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Conclusions

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 24 APRIL 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 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 Sir Keith Joseph MP
Secretary of State for Education and Science

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 Lord Young of Graffham
Secretary of State for Employment

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment

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 FOLLOWING WERE ALSO PRESENT

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

Mr Giles Shaw MP
Minister of State, Home Office (Items 1-4)

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SECRETARIAT

Sir Robert Armstrong
Mr D F Williamson (Items 4 and 5)
Mr C L G Mallaby (Items 4 and 5)
Mr J B Unwin (Item 6)
Mr A J Wiggins (Item 6)
Mr A J Langdon (Items 1-3)
Mr M J Eland (Items 1-3)

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DEATH OF THE
DUCHESS OF
WINDSOR

1. THE PRIME MINISTER informed the Cabinet that the Duchess of Windsor had died that morning in Paris, after a long period of ill-health. She would be buried at Frogmore, by the side of the Duke of Windsor. The funeral would probably take place early the following week.

The Cabinet -

1. Expressed their regret at the death of the Duchess of Windsor.

2. Noted that the Prime Minister would send the Queen a letter of regret and condolences.

ROYAL CONSENT
TO THE
MARRIAGE OF
HRH THE
PRINCE
ANDREW

2. THE PRIME MINISTER said that she proposed to advise The Queen to give her consent under the Royal Marriages Act 1772 to the marriage of His Royal Highness Prince Andrew to Miss Sarah Fergusson.

The Cabinet -

1. Agreed that The Queen should be so advised.

2. Agreed that the Prime Minister would express the Cabinet's congratulations and good wishes to Prince Andrew and Miss Ferguson.

PARLIAMENTARY
AFFAIRS

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

Invalid Care
Allowance

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that under legislation introduced in 1976 invalid care allowance was paid to men and single women who were unable to work because they had to spend more than 35 hours a week caring for a severely disabled person in receipt of an attendance allowance. Married women were specifically excluded from receipt of the allowance. This exclusion had been challenged in the European Court as contravening the European Community Directive on Equal Treatment in social security matters. The Advocate General to the European Court had now produced an Opinion to the effect that the exclusion contravened the Directive, and this Opinion was expected to be confirmed by the full Court in June. The likely annual cost of extending the allowance to married women was of the order of £100 million. Although no immediate action was necessary, he was discussing the implications of an adverse judgment with the Chief Secretary.

Treasury. In the meantime he would respond to criticism from the official Opposition by pointing out that the legislation challenged had been introduced by the last Labour Government.

The Cabinet -

1. Took note.

Auxiliary
Oiler
Replenishment
Vessel

THE PRIME MINISTER said that the Ministry of Defence were embarking on the procurement of a new fleet auxiliary vessel - the Auxiliary Oiler Replenishment Vessel (AOR) - which had its own weapons system, thus enabling it to operate without the defensive protection of other armed vessels. The Ministerial Sub-Committee on Economic Affairs had agreed the previous week that the contract to supply the first AOR should be placed with Harland and Wolff; and that Swan Hunter Shipbuilders should be invited to tender later in the summer for a second AOR as a follow-on to the Harland and Wolff design, on condition that no extra cost would be involved, and the contract terms would be no worse than if the order had gone to Harland and Wolff. She had invited the Lord President of the Council to consider with the Ministers concerned how the public expenditure implications of the timing of the building of AOR 2 could best be accommodated within existing public expenditure provision.

THE LORD PRESIDENT OF THE COUNCIL said that earlier that morning he had held a meeting with the Chief Secretary, Treasury, the Secretary of State for Defence, the Secretary of State for Trade and Industry. Bringing forward the construction of AOR 2 would impose additional costs of £49 million on the defence budget in the period 1987-91, the bulk of which would fall in 1988-89 and 1989-90; there was no provision in the defence programme for this expenditure, and the defence budget was already under serious strain. The three Ministers had agreed that the £2 million additional cost in 1987-88 should be borne by the Ministry of Defence; that for 1988-89 (£16 million) should be shared between the Ministry of Defence (£6 million), the Department of Trade and Industry (£5 million) and the Reserve (£5 million each); that for 1989-90 (£30 million) would be shared equally between the three contributors, and finally that for 1990-91 (£1 million) would be borne by the Ministry of Defence.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed, that although bringing forward the award of the AOR 2 contract and awarding it on a single tender basis was inconsistent with the Government's emphasis on competition in defence procurement, and exception was justified in the particular circumstances and on the conditions that had been agreed. An oral statement announcing the Government's decision on the award of the contracts should be made by the Secretary of State for Defence in the House of Commons that afternoon. Even with the award of the AOR 2 contract, redundancies at Swan Hunter Shipbuilders would be reduced rather than completely prevented. There was serious over-capacity in the shipbuilding industry

