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CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 20 OCTOBER 1988
at 9.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

The Rt Hon Lord Mackay of Clashfern
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 Lord Young of Graffham
Secretary of State for Trade and Industry

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

The Rt Hon Kenneth Clarke QC MP
Secretary of State for Health

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 John Moore MP
Secretary of State for Social Security

The Rt Hon John Wakeham MP
Lord President of the Council

The Rt Hon The Lord Belstead
Lord Privy Seal

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

The Rt Hon John Major MP
Chief Secretary, Treasury

The Rt Hon Antony Newton MP
Chancellor of the Duchy of Lancaster

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon David Waddington QC MP
Parliamentary Secretary, Treasury

The Rt Hon Lynda Chalker MP
Minister of State
Foreign and Commonwealth Office

The Rt Hon Peter Brooke MP
Paymaster General

SECRETARIAT

Sir Robin Butler
Mr R G Lavelle (Items 3 and 4)
Mr A J Langdon (Items 1 and 2)
Mr N H Nicholls (Items 3 and 4)
Mr S S Mundy (Items 1 and 2)

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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. It would be announced that afternoon that Government business would be taken in the week beginning 14 November and that the 1988/89 Session of Parliament would open on Tuesday 22 November. The House of Lords would consider the Housing Bill in the following week and the Health and Medicines Bill was expected to be returned to the House of Commons on 25 October.

Le Quesne
Report on
Barlow Clowes

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that he proposed to publish later that day as a Parliamentary paper the report that he had received from Sir Godfray Le Quesne QC on the facts of his Department's handling of matters concerning the Barlow Clowes group of investment management companies. His statement in the House of Lords that afternoon would emphasise that the report was one of the most exhaustive ever volunteered by a Department of State into its handling of such matters. Exceptionally, he had decided that a number of internal submissions made to Ministers and other material which would not normally be published should be included in the published text of the report. The matters considered by the report extended over a period of years and it was necessary to consider his Department's actions in the context of the regulatory system that was in place at the time. For most of the period, the relevant law had been the Prevention of Fraud (Investments) Act 1958, under which tighter Regulations had been made in 1983, and which had been superseded by the Financial Services Act 1986, which had been brought into effect in instalments from December of that year. During virtually all the period in question, therefore, his Department had been operating with restricted and inflexible powers. The licences to deal in securities that had been granted to Barlow Clowes had been issued on the basis of assurances by solicitors and auditors on which the Department had been entitled to rely: the Department had never had sufficient evidence to justify the refusal of a licence, and the removal of a licence would not, in practice, have represented a clear-cut resolution of the company's affairs. So far as the Gibraltar-based company was concerned, his Department had never had any reason to suppose that this company required a licence, since it had purported to offer services to expatriates and non-residents only. No complaints or other approaches had been made to the Department about this company, and it had only recently become clear that the company had operated in the United Kingdom through intermediaries who only named Barlow Clowes to their prospective clients in private correspondence. His Department would, therefore, emerge from the Le Quesne report with nothing to substantiate any charges of maladministration against it. He would nevertheless send the report to the Parliamentary Commissioner for Administration with an assurance of his full co-operation in any investigation the Commissioner might wish to make. He had also received clear legal advice that his Department had no legal liability to investors who had lost money with Barlow Clowes, and he had decided that it would not be reasonable to use taxpayers' money to fund compensation to them.

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The liquidators of the United Kingdom company hoped that investors would receive at least 75p in the £, perhaps before Christmas, and even the distribution for the Gibraltar-based company would probably be more than 30p in the £, and was expected to be paid early in the New Year. Nevertheless, media and parliamentary opinion would not be prepared for the exoneration of his Department, and the argument would doubtless continue to be pressed that the licensing of Barlow Clowes carried with it a special obligation to the investors. The facts clearly demonstrated, however, that the Government had acted robustly throughout its time in office to tighten up the machinery for the protection of investors. It was not to blame for the shortcomings of the machinery it had inherited. The machinery now in place was far stronger than the arrangements in force during the events covered in the Le Quesne report, but no law could protect investors who recklessly put their money into unregulated off-shore funds. It could be expected that the report would attract attention to the role played in the Barlow Clowes affair by auditors and other professionals.

