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CC(87) 29th
Conclusions

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CABINET

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

THURSDAY 22 OCTOBER 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 Lord Havers
Lord Chancellor

The Rt Hon Douglas Hurd MP
Secretary of State for the Home Department

The Rt Hon Peter Walker MP
Secretary of State for Wales

The Rt Hon George Younger MP
Secretary of State for Defence

The Rt Hon Norman Fowler MP
Secretary of State for Employment

The Rt Hon Tom King MP
Secretary of State for Northern Ireland

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment

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

The Rt Hon Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster

The Rt Hon John MacGregor MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland

The Rt Hon Paul Channon MP
Secretary of State for Transport

The Rt Hon John Moore MP
Secretary of State for Social Services

The Rt Hon John Wakeham MP
Lord Privy Seal

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

The Rt Hon John Major MP
Chief Secretary, Treasury

ALSO PRESENT

The Rt Hon David Waddington QC MP
Parliamentary Secretary, Treasury

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SECRETARIAT

Sir Robert Armstrong
Mr C L G Mallaby (Items 3 and 4)
Mr R G Lavelle (Items 3 and 4)
Mr A J Langdon (Items 1 and 2)
Mr S S Mundy (Items 1 and 2)

C O N T E N T S

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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.

Autumn
Statement

THE PRIME MINISTER said that all outstanding programmes had now been settled in that year's Public Expenditure Survey. The way was therefore clear for the Cabinet to consider the outcome and for the preparation of the Autumn Statement. In the previous year Ministers' effective presentations of their programmes at the time of the Autumn Statement had been a key factor in the success of the public expenditure exercise. It was essential that Ministers should mount a similarly well prepared operation that year. Equally, it was most important that Ministers should prevent any leakage of information about the Government's public expenditure decisions before they were formally announced. This requirement was given special importance by the current British Petroleum flotation. It was essential that nothing which might have or be thought to have a material bearing on the offer should be said by the Government until after that time.

The Cabinet -

Took note.

HOME AFFAIRS

Share Prices

2. THE CHANCELLOR OF THE EXCHEQUER said that in recent days share prices throughout the world had fallen dramatically. The collapse had begun on Wall Street, and had been quickly followed in other countries. On the London stock market, prices had fallen by 22 per cent between Thursday 15 October and Tuesday 20 October, before rallying by the close of business the previous night to a level 15½ per cent below that of Thursday 15 October. Similar falls had been experienced elsewhere in the world. What was striking was not so much the magnitude of these corrections, which had been expected by many observers for some time, but their rapidity. The initial crash in Wall Street appeared to have been precipitated by three main factors -

i. There had been a long running bull market which could not be sustained indefinitely.

ii. There was a growing lack of confidence in the United States economy where the budget deficit was not being reduced sufficiently quickly and very poor trade figures had been published the previous week.

iii. The United States Secretary of the Treasury had very unwisely stated the previous weekend that if West Germany did not prevent interest rates from rising, he would be content to see the value of the dollar fall. When the figures for the United States budget deficit for the fiscal year ending on 30 September were published

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they were likely to show a reduction in the deficit of some \$60 billion; but this would still leave a deficit of some \$160 billion which was far too high. It was clear that an increase in taxation to reduce the deficit was the single most important step which could be taken to restore confidence; there were some indications that the President of the United States might now be prepared to move in that direction.

Domestically, the slump in share prices was bound to dampen economic activity. Unless, however, confidence in the United States economy collapsed so markedly that it went into recession, there were no grounds for concern about the British economy which remained very strong. The fall in share prices should be kept in perspective: as things stood the events of the previous few days had done no more than return share prices to the levels which had obtained six months earlier. The Bank of England was keeping a very close eye on British banking and finance companies, and were satisfied that there was no reason for alarm.

It was unfortunate that the fall in share prices had coincided with the offer period for Government shares in British Petroleum. Unless the Stock Market were to recover by the close of the offer period on Wednesday 28 October, it was unlikely that the offer would contribute towards the Government's objective of widening share ownership. However, the offer had been fully underwritten on satisfactory terms before the Stock Market collapse had begun. There was no truth in reports in the media that the Government was considering extending the offer period.

