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CABINET

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

THURSDAY 2 APRIL 1987

at 10.00 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 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 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 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 Clark 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

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SECRETARIAT

Sir Robert Armstrong
Mr D F Williamson (Items 2-5)
Mr J B Unwin (Item 5)
Mr A J Langdon (Item 1)
Mr N H Nicholls (Items 2-4)
Mr S S Mundy (Item 1)

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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.

FOREIGN
AFFAIRS

Prime
Minister's
Visit to the
Soviet Union,
28 March to
1 April 1987

2. THE PRIME MINISTER, reporting on her visit to the Soviet Union from 28 March to 1 April, said that the Soviet authorities had done everything possible to ensure its success. They had agreed to every request when drawing up the programme; and throughout the visit she had been accorded unfailingly courteous and generous treatment. Her programme had included a visit to Zagorak Monastery, a visit to a Moscow housing estate, meetings with Dr Sakharov and leading Soviet intellectuals and had concluded with a visit to Georgia.

She had had over nine hours of wide-ranging, detailed and candid discussions with the General Secretary of the Communist Party of the Soviet Union, Mr Mikhail Gorbachev, culminating in a private dinner party. She had had a separate two hour meeting with Mr Ryzhkov, the Soviet Prime Minister.

During her meetings with Mr Gorbachev, she had explained the reasons for Western apprehensions of the Soviet Union (referring inter alia to Soviet interventions in Czechoslovakia and Afghanistan). The West welcomed Mr Gorbachev's commitment to internal reform but still awaited signs of change in Soviet external policies. Mr Gorbachev had said that the Soviet Union was not working actively to promote world communist domination; but the Soviet Union believed in its system and therefore believed that its influence would extend. This was a significant statement.

In discussion of arms control, she had welcomed the abandonment of the link between an agreement on intermediate range-long range forces (INF) and the Strategic Defence Initiative (SDI). Although, for reasons of verification, the global abolition of INF would have been preferable to an arrangement which permitted the retention by either side of 100 systems, such an agreement was acceptable provided that it included constraints on shorter-range systems, to which the United Kingdom was vulnerable, and provision for immediate follow-on negotiations. It was also important that the West should have the right to match Soviet shorter-range systems. Mr Gorbachev had disagreed, arguing for a freeze on shorter-range systems. She had dealt robustly with his attempts to claim that NATO aircraft with dual nuclear and conventional capability should be taken into account, and had drawn attention to the substantial conventional imbalance, in the face of which the deterrent power of nuclear weapons was essential to the West's security.

On chemical weapons (CW), the Prime Minister had contrasted the United Kingdom's destruction of its stocks 30 years previously with the enlargement and modernisation of the Soviet chemical stockpile. Adequate verification, which was crucial to a CW agreement, would not be

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easy, but the United Kingdom had put forward proposals on this aspect. Mr Gorbachev had indicated that the Soviet Union was ready to co-operate.

On strategic systems, the Prime Minister had expressed support for 50 per cent reductions by the Soviet Union and the United States. Mr Gorbachev had been adamant that no agreement was possible without constraints on the United States SDI programme. The Prime Minister had argued against this, pointing out that it was sensible to conduct research to establish whether or not a SDI system was feasible. Actual deployment in space must be a matter for negotiation.

On human rights, on which he was clearly sensitive, Mr Gorbachev had taken a tough stance, seeking to riposte by referring to Northern Ireland and the unemployment situation. But he had undertaken to look positively at the individual cases that had been brought to his attention. The Prime Minister had stressed that the extent of Soviet compliance with the Helsinki accords on human rights would be regarded as a touchstone of likely Soviet observance of agreements on arms control.

A number of regional issues had also been covered, including Soviet support for Libya and Syria. Mr Gorbachev had refused to admit that the Soviet Union supplied arms and training for international terrorists.

The Soviet authorities had been fully co-operative over the Prime Minister's television broadcast, which had been shown in full. She had been pressed by her three Soviet interviewers especially hard on the issue of nuclear weapons, and had taken the opportunity to set out in full the key facts of the strategic balance and to recapitulate the arguments for the retention of nuclear weapons, which had ensured continuing peace with security. As a result, Soviet public opinion had been exposed to one of the fullest expositions of the Western position it had ever experienced.

The Prime Minister said that Mr Gorbachev had been confident and was clearly in control. Her discussions with him had been the fullest that she had ever conducted with a world leader, and they had provided a unique opportunity to put over the Western position on a wide range of issues at first hand. Discussion had been frank and forthright; but despite combative episodes and tough discussions the atmosphere had remained friendly throughout. It was noticeable that the Soviet leadership tended to be the victims of their own propaganda; and on some issues they were seemingly ignorant of the facts. On a number of occasions, Mr Gorbachev had sought to score propaganda points, but she had stuck to a patient exposition of the facts and had set out full and reasoned responses. The Soviet system had not fundamentally changed and should not be expected to do so; and living standards were and would continue to be a great deal lower than in the West. The changes that Mr Gorbachev was setting in train would take time to come into effect. But they represented a turning point; and she had made it clear that she wished Mr Gorbachev well.