affecting both the privatised warshipyards and British Shipbuilders' merchant shipyards, and this caused particular problems in the North East. In accordance with the decision of the Sub-Committee on Economic Affairs, the scope for targetting Government job creation initiatives on the worst hit areas of the North East was already under consideration by the Secretary of State for the Environment, the Secretary of State for Employment, the Chief Secretary, Treasury and the Secretary of State for Trade and Industry.

The Cabinet -

2. Took note, with approval, of the Prime Minister's summing up of their discussion.

3. Invited the Secretary of State for Defence to make an oral statement on the award of the contracts in the House of Commons that afternoon.

4. Noted that the Secretary of State for Employment in conjunction with the Secretary of State for the Environment, the Chief Secretary, Treasury and the Secretary of State for Trade and Industry were considering the scope for targetting Government job creation initiatives on the worst hit areas of the North East and that their conclusions would be brought before the Sub-Committee on Economic Affairs.

Bomb
Explosion
in Oxford
Street

THE MINISTER OF STATE, HOME OFFICE, said that at 4.45 that morning a bomb had exploded at a side-entrance of the offices of British Airways in Oxford Street. The building was shared with American Airlines. The explosion had damaged the building and started a fire. The flats above the airline offices had had to be evacuated. Nobody had been injured but one of the occupants of the flats had been taken into hospital suffering from shock. Oxford Street had been temporarily closed but had been reopened at 10.00 that morning. There was no indication of Libyan involvement, although there had inevitably been speculation in the media to that effect. Private Notice Questions had been tabled by Mr Gerald Kaufman, MP and Mr Alan Beith, MP. He would welcome the guidance of colleagues on whether he should volunteer to make a statement or await the Speaker's decision on whether to accept a Private Notice Question.

THE PRIME MINISTER, summing up a brief discussion, said that it was agreed that the balance of advantage lay in not volunteering a statement but awaiting the Speaker's ruling. There had been a steady growth in the number of Private Notice Questions tabled by Opposition Front Bench spokesmen and the exceptional nature of the procedure was being undermined. It was important to avoid creating the impression that a statement would be volunteered if a Private Notice Question was tabled.

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The Cabinet -

5. Took note, with approval, of the Prime Minister's summing up of their discussion.

FOREIGN
AFFAIRS

Libya

Previous

Reference:

CC(86) 16.3

4. THE FOREIGN AND COMMONWEALTH SECRETARY said that there was no confirmation of reports in the press that the Libyan Head of State, Colonel Qadhafi, was now sharing power in a junta with four other people. Following various contacts in recent days with representatives of the United States Administration, it was clear that the Administration now recognised the debt that it owed to the British Government for support in the action against Libya and the political difficulty that this had caused for the Government. There were also indications that the Administration realised that a further United States approach about renewed military action against Libya would pose major difficulties for the Government. The United States Administration were exerting influence in favour of a positive vote in the Senate on the proposed Supplementary Extradition Treaty between the United States and the United Kingdom, but the outcome on this remained uncertain. The Government were privately advising the British community in Libya to leave the country and they were doing so steadily and without panic. Libya had announced that 60 British journalists, and about 200 from the United States and other European Community countries, must leave the country. There was no confirmation that the British citizen held in Lebanon since March 1985, Mr Alec Collett, had been killed; but reports to this effect might well be true. There were threats to the security of British Embassies and people in several countries. Steps were being taken to improve security but there were limits to what could be achieved.