In discussion the following main points were made:

- a. Although the publication of internal submissions to Ministers should be presented as a most exceptional decision, not to be regarded as a precedent, there was no way of preventing it being quoted against the Government in the future. Publication of this material was, however, the only way in which the Department's actions could be satisfactorily explained. If this material was not volunteered straightaway there would be sustained pressure for some more formal investigation such as a Tribunal of Inquiry which would be bound to publish internal papers.
- b. Although the Le Quesne report provided no basis for charges of maladministration against the Department, a number of Members of Parliament could be expected to take up the matter with the Parliamentary Commissioner for Administration, who might well decide to investigate it.
- c. The Government would face questioning on whether a Barlow Clowes affair could happen again. The answer to that lay partly in the Financial Services Act, which had not been brought into full effect, and partly in emphasising to investors that there was no substitute for their own prudence. In particular, investors who needed the protection of a compensation scheme should be advised to deal with members of the Financial Intermediaries, Managers and Brokers' Regulatory Authority (FIMBRA).

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had agreed that the Le Quesne report should be published that day, and that the Secretary of State for Trade and Industry should make a statement on the lines of the draft he had shown the Cabinet. He should, however, strengthen the drafting of the statement at a number of points that had been discussed, to emphasise some key facts that underlay his Department's actions. It would be most important to emphasise the action that the Government had steadily taken towards improved investor

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protection, and the reassurance that the public could take in dealing with members of FIMBRA. In addition to the statements in both Houses, the Secretary of State should arrange for Members of Parliament to be given written briefing on the Le Quesne report that day.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of the discussion and invited the Secretary of State for Trade and Industry to proceed accordingly.

HOME AFFAIRS

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2. THE SECRETARY OF STATE FOR NORTHERN IRELAND said that he would be tabling later that day an Order-in-Council to change Northern Ireland law on the inferences which a court could draw if a suspect or an accused person remained silent when questioned. He understood that the Home Secretary would be announcing that afternoon that early legislation on this subject would also be introduced for England and Wales. He was grateful to the Home Secretary and the Lord Chancellor for their assistance in developing his proposals, which enjoyed the full support of the Lord Chief Justice for Northern Ireland. There might be criticism that the announcement was being made by Written Answer, but time would be provided for debates in both Houses. This change in the law was one of the series of initiatives against Northern Ireland terrorism, starting with the restrictions which the Home Secretary had announced the previous day on access to the broadcasting media by representatives of proscribed organisations in Northern Ireland or their political wings.

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The Cabinet

Took note.

3. THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that the State Visit by Her Majesty The Queen to Spain had so far gone well, underlining a major improvement in Anglo-Spanish relations over recent years. The Gibraltar issue had attracted media attention: there had been nothing new on this in speeches by The Queen or by the King of Spain, although the press had attempted to read new significance into Her Majesty's words. The record was being set straight by reference to the Prime Minister's clear statement of the Government's position in Madrid the previous month.

In discussion, it was noted that the Prime Minister of Gibraltar, Mr Joseph Bossano, was refusing to accept the agreement that had been negotiated with the Spanish Government over Gibraltar airport, and that he was also taking an intransigent line on other practical issues involving Spain. It was in Gibraltar's interest that solutions should be found to these problems and everything possible should be done to persuade Mr Bossano to co-operate in this.

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Vietnamese
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THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that a second round of talks with Vietnam had been held on 11-12 October to discuss the return of their boat people from Hong Kong. It had been agreed that comprehensive arrangements were needed for all who, under Hong Kong's new policy, failed to qualify as refugees; that the first priority should be to return all those, currently 350, who had asked to be repatriated to Vietnam; and that modest assistance with reintegration, through the United Nations High Commissioner for Refugees (UNHCR), should be provided for those returning. The outcome had been well received in Hong Kong. In responding to allegations that our policy was inhumane, it was being stressed that this policy was in accordance with international practice on the treatment of illegal immigrants, that it commanded the support of the UNHCR, who would run the repatriation programme, and that boat people were being screened according to UNHCR criteria to distinguish political refugees from economic migrants. Only 23 boat people had arrived in Hong Kong over the previous month, a considerable drop in immigration which demonstrated the deterrent effect of the new policy.