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THE FOREIGN AND COMMONWEALTH SECRETARY said that he had had separate and extensive discussions with the Soviet Foreign Minister, Mr Eduard Shevardnadze. These had covered similar ground to the Prime Minister's discussions with Mr Gorbachev, including in particular human rights. A memorandum had been signed on culture, information and education, together with agreements on space co-operation; on upgrading the hot line between London and Moscow; and on sites for new Embassies in both capitals. There had also been encouraging progress over trade, including the success of John Brown Engineers and Constructors Limited in winning a contract to construct a £100 million polypropylene plant, over which the Soviet authorities had shown themselves especially helpful. Mr Shevardnadze had invited him to revisit Moscow.

In discussion, there was agreement that the visit had afforded an invaluable opportunity to convey an authoritative account of the Western position direct to the Soviet leadership. This process should be further developed. It was clear that the Prime Minister's television broadcast had made a deep public impression; she had been seen as someone who cared passionately for peace. Her public appearances had been unique for a Western leader in the Soviet Union, and had drawn huge and enthusiastic crowds. The visit had clearly been a great success, and its impact, in the Soviet Union, in the United Kingdom and internationally, had been profound.

The Cabinet -

1. Warmly welcomed the visit by the Prime Minister and the Foreign and Commonwealth Secretary as a positive and constructive step in furthering relations with the Soviet Union, and wished the Soviet Government and people every success in the process of political, economic and social development which the new leadership had set in train.

Chad

Previous

Reference:

CC(87) 12.3

THE FOREIGN AND COMMONWEALTH SECRETARY reported that, although the recent Chadian successes against Libyan forces represented a blow for Colonel Qadhafi, the President of Libya, his security apparatus was effective and his imminent overthrow was unlikely. France was taking seriously Colonel Qadhafi's threats of terrorist action against her.

China

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had had a useful meeting, for the fourth time within a year, with the Chinese Foreign Minister, Mr Wu Xueqian, in Berne the previous week, largely to discuss Hong Kong issues. He had sought to dispel Chinese suspicions on the issue of direct elections in Hong Kong. There had also been a

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discussion of internal developments in China, and bilateral and international issues. Such meetings helped to add to the United Kingdom's authority in Soviet eyes.

Visit of
Mr Walid
Jumblatt to
London

THE FOREIGN AND COMMONWEALTH SECRETARY said that the leader of the Lebanese Druze Community, Mr Walid Jumblatt, had visited London the previous week, when he had met the Minister of State, Foreign and Commonwealth Office, Mr Renton, and the Archbishop of Canterbury, Dr Runcie. Mr Jumblatt, who had been responsible for the security in Beirut of the Archbishop's Special Representative, Mr Terry Waite, had no fresh information on his whereabouts nor any suggestion for securing his release.

Iran/Iraq

Previous
Reference:
CC(87) 5.4

THE FOREIGN AND COMMONWEALTH SECRETARY said that tension had eased in the Gulf. Following the United States protest to Iran, there were no signs that she contemplated immediate military action. He had had a constructive discussion of the situation with the Soviet Foreign Minister, Mr Eduard Shevardnadze; and the Chinese Foreign Minister, Mr Wu Xueqian, had denied that his Government had supplied SILKWORM missiles direct to Iran. Consideration was being given to further action in the United Nations Security Council.

Greece/Turkey

THE FOREIGN AND COMMONWEALTH SECRETARY said that a potential crisis had arisen in the Aegean Sea the previous week, following the Greek Government's nationalisation of an oilfield in waters disputed between Greece and Turkey. Turkey, which had interpreted the decision as designed to extend Greek influence within these waters, had authorised petroleum licences within them and despatched an exploration vessel to the scene. Fortunately, the Turkish Prime Minister, Mr Turgut Ozal, had been in London and the Foreign and Commonwealth Secretary had spoken to him twice on the subject. Mr Ozal's decision to hold back the vessel had defused the situation. A way would have to be found to seek a solution to the problem of the Aegean continental shelf.

The Cabinet -

2. Took note.

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COMMUNITY
AFFAIRS

Agriculture

3. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Agriculture Council on 30-31 March had opened the discussion on the Commission's proposals for agricultural prices and related measures in 1987-88. This had indicated that the negotiations were likely to be both long and difficult. The Germans had taken a harsh line in opposition to the proposals. It was possible that a settlement would in the end be reached only by voting the Germans down, which would be very contentious.

