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of

CABINET CONCLUSIONS

1966

(CC (66) 1st–68th Meetings)

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Future policy. Proposed legislation to implement, as a limited measure, the Devlin Report. No radical reorganisation possible for at least two years; limited reforms based on Devlin Report to be carried out as a short-term measure. Publication of new draft Dock Labour scheme and negotiations for co-operation between employers and workers. A radical reorganisation of port ownership and control to be introduced by the Government in due course. C 54, 17 (7).

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Dissolution of Parliament: the Chancellor of the Exchequer to make a statement on the economic situation. 14 (2).

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Broad agreement that Government's longer term measures were rightly designed and should be continued and, where necessary, strengthened. Agreement also on the seriousness of the current situation and a general acceptance that further action would be necessary to deal with it. Further efforts needed so far as experts were concerned. Production, in the United Kingdom, of manufactured and semi-manufactured goods which were at present imported. The Ministry of Defence might be set a target for savings in expenditure both in terms of the Budget and of foreign exchange. A sustained effort by all Departments to increase industrial productivity. A high level of social benefits in relation to the level of taxation involved. Utilisation of television facilities, including the University of the Air, when established, for a sustained campaign of education and publicity on improvements in management and productivity. Pruning of programmes of public expenditure. C 99, C 100, C 101, C 102, C 103. 35.

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Alternatives in our future relationship with Europe. A meeting of Heads of Governments of our EFTA partners should be called to discuss an approach by the United Kingdom to the EEC. Early visits should be made by the Prime Minister and Foreign Secretary to the EEC capitals to ascertain conditions and timing of United Kingdom entry into the EEC. The Government should declare its intent to sign the Treaty of Rome subject to our problems of capital movements and agricultural policy being given satisfaction. 53 (2).

Conference between Heads of Governments of EFTA countries should be called to meet in London in early December; this announcement to coincide with the declaration re-affirming our willingness to enter the Community, and the proposal for the Prime Minister and Foreign Secretary to visit the Heads of Government of the Six. A full statement of Government's attitude to Europe should be made by the Prime Minister at the January meeting of the Consultative Assembly of EFTA. Nature and timing of consultations with the United States and Commonwealth Governments over our further moves towards Europe, and our future course of action if these moves failed were to be decided. C 146, 54 (4).

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Approval of draft statement on Government's position in relation to the EEC and of draft answer to a supplementary question about the Treaty of Rome. C 155, 56 (3).

Report by Foreign Secretary on meeting of EFTA Heads of Governments and of Finland held at Lancaster House on 5th December. Commonwealth Secretary to send brief report of conference to Commonwealth Government. 64 (2).

Discussion between Foreign Secretary and a number of Foreign Ministers. Meeting with President de Gaulle: his attitude towards sterling. Need to keep other Commonwealth Governments closely informed about our approach to the EEC. Commonwealth Conference to be avoided. 67 (2).

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Speech of the Chancellor of the Duchy of Lancaster at the Western European Union: inaccuracy of Press report that the United Kingdom had decided in principle to seek entry into the Community—his speech had only reflected the views on policy expressed in earlier Ministerial statements. 33 (3).

Relations with Europe: views expressed in the Foreign Secretary's guidance telegram to overseas missions. Detailed studies of the issues that would arise from United Kingdom's entry into the Community now in course of preparation; further discussion by the Cabinet of policy issues involved would await these studies. 34 (2).

Statement to be made in House of Commons on 10th November on position of Government in relation to the Community. C 149, C 150, 55 (2).

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The Government's economic measures: relief in EFTA that further trade restrictions had not been imposed. 40 (1).

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United Kingdom participation in ELDO: the proposal for the development of an improved version of the ELDO-A launcher (ELDO-PAS) and postponement of the United Kingdom's withdrawal. Possibility of a reduction in the United Kingdom's financial commitment. Political implications of withdrawal. European dependence on the United States for launchers. Possible reaction of the French Government and the effect on the Concord project. The United Kingdom to terminate the ELDO commitment as soon as practicable. C 73, 26 (5).

Termination of the United Kingdom financial commitment to ELDO: legal implications—a liability to continue? Possibility of consequential damages if international legal proceedings were instituted. Relative costs of withdrawal from, and continued participation in, ELDO. Risk of damage to the prospects of securing European co-operation in other technological projects. ELDO Council Meeting in Paris: the Minister of Aviation to re-emphasise the reasons for the reluctance of the United Kingdom to participate further, but to indicate that a recommendation would be made to reconsider the position of the further stages of the ELDO-A enterprise, including the PAS system, could be negotiated on more favourable terms. Conditions under which renewal of negotiations would be considered. C 75 27 (2).