The Cabinet -

1. Took note.

Storm Damage
in Southern
and Eastern
England

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that hurricane force winds in the early hours of Friday 16 October had caused devastation in Southern and Eastern England. There had been widespread damage to property and trees, roads and rail lines had been blocked, and electricity and telephone lines had been brought down on a massive scale. Much of the damage had been caused by falling trees. Most of the damage had been suffered by private individuals, a great majority of whom were protected by insurance. He had already announced that the existing financial arrangements to assist local authorities in emergencies - known as the Bellwin Scheme - would be available in the areas affected for the purpose of emergency work to repair the storm damage. Under this scheme, local authorities were responsible for the first tranche of expenditure and he had set the threshold for this at expenditure equivalent to the product of an exclusive penny rate for county councils and of 0.15 p for shire districts and the equivalents for London authorities. The Government would meet 75 per cent of expenditure incurred over and above the threshold. As to capital expenditure, prudent local authorities would have insured against

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damage of the kind which had been experienced. But those which had not done so would no doubt demand that the Government made resources available to them. The question whether such demands should be met would need to be addressed in due course. Resources were being provided for the planting of trees to replace those which had fallen, with special help being given to Kew Gardens, Wakehurst Place and the Royal Parks.

THE SECRETARY OF STATE FOR ENERGY said that about 7 million electricity consumers had been cut off immediately following the storm, 5½ million of whom had been reconnected within 24 hours. About 124,000 consumers were still without electricity and it was hoped that the vast majority of these would be reconnected by the following evening. Engineers had been brought in from other areas, trebling the normal workforce. An enormous effort had been made to repair the damage, but work had been hampered by continuing bad weather. Area boards had sought to keep in touch with communities which remained without electricity and were giving priority to those who were most vulnerable. Most area boards had insured against emergencies of this nature and would be able to absorb most of the costs involved. There was no question of any immediate rise in electricity prices.

THE SECRETARY OF STATE FOR DEFENCE said that the Meteorological Office were very concerned about the damage to their credibility caused by their failure to predict the full severity of the storm. He had asked for a full report from the Director General of the Meteorological Office and had invited Sir Peter Swinnerton-Dyer, the Chairman of the University Grants Committee, and Professor Robert Pearce, the Head of the Department of Meteorology at Reading University, to consider the findings of the report when they were available and to report their conclusions to him.

In discussion the following main points were made -

- a. Local authorities' expenditure up to the threshold would count as part of their total expenditure and would be subject to grant abatement in the normal way. This had attracted criticism. But prudent authorities could be expected to have made contingency allowances in their budgets for this kind of event.
- b. In providing assistance to deal with emergencies, it was vital for the Government to strike a proper balance between, on the one hand, avoiding accusations of parsimony and, on the other hand, being exploited by local authorities seeking Government funds for projects going beyond emergency repairs.
- c. If more than one emergency covered by the Bellwin Scheme were to occur in a single financial year, it would not be sustainable to expect local authorities to meet the first tranche of expenditure on each occasion. Instead, once local authorities had spent up to the threshold during the course of a financial year, expenditure above that limit on emergency work covered by the Bellwin Scheme should not attract grant penalties.

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THE PRIME MINISTER, summing up the discussion, said the Cabinet recognised the efforts which were being made to restore services following the damage caused by the very high winds in Southern England the previous Friday. They agreed that the Government should make clear that, where in the course of a single financial year a local authority had spent up to the threshold under the Bellwin rules, expenditure in connection with any further emergencies falling within the scheme during the same financial year should not attract grant penalties. It was important that local authorities' claims for Government grants should be processed with all possible urgency. The Government had been generous in making financial assistance available to help repair the damage and had a good story to tell.

The Cabinet -

2. Invited the Secretary of State for the Environment to be guided by the Prime Minister's summing up of the discussion.

Flooding in
Wales

THE SECRETARY OF STATE FOR WALES said that exceptionally heavy rainfall over the previous weekend had resulted in extensive flooding over a large part of South-West Wales and localised flooding in North Wales. He had already announced that Government assistance would be made available to local authorities in accordance with the Bellwin Scheme. There had been a train accident at Glanrhyd, which had resulted in the loss of four lives. This appeared to have been caused by the collapse of a bridge whose foundations had been undermined by flood water. There had been reports in the media that British Rail had failed to pass on flood warnings to the areas which stood to be affected. If this were true, it would be an appalling error. The collapse of the bridge had led to widespread concern about the condition of other bridges, with local authorities complaining that they had not been able to maintain their bridges adequately because of lack of resources.