Republic of
Ireland
Proposals on
Duty-Free
Goods

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that the new Government in the Republic of Ireland had presented a budget which, although otherwise containing the expected cuts in public expenditure, also contained a new provision changing the rules on duty-free allowances. The effect would be to make it no longer possible for people from the Republic of Ireland who crossed the border for a day's shopping trip in Northern Ireland to benefit from the present duty-free allowances on importing their purchases into the Republic of Ireland. This would seriously damage the benefits which the Northern Ireland economy and the United Kingdom Exchequer gained from the present arrangements. He understood that the Republic of Ireland would need a derogation from the Community Directive in order to make this change. The United Kingdom's interest was clearly to oppose the change.

The Cabinet -

Took note.

STATEMENT ON
THE DEFENCE
ESTIMATES 1987

Previous
Reference:
CC(86) 14.3

4. The Cabinet considered a memorandum by the Secretary of State for Defence (C(87) 5) on the Statement on the Defence Estimates 1987.

THE SECRETARY OF STATE FOR DEFENCE said that the underlying theme of the Statement was one of continuity of policy. It reflected developments in arms control negotiations and the domestic debate on North Atlantic Treaty Organisation strategy and Trident. The Statement repeated the previous year's warning that difficult decisions lay ahead in reconciling aspirations with the money available. He proposed to issue the Statement on 6 May, with a popular version, which would be available free of charge. If this was criticised, attention would be drawn to a recommendation made by the Select Committee on Defence that a low-cost popular version of the Statement should be issued, and to the Committee's welcome for the issue of a previous popular version free of charge.

In discussion, it was noted that the draft Statement would require further amendment, in particular to reflect the Prime Minister's visit to Moscow.

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THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the draft Statement on the Defence Estimates 1987, subject to any further detailed drafting amendments which should be forwarded to the Secretary of State for Defence by 6 April.

The Cabinet -

Invited the Secretary of State for Defence to arrange for the issue of the Statement on the Defence Estimates 1987, together with a popular version thereof, as he proposed.

OPENING THE
JAPANESE
MARKET

Previous
Reference:
CC(87) 12.3

5. The Cabinet considered a memorandum by the Secretary of State for Trade and Industry (C(87) 6) on Opening the Japanese Market.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY recalled that his memorandum was circulated in response to a request by the Cabinet following discussion at their previous meeting. The United Kingdom's general aim was to open up the Japanese market to British goods and services. There were also two specific aims: to gain early access to Japan for British financial institutions and services and to ensure that Cable and Wireless plc (C&W) got a fair deal in the current negotiations on Japanese telecommunications. The three aims might call for different means of action.

On general issues of trade with Japan, it was necessary to proceed as a member of the European Community. On financial services the Financial Services Act provided powers to refuse or revoke authorisation in the United Kingdom if reciprocal access to foreign markets were denied to United Kingdom firms. British companies had had some success in establishing a presence in banking and in securities in Japan, but major obstacles had been put up against access to the Tokyo Stock Exchange. The Parliamentary Under Secretary of State, Department of Trade and Industry (Mr Howard) would be in Tokyo the following week and would be energetically pressing the case for such access. He now proposed to make forthwith the Orders necessary to bring into effect the powers of the Financial Services Act in relation to banking and insurance. The powers in relation to investment could not be brought into effect immediately. If the Japanese did not produce, by the time of the further official talks scheduled for May, a satisfactory timetable for access for United Kingdom firms to the Tokyo Stock Exchange, the Government would then have to decide whether to use the powers on reciprocity in the Financial Services Act.

On C&W, the situation was changing. Clearly the Japanese Ministry of Posts was opposed to a separate consortium with C&W participation which would have the use of a new trans-Pacific cable. The Japanese Ambassador had informed him that a new proposal was being prepared in Tokyo, under which the two consortia competing for the Japanese telecommunications business would be merged. In the new consortium

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about 60 per cent would be allocated to a large number of small companies and 40 per cent would be divided equally between eight major companies including C&W which would also have a seat - whether executive or not was not clear - on the board. It seemed likely that C&W would not consider this good enough but in the absence of the Chairman abroad he considered that the Government should not prejudge their decision. If the result was unsatisfactory for C&W, the Government would have to consider possible courses of action. He had set out possibilities in paragraph 10 of his paper. He recommended in favour of a. in relation to telecommunications, although the effect might not be great. Points b. to e. were the responsibility of other colleagues. He did not himself favour them.