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Discussions with the Farmers’ Unions; demand for an increase in guarantees—the Government’s view that guarantees could be increased to achieve a fully agreed settlement if further increases were restricted to cereals, pigs and sheep; the price of milk could not be increased further. A statement containing certain assurances to the industry but without specific commitment—to be included in the White Paper. C 51, C 53, 17 (6).

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VISIT OF FEDERAL GERMAN CHANCELLOR.

Implications of French withdrawal from NATO. Attitude to be maintained by the United Kingdom Government towards France and NATO. 17 (5).

Indications of concern in France at the reactions of the other NATO powers to the French Government’s announcement of their withdrawal from NATO. 23 (2).

Visit of the French Prime Minister and Foreign Minister: little concrete result—investigation of French suspicion that United Kingdom policy in NATO was motivated by hostility; further agreement in respect of the Channel Tunnel; Concord programme: attempts to obtain a review of the programme in view of the rising costs—unsuccessful. The French Government determined to continue the project. 36 (2).

France: General de Gaulle’s Policy over the next two years. C 16.
FRANKS COMMITTEE
See Prices and Incomes Policy.

FURTHER EDUCATION
See Public Expenditure.
Higher Education within the Further Education System. C 70.

FUTURE GOVERNMENT POLICY
See Legislative Programme, 1966-67.

FUTURE LEGISLATION
See Legislative Programme, 1966-67.

GAS INDUSTRY
See also—
Public Expenditure.
Winter Emergencies.

Agreement between the Gas Council and the British Petroleum Company on the supply of gas from the North Sea: negotiated price cheaper than Algerian and Nigerian methane gas and of a higher quality than the Dutch. The price fixed would be subject to renegotiation at a later date. The Minister of Power to make a statement on the agreement. 5 (5).

GEDDES REPORT
See Shipbuilding Industry.

GENERAL DE GAULLE
See—
France.
North Atlantic Treaty Organisation.

GENERAL ELECTION
See Parliament.

GENERAL POST OFFICE
See Reorganisation of the Post Office.

GERMAN OFFSET AGREEMENT
See Super VC-10s for Middle East Airlines.

GERMANY, FEDERAL REPUBLIC OF
See also—
Germany: Tripartite Talks.
North Atlantic Treaty Organisation.
Public Expenditure.
Visit of Federal German Chancellor.

Foreign Secretary's visit would still be undertaken despite uncertainty about the position of the Federal Government. 54 (2).

GERMANY: TRIPARTITE TALKS
President Johnson's proposal that the United States Government should place orders to the value of £12.5 million in the United Kingdom provided no change is made in our "troop and supply dispositions in Germany" until completion of tripartite talks and that we then concert with United States on any changes in the light of these talks—agreed.
Programme for construction of barrack accommodation and married quarters for troops whom it might be necessary to withdraw from Germany in second half of 1967, as well as for troops withdrawn from other theatres in accordance with conclusions of Defence Review, to be considered. 61 (2).
Terms of statement to be made before the end of the year about acceptance of United States offer of $35 million related to maintenance of our forces in Germany at present level up to end of June 1967, to be considered. 65 (3).

GHANA
The Government taken over by the Army and Police during the absence of President Nkumah on a visit to North Vietnam and Communist China—too early to determine success of the coup.
No information yet available about the position of the United Kingdom military mission. 13 (2).

Official denial of the Press allegation that Dr. Nkrumah, the recently deposed President of Ghana, had been denied asylum in the United Kingdom. 16 (2).
GIBRALTAR
Discussions between the Foreign Secretary and the Spanish Minister of Foreign Affairs. A premature Press statement issued by the Spanish Minister on proposals for a convention between the two Governments to cancel the Treaty of Utrecht and the reversion of Gibraltar to Spain, with safeguards for the citizens of Gibraltar, and certain provisions on defence: to be signed and registered in the United Nations. A counter-statement to be issued by the Foreign Secretary. Spanish frontier restrictions and the British boundary fence. Possibility of a plebiscite in Gibraltar to counter the views put forward by the Spanish Government both in the United Kingdom and at the United Nations. 25 (2).

Discussions between United Kingdom and Spanish officials on the Gibraltar dispute: Spanish officials to report the proposals to their Government—the reply would probably be unfavourable. The possible withdrawal, by the Spanish Government, of permission for overflights by United Kingdom military aircraft—such a withdrawal would not have serious consequences to United Kingdom interests unless the French Government similarly withdrew permission. 39 (3).