The leaders of the Libyan Revolutionary Student Movement (LRSM) in the United Kingdom, who were to be deported, would leave the country on 25 April if, as on balance was expected, the scheduled Libyan Arab Airlines flight from London to Tripoli took place. It was important that these people should leave the country as soon as possible, so as to reduce the risk of detention of British subjects in Libya in retaliation. The Libyan Interests Section of the Saudi Arabian Embassy in London had access to them.

The Ministerial Group on Libya (MISC 102) had discussed on 22 April various questions of policy, including the future of air services between the United Kingdom and Libya. The Group had not concluded that air services should be discontinued. The Libyan Arab Airlines flight from London to Tripoli due on 23 April had not taken place but another flight was due on 25 April. Because Libyan Arab Airlines had not flown on 23 April, British Caledonian Airways (BCal) had cancelled their flight to Tripoli which had been scheduled for 24 April. Their next flight was scheduled for 26 April. It seemed unwise to terminate air services so long as a considerable number of British citizens remained in Libya and might wish to depart. BCal would like to resume services, subject to the risks involved. If the Libyan Arab Airlines flight due

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on the following day took place, the basis would exist for BCal to resume flights on 26 April. Ministers should keep this subject under review from day to day.

The Ministerial Group had decided, with regard to Libyan trainees in aircraft maintenance and Libyan trainee pilots in this country, that the Secretary of State for Transport would issue a directive to the British firms concerned that the trainees should have no access to aircraft. This could be expected to cause their training courses to cease. The reason for their presence in the United Kingdom would then have disappeared, and the Home Secretary would be able to ask them to leave the country. There might be a question of claims for compensation from the British companies on the grounds that the courses had ended prematurely. Officials were considering the position with regard to Libyan students of other subjects in this country. The numbers had fallen very considerably and students were now given visas lasting for only one term at a time. Overall visa policy towards Libya was also being considered by officials.

Although the United Kingdom was not moving towards the introduction of a range of economic sanctions against Libya, officials were considering the question of an international embargo on the purchase of Libyan oil. The United Kingdom, as an oil exporter, would be suspected of commercial motives in putting forward such a proposal. But the Government might be able to persuade others to advance it.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had raised in the Council of Ministers (Foreign Affairs) on 21 April the question of Community subsidised food sales to Libya. There were no special arrangements for export refunds to Libya for cereals and beef, these products being sold with the normal refund to world markets generally. Other member states would not support a general embargo on refunds for products which might go to Libya. The Commission, however, had now assured him that they would hold up any further subsidised sales of dairy products to Libya.

In discussion, the following main points were made -

- a. All 22 of the leaders of the LRSM in the United Kingdom who were to be deported had now been detained. All but one had agreed to waive the right of appeal against deportation. If the last one continued to refuse to waive this right, his departure would have to be deferred, but the appeal procedures would be completed as rapidly as possible. Efforts would be made to minimise publicity for the departure of the 22 Libyans from the United Kingdom. If the Libyan Arab Airlines flight to Tripoli due on the following day did not take place, other means of departure would need to be found for these Libyans; this would not be easy.
- b. The United Kingdom still imported some oil and oil products from Libya. It was for consideration whether this country could give a lead to the international community by moving unilaterally to cease such imports. This would have to be done by requesting

British companies to act accordingly. The involvement of United States companies in the oil industry in Libya did not make such a British move inappropriate. The work by officials on this subject should be accelerated.

c. The question of Community subsidised food sales to Libya was a particularly sensitive point for public opinion, and the United Kingdom should pursue it vigorously. The Prime Minister might wish to raise it herself at the next European Council.

d. The President of the United States had said that, if the Libyan Government continued its campaign of terror against American citizens, the United States would "act again" against Libya. The Government should consider what action the United Kingdom should take if British people were killed in further terrorist attacks sponsored by Libya. It would be most important to avoid the criticism that the response when Americans fell victim to terrorism was different from that when British people fell victim. Yet if the United States again asked for the use of aircraft based in the United Kingdom in action against Libya, the doubts among many people in this country, including some responsible sections of opinion, about the efficacy of air strikes as a means of countering terrorism would be expressed with greater force. If there was a further United States request for the use of aircraft based in this country for action against Libya, all the factors prevailing at the time would need to be considered. Officials were already considering what further measures by European Community countries might be possible if Libyan terrorist activity continued.

