Exports of  
Lamb:  
Incidents in  
France

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that he had spoken again that day to Monsieur Guillaume, the French Minister of Agriculture, about incidents in which lamb from the United Kingdom had been blocked or destroyed by French farmers. He had received a clear assurance that new instructions to protect these vehicles and their loads had been given to the French police and that compensation would be paid.

Liberalisa-  
tion of Air  
Traffic

THE SECRETARY OF STATE FOR TRANSPORT said that he had held an informal meeting of Community Ministers of Transport on 3 October. At the Transport Council in June it had been apparent that a substantial majority of member states were against any significant liberalisation of air traffic and fares. Since then the United Kingdom had been successful in detaching France, the Federal Republic of Germany and Italy from this opposition. The chances of some modest progress towards our objectives on air transport liberalisation at the Council on 10-11 November had improved.

Finance

THE CHANCELLOR OF THE EXCHEQUER said that the Economic and Finance Council on 13 October, in the presence of the President of the Commission, Monsieur Delors, and of Vice-Presidents Andriessen and Christophersen, discussed the serious problem of potential overspending on agriculture. The forecasts for 1987 were alarming in relation to the 1.4 per cent value added tax ceiling. He had been able to reach Presidency conclusions which should be helpful to the Minister of Agriculture, Fisheries and Food in pressing for the necessary action in the Agriculture Council. On greater liberalisation of capital movements within the Community some further progress had been made and he hoped that agreement could be reached at the next Council. On loans



for small and medium enterprises there were disagreements but the Presidency would be continuing its efforts to resolve them.

International  
Monetary  
Fund:  
Managing  
Director

THE CHANCELLOR OF THE EXCHEQUER said that he had discussed with colleagues in the Community the appointment of a new Managing Director of the International Monetary Fund which had been held by someone of French nationality for 18 of the last 23 years. Mr Ruding, the Netherlands' Minister of Finance and Monsieur Camdessus, Governor of the Bank of France, were candidates and neither was likely to withdraw. It seemed likely, therefore, that for the first time there would be two candidates from Community member states in the field right through to the final decisions. Within the Community there was probably a small majority for Mr Ruding but it was uncertain whether, taking account of the views of third countries, he would be successful.

The Cabinet

Took note.

THE QUEEN'S  
SPEECHES ON  
THE PROROGA-  
TION AND  
OPENING OF  
PARLIAMENT

5. The Cabinet considered a memorandum by the Lord President of the Council (C(86) 20) to which were attached drafts of The Queen's Speeches on the Prorogation and Opening of Parliament.

THE LORD PRESIDENT OF THE COUNCIL said that the draft Speeches attached to his memorandum had been prepared by The Queen's Speeches and Future Legislation Committee (QL) on the basis of suggestions put forward by colleagues and were in their conventional form. The only issue to which he needed to draw the Cabinet's attention was the importance of keeping the legislative programme in the next Session within manageable bounds and the consequent need, explained in his memorandum, to find compensating reductions in the programme for any additions that might prove necessary. The possibility of legislation being needed on teachers' pay and conditions of service now seemed sufficiently real for him to take soundings of his colleagues on QL and they were in no doubt that the Intellectual Property Bill was the only measure whose removal would release the necessary drafting and Parliamentary time to accommodate the new measure.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he was grateful to the Lord President for giving him notice of his thinking. He was bound to register that the Intellectual Property Bill was a long overdue measure of real assistance to British industry and had already been the subject of five Green and White Papers. The Government had been putting pressure on other countries to improve their copyright regime and such improvement was much needed in the United Kingdom. In particular, undertakings had been given to the pharmaceutical industry. The Consumer Protection Bill was of yet higher priority.

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THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet accepted the Lord President's assessment that a Bill would have to be deleted from the programme to make room for legislation on teachers' pay and conditions of service, if that proved necessary. The Cabinet also noted that the Bill to be deleted might need to be the Intellectual Property Bill in the absence of any realistic alternative. The Lord President would consult further with QL and with the Secretary of State for Trade and Industry, and report his conclusions to the Cabinet. The Opening Speech would then need amendment accordingly. The Cabinet approved the draft Speeches attached to C(86) 20, subject to the inclusion in the Opening Speech of a reference to the Coal Bill, which was now known to be free of any risk of hybridity; to some amendments to the passages dealing with defence and foreign affairs; and to some miscellaneous drafting points. Other changes might be necessitated by later developments, including those already described. The Secretary of the Cabinet should now prepare revised versions of the Speeches for her to submit to The Queen for approval.

The Cabinet

1. Subject to the changes agreed in discussion, approved the draft Speeches attached to C(86) 20.
2. Instructed the Secretary of the Cabinet to prepare a final revision of the draft Speeches, taking account of these changes, for the Prime Minister to submit to The Queen.
3. Invited the Lord President of the Council to proceed as indicated in the Prime Minister's summing up.

Cabinet Office

16 October 1986

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