Proposals to Spanish Government looked unlikely to be accepted. If this was the case the United Kingdom would propose submitting the matter to the International Court of Justice. 43 (2).

It had been publicly announced that the dispute should go before the International Court of Justice. 51 (4).

GRIGG FORMULA
See PRICES AND INCOMES POLICY.

GUILLOTINE PROCEDURE
See PARLIAMENT.
IMMIGRATION OFFICERS
Revised Instructions to Immigration Officers. C 104.

INCOME TAX
See SOCIAL SERVICES.

INCOMES
See PRICES AND INCOMES POLICY.

INDEPENDENT TELEVISION AUTHORITY (ITA)
See BROADCASTING AND TELEVISION.

INDIA
See—
NUCLEAR TESTS.
SOVIET UNION.
VIETNAM.

INDONESIA
Reorganisation of the Government by President Sukarno: Army’s participation reduced but not excluded. Confrontation continued but liable to be weakened by internal unrest. 15 (2).

Indications from the Indonesian Government of the goods they wished to obtain with the United Kingdom £1 million grant: the goods could be supplied, for the most part, by United Kingdom industry. Confrontation: the Indonesian Government held publicly to their policy, but in private exchanges of views had indicated agreement to a face-saving formula; no such formula found which would be acceptable to both the Malaysian and Indonesian Governments. 24 (2).

The Foreign Secretary to visit Mr. Adam Malik, Deputy Prime Minister and Foreign Secretary of Indonesia, at Djakarta on his return from Canberra—subject to three conditions: that there was no recrudescence of hostilities between Indonesia and Malaysia; that the Bangkok Agreement between Indonesia and Malaysia had been ratified; and that such a visit would not damage Mr. Malik’s position in Indonesia. Consideration to be given to whether a military adviser should accompany the Foreign Secretary. 27 (4).

Discussions at Bangkok between representatives of the Malaysian and Indonesian Governments: outcome uncertain, but reason to hope for end of confrontation. Military clashes in Sarawak involving Australian troops—no evidence of withdrawal of Indonesian forces. President Sukarno opposed to ending confrontation, but public demonstrations in Indonesia in favour of the Bangkok Agreement. Proposed visit of the Foreign Secretary to Djakarta: further military incidents in Borneo could lead to cancellation of the visit. Possible exploitation of internal political disputes in Malaysia by Indonesia if no genuine desire to end confrontation existed. 29 (2).

The meeting of the People’s Consultative Assembly not wholly favourable: President Sukarno’s powers only partly diminished and the Bangkok Agreement on ending of confrontation not ratified. Withdrawal of United Kingdom troops from Borneo as soon as possible after implementation of the Agreement—a timetable for doing so to be put forward by the Secretary of State for Defence on his return from the Far East. Little progress so far in discussions with the Indonesian Economic Mission which was seeking aid and the repaying of debts to the United Kingdom: the United Kingdom pressing for compensation for property owned by United Kingdom individuals and firms nationalised by the Indonesians. 36 (2).

Formation of new Indonesian Cabinet—considerably smaller than its predecessor and all but one of President Sukarno’s supporters had been dropped. The new Finance Minister expected to be more effective in dealing with economic problems and sympathetic to compensation for the assets of United Kingdom firms which had been nationalised. The appointments represented a further setback for President Sukarno but the outcome was still uncertain. 40 (1).

The Bangkok Agreement should be ratified, despite President Sukarno’s reaffirmation of confrontation. Malaysian Government to take full military responsibility in the Borneo territories. 42 (2).

The Agreement would be signed in Djakarta in the course of the week. Mutual recognition of Indonesia and Malaysia would follow the holding of elections in the Borneo territories. 43 (2).

INDUSTRIAL DISPUTES
See also—
DISCLOSURE OF OFFICIAL INFORMATION.
PRICES AND INCOMES POLICY.

Threat of a National Rail Strike—
Meeting of the Ministerial Committee on Emergencies postponed to avoid adversely affecting the efforts to avoid the strike. It was now essential that the necessary precautionary measures were taken. 5 (6).