Flooding in
Northern
Ireland

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that exceptionally heavy rain over the previous 36 hours had produced the worst flooding in Northern Ireland since records had been kept. The situation had been particularly bad in the west of the Province. The rain had now abated, and the floods had begun to diminish. The security forces had done a magnificent job in helping those worst affected; since the flooding was concentrated in predominantly nationalist areas, this should help to improve their relations with the minority community.

The Cabinet -

3. Took note.

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Prisons
Previous
Reference:
CC(87) 28.2

THE HOME SECRETARY reported on the current problems in the London prisons. The discussion is recorded separately.

Social
Security
Announcements

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that he would be making a statement on the following Tuesday announcing the level of the annual uprating of social security benefits and also announcing details about the starting levels for a number of the new arrangements flowing from the social security review and enacted in the Social Security Act 1986. Among the controversial points in his announcement would be the decisions on child benefit, the uprating of the previously published illustrative figures of the income-related benefits, and the budget for the Social Fund. Arguments about assistance for the disabled could also be expected when the contents of his announcement had been digested. The Government could produce strong arguments to support all the decisions. He would particularly wish to point to the effectiveness of family credit as a means of targeting help on poor families in work, and to the extent to which the vast majority of disabled people would gain under the new arrangements. He would ensure that his colleagues were provided with full briefing.

The Cabinet -

4. Took note.

FOREIGN
AFFAIRS

Iran/Iraq War
and the
Threat to
Shipping in
the Persian
Gulf

Previous
Reference:
CC(87) 28.4

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Government had been supporting the efforts of the United Nations Secretary General, Mr Perez de Cuellar, to obtain the implementation of Security Council Resolution 598 on cessation of hostilities between Iran and Iraq. The Government would also maintain the pressure for an arms embargo as a means of enforcing that Resolution. The Soviet Union continued to delay work by the permanent members of the Security Council on an enforcement Resolution. The Soviet Union was promoting the impracticable idea of a United Nations naval force in the Gulf. The chances of progress on the basis of Resolution 598 were not good. The war might continue for a considerable time.

The United States had responded to an Iranian missile attack on a Kuwaiti tanker carrying the United States flag by attacking on 19 October an Iranian oil platform on which military equipment had been installed. This had been widely recognised as a restrained reaction. The next Iranian action could not be predicted; it might be an act of terrorism or an attack on United States forces in the Gulf. It might become increasingly difficult for the United States to respond to Iranian actions in ways which would be both restrained and effective.

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The situation in the Gulf was more tense than ever before, and future developments were unpredictable.

Nuclear Arms Control
Previous Reference
CC(87) 8.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the United States Secretary of State, Mr George Shultz, was in Moscow discussing nuclear arms control and other matters with the Soviet Foreign Minister, Mr Edward Shevardnadze. Detailed talks between the United States and the Soviet Union had not made as much progress on the outstanding aspects of an agreement on intermediate range nuclear forces as had been hoped. But there seemed to be no insuperable problems. It still seemed probable that the date for a United States/Soviet summit meeting would be set in the near future; that meeting might now be in December 1987 or even January 1988, rather than in November as had earlier been envisaged.

Japan
Previous Reference:
CC(87) 12.3

THE FOREIGN AND COMMONWEALTH SECRETARY said that the outgoing Prime Minister of Japan, Mr Yasuhiro Nakasone, had designated Mr Noboru Takeshita to be his successor, the three candidates for the position having been unable to agree on which of them should have it. Mr Takeshita was a former Finance Minister. He was undramatic in style, but shrewd and an effective political operator. He was expected to follow the policies of Mr Nakasone.

Belgium

THE FOREIGN AND COMMONWEALTH SECRETARY said that the coalition Government of Belgium led by Mr Wilfried Martens, consisting of the Flemish and French speaking Christian Democratic and the Flemish and French speaking Liberal Parties, had resigned on 19 October. The principal reason was a long-standing dispute about language matters. There was also an underlying argument about economic management in Belgium. A transitional Government, led by Mr Martens and consisting of the same parties, had been established and might last some time, until elections were held.

Sri Lanka
Previous Reference:
CC(87) 27.2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the "Tamil Tigers" guerrilla organisation had launched an offensive designed to destroy the agreement between Sri Lanka and India on the restoration of peace between the communities in Sri Lanka. Massacres by the Tamil Tigers had left 200 dead and had caused 10,000 people to flee their homes. The President of Sri Lanka, Mr Julius Jayewardene, and the Indian peace-keeping force had responded very firmly. Over 100 Indian troops had been killed and 300 injured. The agreement between Sri Lanka and India

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was the best hope of ending the trouble and the Government would continue to support it.

