

ccfc.

CONFIDENTIAL



nbpm

FOREIGN SECRETARY

THE GULF: WAR RISK INSURANCE FOR AIRLINES

WITH COPIES IN BOX?

Thank you for your minute of 7 January responding to mine to the Prime Minister of 4 January.

Our immediate purpose in seeking to reach war risk re-insurance agreements with British airlines and their insurers was to avert the risk of British Airways withdrawing all their flights to the Gulf region from midnight last Friday. We succeeded in this, on the basis that an agreement, on the same lines as that existing for shipping, was being prepared urgently and of ex-gratia re-insurance while this was finalised.

The airlines, and their insurers, know that premia are chargeable under the shipping scheme and would be under an aviation scheme. They also know that our plan is to introduce premia from 15 January. Giving notice of this is required under the shipping scheme and we understand that a comparable provision will be a necessary element of getting agreement to an aviation scheme: it gives the industries time to make arrangements. But, given what the airlines already know, issuing the notice is unlikely to influence their planning.

In practice, we must expect that airlines will withdraw services from areas where they foresee conflict, whether or not we offer re-insurance. Cathay Pacific are withdrawing their Bahrain service from 11 January and we understand that BA plan to withdraw their services to Bahrain, Dhahran, Doha, Riyadh and Tel Aviv from 14 January. What our re-insurance initiative has done is to avoid the withdrawal of services this week, while the

CONFIDENTIAL

CONFIDENTIAL

British community is getting out. Indeed BA's intention is to operate extra services to Riyadh, Abu Dhabi, Dubai and Dhahran this week to get people out. (This is subject to negotiation with their unions who would like BA to withdraw all services to the region forthwith.)

Our re-insurance scheme also means that insurance for such flights to the region as do continue will be available on terms which reflect the Government's assessment of the risk, free from possible accusations of profiteering in the insurance industry. If chartering of flights became necessary to get British nationals out, we should be able to arrange them in groups so that a minimum number of flights would be needed (for which the passengers could no doubt be charged).

I hope you can agree with all of this. I would like to issue the attached press notice this evening, about what we are doing in the shipping scheme and mentioning that we are developing a similar aviation scheme.

/ I am sending copies of this minute to the Prime Minister, the Secretaries of State for Defence and for Trade & Industry, the Chief Secretary to the Treasury and Sir Robin Butler.

MR

MALCOLM RIFKIND

8 January 1991

CONFIDENTIAL

D R A F T P R E S S N O T I C E

WAR RISKS INSURANCE

Malcolm Rifkind confirmed today that War Risks insurance for British ship hulls will continue to be available if hostilities begin in the Gulf. The Government is reinsuring the War Risks Insurance Clubs against 95% of Queen's Enemy Risks to British ship hulls. This effectively ensures that The Government reinsurance is continuously in effect under an Agreement dated 11 February 1988, made under the Marine and Aviation Insurance (War Risk) Act 1952.

No premium is charged during the periods of low risk but in view of the situation developing in the Gulf the Department of Transport is about to issue a special premium notice which would require payment of a premium in respect of ships in the areas of risk. The premiums will vary according to the area in which ships are trading and are expected initially to range between .01% and .24% of the ships' insured value for a seven day period.

The Government is discussing with airlines and the insurance industry the introduction of a similar reinsurance scheme under the 1952 Act for aviation. These discussions are being pursued urgently and a further announcement will be made shortly.

NOTE TO EDITORS

[explaining what War Risks Insurance Clubs are]