A meeting between the First Secretary of State, the Minister of Labour and the Minister of Transport and a negotiating committee representing the railway unions; the Government were prepared to agree to concessions on fringe benefits. Proposals apparently acceptable to the unions other than the National Union of Railwaymen. Maintenance of essential supplies and services: arrangements made by the Ministerial Committee on Emergencies. Decision to be made on the date when the Emergency Regulations should be laid before Parliament. An early Government statement should be made. C 31, 7 (3).
INDUSTRIAL DISPUTES (continued)

Seamen's Strike—

Origin of the dispute in the 1965 agreement. Owners' offer. Talks between the Minister of Labour and the leaders of the National Union of Seamen (NUS). The Trades Union Congress to see the NUS. Position grave—a strike possible. Economic consequences. Effect on the prices and incomes policy if the seamen's demands were met in full. Emergency powers—regulations ready. The possibility of a meat shortage in Southern England. Arrangements for supplying Scottish and other islands. Preparations for the clearance of berths in ports by the navy, the availability of service personnel, the effective action of the strike spreading to the docks. The Prime Minister to consider further the possibility of personal intervention in the negotiations before the commencement of the strike. 24 (3).

Full effects of the strike not yet apparent. Governmental intervention contrary to the national interest, prices and incomes policy; economic consequences of any further concessions on pay and conditions—proposals by the Trades Union Congress open to this objection. The possibility of setting up a Court of Inquiry into the dispute and into conditions at sea at a later stage—suggested terms of reference. A Proclamation of an Emergency to be made before the Whitsun Recess. The Minister of Labour to invite representatives of the National Union of Seamen and the Shipping Federation to see him. 25 (3).

A further discussion between the Minister of Labour and the National Union of Seamen: the union's position appeared to have hardened; members' attitude unlikely to change yet. A Court of Inquiry to be established: terms of reference. Implications of the Court's report on the prices and incomes policy. Congestion at the docks not as serious as expected—not yet necessary to clear berths with naval tugs. Emergency Regulations implemented by the Ministry of Transport only. The establishment of Port Emergency Committees; services to the Western Isles; fuel supplies to the Western Hebrides; use of naval vessels. The Northern Ireland Government to proclaim a state of emergency in Ulster. 26 (3).

Rejection of the interim Report of the Court of Inquiry (The Pearson Report) by the National Union of Seamen (NUS). Acceptance of the Report by the owners. The Trades Union Congress (TUC) to meet the Executive Committee of the NUS. Forfeiture of public support by the NUS likely. The recommendations of the Report. The Government to maintain public services and to limit the damage to the economy. A statement to be issued calling on both parties to accept the Court of Inquiry's proposals. Emergency action to be limited to cases of necessity—avoidance of provocative measures. C 74, 27 (3).

The interim Report of the Court of Inquiry—Trades Union Congress (TUC) view that possible agreement might be reached if additional concessions on leave were made. The shipowners not prepared to exceed the Report's recommendations. The effect of concessions on the prices and incomes policy and the policy of full employment. Discussions to be held between the Minister of Labour and the TUC; in the light of their reactions the possibility of seeing the Executive of the National Union of Seamen. If any compromise proposals compatible with the prices and incomes policy were found the Cabinet would be consulted. 28 (1).

Discussions held by the Prime Minister and the Minister of Labour with the Trades Union Congress, the National Union of Seamen (NUS) and representatives of the shipowners: the NUS apparently more concerned with the retention of leave rights than of the 40-hour week. A concession offered by the shipowners of leave in lieu of overtime was expected to change the Government's position. Of wages and the prices and incomes policy. Renewal of the Proclamation of Emergency. Consideration of increasing the leave entitlement of seamen envisaged in the interim Report. The possibility of an investigation into the structure of the shipping industry. 29 (3).

Decision of the National Union of Seamen to continue the strike: the Prime Minister's statement to the House of Commons. Emergency Powers—avoidance of provocative action which could have serious industrial consequences. Damage to the economy of the Scottish Islands. Delays to exports—use of foreign ships and air freight. Renewal of the Proclamation of Emergency; Port Emergency Committees to be constituted. C 84, C 85, 30 (1).

Offer by Lord Pearson, Chairman of the Court of Inquiry, to mediate in the dispute. The General Secretary of the Trades Union Congress to seek to persuade the Executive of the National Union of Seamen to accept the offer. Maintenance of the movement of goods to and from the Scottish Islands—further action, use of RAF planes to move exports—to be further considered. Avoidance, at this stage, of any precipitate action which could prejudice the ending of the strike. 31 (2).