THE PRIME MINISTER, summing up the discussion, said that work on the various matters discussed should be completed as rapidly as possible. Measures which the United Kingdom could undertake alone, as well as those which would be multilateral, should be considered. Thought should continue to be given to the way the United Kingdom would respond if there were further terrorist attacks sponsored by Libya.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.

South Africa

Previous Reference:

CC(86) 14.2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Government of the Republic of South Africa had tabled on the previous day legislation which would terminate the Pass Laws. The South African Government had also published a White Paper which foreshadowed a very substantial easing of influx control. Although these measures did not alter the basic features of apartheid - the Group Areas Act and the registration of persons according to race - they represented a major reform, in line with the demands of world opinion.

Spain
Previous
Reference:
CC(86) 10.2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the State Visit of King Juan Carlos and Queen Sophia of Spain was going well. The Lord Chancellor and the Speaker of the House of Commons were to be congratulated on the speeches they had made when King Juan Carlos had addressed a joint session of Parliament on the previous day.

The Cabinet -

2. Took note.

COMMUNITY
AFFAIRS

Trade
Relations
With The
United States

Previous
Reference:
CC(86) 10.3

5. THE FOREIGN AND COMMONWEALTH SECRETARY said that a major current issue within the Community was trade relations with the United States. The United States were maintaining the threat of retaliatory actions against Community exports because of the presumed effect on some United States trade of the accession arrangements for Spain and Portugal. They would, however, postpone the date for such retaliatory action and it was not expected that there would be any effect before the Tokyo Economic Summit. The Community should maintain a firm position. The United States were content to accept the political bonus of Spanish and Portuguese accession but now wanted to attack, on a selective basis, some of the trade effects. In fact, the member states, not third countries, would be carrying the main burden of this accession.

The Cabinet -

Took note.

Agriculture

Previous
Reference:
CC(86) 16.4

THE FOREIGN AND COMMONWEALTH SECRETARY reported that the Council of Ministers (Agriculture) was still in session. It seemed likely that the price package itself would be tough, comprising a freeze on Community support prices, some measures to limit the effect of intervention and a co-responsibility levy for cereals. The Minister of Agriculture, Fisheries and Food had clearly done well in removing elements which discriminated against United Kingdom producers of beef and sheepmeat and in making some changes in the proposed operation of the cereals co-responsibility levy. The cost of the package was being held down. The Commission was now proposing that there should be an additional change in green rates which would have the effect of increasing prices in national currencies by about 1 per cent on crop products and 2 per cent on some livestock products in countries with negative monetary compensatory amounts, including the United Kingdom. In general, the Commission appeared to be holding to a firm line. The real problem was that, apart from this price package, the fall in the dollar against the ecu and the effects of the recent monetary realignment in Europe would in any event be adding substantially to agricultural expenditure. It was very important that Britain should get from the Commission a clear assurance that the price package and the additional agricultural costs

would be financed within the available own resources. The Council of Ministers (Economy and Finance) should also look at this point at its meeting the following week.

In discussion it was agreed that the problem of agricultural expenditure was very serious; even with a tough price package, the Commission's figures showed that the increase in agricultural spending resulting from the fall in the dollar and the monetary realignment would take the Community budget in 1986 and 1987 above the limits set by the 1.4 per cent Value Added Tax (VAT) ceiling. This was unacceptable. The Commission must be pressed to confirm that the costs would be contained within the 1.4 per cent VAT ceiling in 1986 and 1987, and the matter should be examined in the Council of Ministers (Economy and Finance). Discussions on financing of other policies, for example the Social Fund, had shown that some other member states, in particular the Federal Republic of Germany, were committed to maintaining respect for the 1.4 per cent VAT ceiling in 1986 and 1987. It was also said that the problem of adopting policies to the large growth of agricultural production was a problem on a world-wide scale, with substantial protection and subsidisation in the United States, Japan and elsewhere, as well as in the Community itself. The problem of trying to maintain a stable rural community in face of the technological changes was a real one and could not be solved quickly. It was to be expected that the problem and the need to correct the operation of agricultural policies would be discussed at the Tokyo Economic Summit.