Commonwealth
Heads of
Government
Meeting

THE PRIME MINISTER said that the Commonwealth Heads of Government Meeting in Vancouver from 13 to 17 October had passed off on predictable lines. The two major issues had been Fiji and South Africa.

There had been a tendency among some members of the Commonwealth to claim that the situation in Fiji was akin to that in South Africa. Others had argued that the situation in Fiji was a new one, that it was still fluid and that the Commonwealth should not react hastily. It had been pointed out that, when the political system in Grenada had been radically changed but that territory had not become a republic, the question of Commonwealth membership had not arisen. The reason why there was now an issue about Fiji was that the Governor-General had resigned and the country had become a republic. She and the Foreign and Commonwealth Secretary had worked to keep open the possibility that Fiji, although its Commonwealth membership had lapsed with its change of status, could return to the Commonwealth if it applied to do so as a republic. The Prime Minister of India, Mr Rajiv Gandhi, had been willing to leave the question open in this way. With the lapsing of its membership of the Commonwealth, Fiji would lose some development aid, but the United Kingdom should so far as possible continue to provide aid, which Fiji would badly need.

The African members of the Commonwealth which in 1986 had declared their intention to introduce sanctions against South Africa had not done so, for the good reason that the effects on the Front Line States would be catastrophic. These countries had reacted at Vancouver by trying to press others (and in particular Britain) to introduce more sanctions. But many people within South Africa who had been working for years against apartheid believed that a healthy economy there was the best mechanism for bringing more power to the blacks. She had made clear that the existing British sanctions against South Africa, which were designed to send a political signal, would stay in place, but that they would not be extended. She had suggested that British aid for the education of blacks in South Africa and aid to the Front Line States should be mentioned in the communiqué on the Heads of Government meeting; but this had not been agreed. Some smaller members of the Commonwealth had made clear privately to the British delegation that they were grateful for British aid but had been unwilling to speak up on the matter during meetings of the conference. There had been some ill-tempered incidents in the margins of the conference. Others had been highly critical, in speaking to the press, about the United Kingdom and the Prime Minister herself. The Canadian delegation had not been pleased when the British delegation had pointed out that Canada's trade with South Africa had increased in 1986, according to the latest figures available from the International Monetary Fund. During the discussion, the Front Line States had at least admitted for the first time that they were not in a position to undertake significant sanctions against South

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Africa and had recognised that change in South Africa would have to come from within. Overall, the discussion of South Africa at the Commonwealth Heads of Government Meeting had not been as difficult as at the previous meeting in 1985 or at the meeting in London in 1986 of the Heads of Government of seven Commonwealth countries.

In discussion of Fiji, it was noted that India might seek to obstruct any application by the republic of Fiji for resumed membership of the Commonwealth, unless arrangements were made which in the Indian Government's view should enable the Indian community in Fiji to participate properly in politics. New Zealand had introduced sanctions against Fiji, but Australia was showing restraint. There had been no move to reduce the United Kingdom's development aid, although some of the personnel who had been working in Fiji as part of the British aid programme were no longer there. The situation in Fiji was reasonably calm for the time being.

United States
of America

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that, during his visit earlier that month to the United States, he had held meetings with the Chairmen of the Boeing Corporation, General Motors Company and the Ford Company. The Chairman of General Motors had told him that its performance in 1987 would be inferior to that of Ford; this was the first time that this had happened. The Chairman had said that one for reason was that Ford had invested more in the United Kingdom than

~~this~~
General Motors, while General Motors had invested more in the Federal Republic of Germany. The Chairman said that General Motors needed to invest more in Britain.

Trident
Nuclear
Submarine
Programme

THE SECRETARY OF STATE FOR DEFENCE said that there was no truth in stories in the press that day which alleged that the missiles for the United Kingdom Trident submarines would be leased from the United States. The United Kingdom was purchasing the missiles from the United States at a cost of £1 billion. The warheads would be permanently in British hands. As regards the missiles, there had been no change in the arrangements announced in 1982. After some seven years in service each missile would go for refurbishment to the United States and would be replaced; the same number of missiles would always be in British ownership.

The Cabinet -

Took note.