Yugoslavia

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that instability in Yugoslavia was increasing, due largely to the ambitions of the Serbian Party leader, Mr Slobodan Milosevic, the growth of Serbian nationalism, a decline in living standards and the bankruptcy of the Yugoslavia Federal leadership. At the Party Central Committee Plenum that had just ended, representatives of other republics had resisted Mr Milosevic's demands for change. A demonstration in Belgrade planned for 22 October had been officially postponed but protests by Mr Milosevic's supporters were likely to take place. Changes had been made at the Plenum in the Yugoslav leadership but their implications for future policy were at present unclear. It was essential to eschew political bickering and to tackle the country's economic problems; there was a danger that the measures recommended by the International Monetary Fund might not be implemented. There was no sign of the Soviet Union seeking to capitalise on the current unrest. The West could do little, but it was important that we should continue closely to monitor the situation with our Allies.

In discussion, it was noted that the federal structure of Yugoslavia compounded the problem of dealing with her serious economic difficulties.

Republic of
South Africa
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ference:
(88) 15.3

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that the discussions in Harare on 15 and 16 October between Dr Danie Craven, the President of the South African Rugby Board, and the Africal National Congress designed to bring about a non-racial South African rugby team, were a welcome development. It remained to be seen whether this move would be successful. If so, it could have implications for other sports. But there was some resistance within the South African Rugby

Board and the South African Government had objected to being by-passed. Anti-apartheid movements outside South Africa were suspicious of any attempt to dilute blanket sporting boycotts and the implications of the latest developments for the Gleneagles Agreement were not yet clear. If the agreement on rugby football were to come to fruition and were replicated in other sports, it would be necessary to review within the Commonwealth the existing policy of discouragement of sporting links with South Africa, although new Commonwealth members might follow the line promoted by the anti-apartheid movements. In the meantime, our public response should be cautious.

Romania

It was noted that press reports suggested that the Rumanian Government had cancelled plans to destroy villages occupied by Hungarian nationals within their territory. If so, this would be good news. The reports should be checked with the British Ambassador in Bucharest.

The Cabinet

Took note.

COMMUNITY
AFFAIRS

Informal
meeting of
EC Foreign
Ministers,
15-16 October

4. THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE said that the Foreign and Commonwealth Secretary had attended an informal meeting of EC Foreign Ministers in Yannina on 15-16 October. The subjects discussed had included East/West relations, Lebanon and Chile. While some had suggested it would be desirable to give Mr Gorbachev encouragement to further reform, the Foreign and Commonwealth Secretary had argued that the success of perestroika would turn on Soviet domestic events, not gestures from the West.

Agriculture
Council,
17-18 October

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the only decision reached at the meeting of the Agriculture Council on 17-18 October related to a reduction in the olive oil consumption subsidy. The cut agreed would reduce the budget by 167 million in the coming year. This saving would be on top of the reduction of £170 million secured by the management committee in the dairy sector. The achievement of continuing downward pressure on the budget had been supported by the United Kingdom and owed much to the robust performance of the Agriculture Commissioner, Mr Andriessen. The Council had also considered an income aid scheme put forward by the Commission in response to a remit from the European Council. He had expressed the view that the Commission's proposals were wrongly directed, not transitional in character and bordering on a social security system for producers. He had himself opposed the scheme for some time. It now appeared to be attracting criticism from a number of other member

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countries, including the French. The issue had been a major topic in his bilateral discussions the previous day with the French Agriculture Minister, Monsieur Nallet. The Council had given initial consideration to a further group of items: a revision of the support regime for beef, new proposals on sheepmeat and the agreement with New Zealand. These issues were likely to occupy much of the time of the Council over forthcoming meetings.

The Cabinet -

Took note.

Cabinet Office

20 October 1988

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