On opening up the Japanese market more generally, he had set out in paragraphs 14 and 15 of C(87) 6 the action which might be taken by the European Community. Some changes in the Commission's present proposals and some care in the choice of products would be necessary but, subject to this, he favoured tougher measures against the dumping of components, unbinding Community tariffs as justified by the enlargement of the Community, and comparable action to avoid diversion if the United States acted against Japanese exports. He also favoured reactivating the complaint against Japan under Article XXIII of the General Agreement on Tariffs and Trade (GATT), but he could not be sure that this would be fully supported by other countries. He had also referred in paragraph 15 of C(87) 6 to action without further recourse to GATT. That would be a drastic step and there would be serious consequences if the United Kingdom attempted it but failed to achieve it because of lack of support.

In discussion the following points were made -

- a. The case for making forthwith the Commencement Orders to bring into effect the reciprocity powers in the Financial Services Act in relation to banking and insurance was strong. It was also desirable that action on requests for authorisation for Japanese companies in the financial services field should not be brought to a conclusion at least until it was clear whether the visit of the Parliamentary Under Secretary of State, Department of Trade and Industry, to Tokyo had led to a timetable for improved access for British firms to the Tokyo Stock Exchange.
- b. On C&W the Government should not preempt the views of the company in respect of the expected announcement in Tokyo of revised proposals. It was not yet clear what the company's management role in a new consortium might be or whether any assurance about the next trans-Pacific cable could be relied on. If the result was not satisfactory, it would be right to decide to take reciprocity into account in deciding whether to grant telecommunication licences to foreign companies and in the telecommunications apparatus approvals procedure. The remaining suggestions in paragraph 10 of C(87) 6 on intellectual property, air services, work permits and share purchases should not be pursued.

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c. A recent negotiation on airline services with Japan had given good results for the United Kingdom. From 31 May there would be ten flights a week on each side, of which six would be non-stop. For the first time British Caledonian Airways would be operating to Japan. A large part of the traffic between London and Japan originated in Japan. The new arrangements would substantially increase the revenue of the two British airlines. It would be extremely damaging to suggest that any flights should be transferred from Heathrow to Gatwick or otherwise to call in question the recent agreement.

d. On opening the Japanese market the Foreign and Commonwealth Secretary would follow up with European Community Foreign Ministers that weekend the scope for action on dumping of components, unbinding of tariffs, measures to avoid trade diversion and the implementation of Article XXIII of GATT.

e. It would be useful also to follow up the suggestion made by HM Ambassador, Tokyo, that there were certain new products such as digital audio tape players on which the Japanese industry was staking a great deal and to which some special scrutiny might be applied.

f. Probably the greatest pressure on Japanese business so far had come from the rise in the value of the yen. The present stance was broadly to maintain the current relationships between the major currencies. It could be worthwhile, however, to sound out quite informally some Community colleagues and also the United States about the possibility of concerted action to bring about a further rise in the yen.

g. The press was still talking in terms of a trade war. It was important to avoid a mismatch between the tone of press and public comment and the more limited objectives and actions which the Government had in mind.

h. There was substantial external investment by Japanese institutions and companies in prospect. They would, for example, be major investors in Eurotunnel. It was important that nothing should be done to deter or divert elsewhere the potential benefits from such investment in the United Kingdom.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that -

a. Orders to bring into effect the reciprocity powers in the Financial Services Act in relation to banking and insurance should be made immediately. The Parliamentary Under Secretary of State, Department of Trade and Industry (Mr Howard) should press in Tokyo for a clear timetable for access for United Kingdom firms to the Tokyo Stock Exchange. In the light of that, the Government would decide whether to take action under the Financial Services Act. In

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the meantime applications from Japanese financial service companies for authorisation to trade in the United Kingdom should not be brought to a conclusion.

b. The case of C&W was a test of Japanese willingness to open up their market. The latest Japanese proposals did not seem promising, but the Government should await the views of C&W. If the result were judged unacceptable, the Secretary of State for Trade and Industry should take reciprocity into account in deciding on telecommunications licences to Japanese companies and in the telecommunications apparatus approvals procedure. The remaining ideas in paragraph 10 of C(87) 6 should not be pursued.

c. On opening up the Japanese market the options on dumping of components, unbinding Community tariffs and measures to avoid trade diversion set out in paragraph 14 a. to c. of C(87) 6 should be pursued. In addition, the Foreign and Commonwealth Secretary should sound out other Community Ministers about the possibility of reactivating action under Article XXIII of GATT. The suggestion of other retaliatory action without recourse to GATT should not be followed up.

d. The possibility of special scrutiny of other administrative action on imports of new products of particular interest to Japanese industry should be further examined by officials under Cabinet Office chairmanship.

The Cabinet -

1. Invited the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Secretary of State for Trade and Industry to be guided by the Prime Minister's summing up of their discussion.

2. Invited the Secretary of the Cabinet to arrange for the further official discussion referred to in the summing up.

Cabinet Office

2 April 1987

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