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COMMUNITY
AFFAIRS

Future
Financing

4. THE FOREIGN AND COMMONWEALTH SECRETARY said that the meeting on 19-20 October of the Foreign Affairs Council had been mainly devoted to a long discussion of future financing. A positive feature was that the Commission was maintaining a robust position on stabilisers: the French were also looking for their adoption for all commodities. Elsewhere the Danish Chairman had shown an unhelpful disposition in some cases to look for compromises between alternatives put forward by the Commission or member countries, neither of which would be acceptable to the United Kingdom. The prospects for a conclusion at the December European Council remained in doubt, but the right problems were being addressed and the Government should keep up the pressure for one.

Agriculture

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Agriculture Council on 19-20 October had considered stabilisers for individual commodities. There was still a long way to go and he had stressed the need for urgent progress. He had made clear that the European Council would be looking for specific mechanisms and that agreement on frameworks would not suffice. He would be meeting the Danish Presidency before the next meeting of the Agriculture Council on 16-17 November, which was likely to be a protracted one. The Agriculture Council had also considered the Commission's proposals for income aids. These had attracted a wide range of critical comment from most member countries and at present the likelihood of early agreement here appeared small.

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22 October 1987

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LIMITED CIRCULATION ANNEX

CC(87) 29th Conclusions, Minute 2

Thursday 22 October 1987 at 10.00 am

Prisons:
Industrial
Action

Previous
Reference:
CC(87) 28.2

THE HOME SECRETARY said that more than half the prisons in England and Wales had now moved on to the Fresh Start working and pay arrangements on which the proper management of the prisons depended, but that a bitter rearguard action against Fresh Start was being fought by the staff at a few establishments including Wandsworth and two of the other big London prisons. The action took the form of refusing to accept prisoners above a prison's certified normal accommodation and there were now some 1,300 prisoners routinely being held in police cells around the country. This represented a dangerous diversion of police manpower and would mean that it would be very difficult to cope with any major problem of public order that might arise. The Prison Officers' Association (POA) was a divided union whose national executive committee had little control over local branches, a few of whom were capable of creating disproportionate disruption and of prolonging irresponsible activity indefinitely since their members did not lose pay thereby. The Wandsworth staff had, for example, been maintaining their action since the end of July. The Ministerial Steering Committee on Home and Social Affairs (H) had earlier that week agreed with his proposals that he should forthwith put the staff on notice that officers who refused to accept prisoners at their establishments would be suspended from duty, and he believed that the situation demanded that he should now take this step. Despite the POA's fragmentation, he was very conscious of the risks of escalation and he would do everything possible to ensure that the matter was dealt with on a localised basis, with the Government's action being seen to be focused exclusively on prisons such as Wandsworth where the staff were behaving quite unacceptably. In furtherance of that approach, he did not for the present propose to take action towards the suspension of facilities for the collection of POA subscriptions from pay at source, which H had agreed. The contingency plans for prison emergencies had been much improved since the incidents in the previous year and the police, on whom the initial contingent burden would fall, would prefer to see the contingency plans activated rather than to endure the indefinite diversion of police staff to the oversight of prisoners in police cells. If assistance was necessary beyond what the police could provide, there were back-up arrangements involving the Armed Forces. Looking further ahead, he thought it increasingly clear that a no-disruption arrangement would need to be

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imposed on the POA at the appropriate time, though he accepted the view of his H colleagues that this matter should be handled delicately in the meantime. The immediate question was whether he should proceed towards the suspension from duty of staff who were failing to work properly the following week, and he sought the Cabinet's agreement to his taking that step.

THE LORD PRESIDENT OF THE COUNCIL said that H had unanimously agreed that the POA could not be allowed to sabotage the Fresh Start arrangements. The London prisons were, however, a special problem. Not only were they very large establishments under the gaze of the media, but their staff had a long history of contumacious behaviour. He believed that it would be dangerous to provoke confrontation with all the London prisons at the same time, since there must be some doubt whether the police could cope with that situation. He greatly welcomed the Home Secretary's assurance that the dispute would be handled in a localised fashion, isolating individual establishments so far as possible.

THE PRIME MINISTER, summing up a short discussion, said that the disputes at issue were local ones. The Cabinet agreed that the Home Secretary should move towards suspending from duty those prison officers who were refusing to accept prisoners at their establishments the following week. The Home Secretary should further discuss the contingency arrangements for calling on the Armed Forces with the Secretary of State for Defence. The Cabinet would wish in due course to return to the question of no-disruption arrangements for the POA.

The Cabinet -

Invited the Home Secretary to proceed as the Prime Minister had indicated in her summing up of the discussion.

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22 October 1987

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