THE PRIME MINISTER, summing up the discussion, said that, although the price package itself was a tough one, the additional expenditure resulting from the fall in the dollar and the realignment of currencies might be as high as 1,300 million ecu in 1986 and that the Commission had stated that, in order to maintain the 1.4 per cent VAT ceiling, about 520 million ecu would have to be pushed 1987 or found by other reductions in expenditure. It was much to be preferred that there should be off-setting reductions in expenditure, since the other solution would merely intensify the pressure on the 1.4 per cent ceiling in 1987 and add to the financing problem in that and later years. The Cabinet agreed that in the circumstances it was necessary that, before agreeing to a price package on the lines that seemed to be emerging at the present meeting of the Council of Ministers (Agriculture), the United Kingdom should have assurances from the Commission that the expenditure in 1986 and 1987 would be financed within the 1.4 per cent VAT ceiling. The Minister of Agriculture, Fisheries and Food should make it clear that this was a matter which would have to be considered by the Council of Ministers (Economy and Finance) at its meeting on 28 April.

The Cabinet -

Invited the Minister of Agriculture, Fisheries and Food to be guided by the Prime Minister's summing up of their discussion in his further negotiations in the Council of Ministers (Agriculture) on the price package.

BRITISH
LEYLAND

6. The Cabinet considered a memorandum by the Secretary of State for Trade and Industry on the privatisation of Land Rover (UK) Limited (C(86) 14).

Previous
Reference:
CC(86) 13.4

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY recalled that, following his statement on 25 March, the British Leyland (BL) Board had been asked to reconsider all the potential bids for Land Rover. The Board had accordingly invited the submission of fresh bids by 15 April, and this had produced four responses: Schroder Ventures (on behalf of the management buy-out), Lonrho, J C Bamford and Aveling-Barford. The Board had considered these bids at their meeting on 22 April; those by Bamford and Aveling-Barford were clearly inferior, and had been ruled out. The Board had then considered the Lonrho and Schroder bids against the alternative of retaining the Land Rover and Freight Rover businesses within BL with a view to a flotation or trade sale in 18-24 months. There could be no absolute guarantee of the price these businesses would fetch at some future time, but BL's best estimate, which was endorsed by both their and the Department of Trade and Industry's financial advisers, was that the present value of the future proceeds was of the order of £200 million. Taking both financial and industrial considerations into account, the Board's strongly felt view was that retention of the businesses within the Company for the time being was the preferable course, and they had recommended accordingly. The Government had in effect already overruled the Board in rejecting their preferred purchaser, General Motors; there could be considerable difficulty if the Government were again to overrule the Board. If the Government considered it essential to sell Land Rover at that time, the BL Board would be likely to recommend Lonrho rather than the management buy-out. In all the circumstances he considered that the course recommended by the Board was the best one, and he sought his colleagues' agreement to it. His intention would be to announce it by means of an oral statement in the House of Commons later that day, a draft of which was at Annex A to his memorandum.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet endorsed the BL Board's recommendation. They noted that Land Rover and Freight Rover were projected to have positive cash flows over the following two years, so that there should be no question of the Government having to undertake any additional financial commitments. Leyland Trucks and Leyland Bus were facing a very difficult market situation, and the BL Board would need to consider the future of these businesses in the course of the following few weeks; it was particularly important that steps should be taken as soon as possible to deal with the problems of Leyland Bus. There could be advantage in making the Freight Rover business more distinct from that of Land Rover, in order to widen the options for eventual disposal of that business as a going concern. No time should be lost in bringing the present uncertainty to an end, and the Secretary of State should therefore make his proposed statement on 24 April. Subject to the deletion of the third paragraph, and to other minor changes, the Cabinet approved the draft text of the statement.

The Cabinet -

1. Agreed that the Government should accept the British Leyland Board's recommendation that Land Rover and Freight Rover should be retained within British Leyland for the time being, with a view to flotation or trade sale in 18-24 months time.
2. Invited the Secretary of State for Trade and Industry to make a statement accordingly in the House of Commons that afternoon, taking account of the points made in discussion and in the Prime Minister's summing up.
3. Invited the Secretary of State for Trade and Industry to announce the Government's decision on 24 April, on the lines indicated in the Prime Minister's summing up.

Cabinet Office

24 April 1986