Acceptance by the National Union of Seamen (NUS) of Lord Pearson's offer of mediation. Shipowners' proposals for improved productivity involving overtime and leave entitlement, and a NUS suggestion for a reduction in the number of men on deck watches in ships of over 2,500 gross tons—the two proposals would yield a further nine days leave and could be acceptable under the prices and incomes policy. Opposition by militant union members but the moderates were now more likely to assert themselves. A possibility of a settlement in the near future: attitude of the owners and the NUS—indications that the strike had become a struggle for power within the union. Emergency measures—action to be further postponed to await the outcome of discussions. 32 (1).

INDUSTRIAL REORGANISATION CORPORATION

INDUSTRY
See—
INDUSTRIAL DISPUTES.
PRICES AND INCOMES POLICY.
PUBLIC EXPENDITURE.

INFORMATION SERVICES
See also DISCLOSURE OF OFFICIAL INFORMATION.
Information Services—
inquiry by the Lord President with the current presentation of information to the public; to see what improvements could be made. 47 (1).
Greater co-ordination in public presentation of the Government's policy without impairing the responsibility of individual Ministers. 54 (3).

INTERNATIONAL MONETARY FUND
See ECONOMIC SITUATION.

INVESTMENT INCENTIVES

IRAN
Dispute between the Government of Iran and the international oil consortium: possible reluctance of the United States members of the consortium to accept the need for concession to Iranian Government views and risk of unilateral action by the latter. 38 (2).

IRISH REPUBLIC
The fiftieth anniversary of the Dublin Easter Rising in 1916: a possibility that members of the Irish Republican Army (IRA) might seek to create disturbances in Northern Ireland and in Great Britain during the Easter period. Precautions against violence already taken by the Home Secretary: Departmental staffs of certain Ministries to be available at short notice in case the IRA should attempt to interrupt public services. 18 (2).

IRON AND STEEL NATIONALISATION
See also LEGISLATIVE PROGRAMME, 1966-67.
Provisions of the Bill not to be extended to cover the British Iron and Steel Federation (BISF).
Proposals submitted by the BISF and by individual firms on the future organisation of the industry were unacceptable: any change from the basis of 100 per cent Government ownership would involve delay in the passing of the Bill. Timing and introduction. The leaders of the steel industry to be consulted on the best technical organisation of the industry within the ambit of the present Bill. C 69, 25 (4).
The Government's views on reorganisation and public ownership indicated to the industry. Representatives of the British Iron and Steel Federation had now given their views on nationalisation and were issuing a Press statement. Their proposals not acceptable to the Government. The Minister of Power to meet representatives of the industry to consider how nationalisation measures could be put into effect. 28 (2).
Basis of compensation to companies approved by the Cabinet. 33 (2).
Lord Melchett invited to serve as Chairman of the Organising Committee, and subsequently of the National Steel Corporation. C 133, 48 (5).

J

JENKINS REPORT

JUSTICES OF THE PEACE
See APPOINTMENT OF JUSTICES OF THE PEACE IN ENGLAND AND WALES.

K

KAUNDA, PRESIDENT
See RHODESIA.
LAGOS
See Rhodesia.

LAKES
See Leisure in the Countryside.

LATIN AMERICA
Foreign Secretary’s tour of Peru, Chile and the Argentine: much to be done commercially to make up ground lost by the United Kingdom over recent decades—a greater appreciation of real economic priorities by Latin American Governments suggested that these countries would be more reliable customers in future. Despite the possibility of Communist or military dictatorships assuming power there was a prospect of the emergence of a number of democratic régimes. 2 (1).

British Policy towards Latin America. C 76.

LEAKAGES OF INFORMATION TO THE PRESS
See Disclosure of Official Information.

LEASEHOLD REFORM
See also Legislative Programme, 1966–67.

Previous proposals too confiscatory; alternative proposals submitted by the Ministerial Committee. Leaseholder to be entitled to enfranchise, subject to qualifications as to length of lease and period of occupation, at site value plus any development value as determined by the Land Commission; or to an extension of the lease at a modern ground rent on the expiry of the original lease. The freeholder to have the right to resist enfranchisement or extension on the ground of greater need; or during the extension the right, on cause shown, of compulsory possession for redevelopment. The scheme to apply to leases held from public authorities with modifications on development rights. Objections to the scheme. Proposals accepted, subject to further consideration of the right of the freeholder to resist enfranchisement on the ground of redevelopment. A draft White Paper to be submitted. C 29, C 30, 7 (2).

Draft White Paper: Leasehold Reform in England and Wales. Landlord to have the right to resist enfranchisement or extension of the lease if he required the house for occupation by himself or his family and if his hardship would be greater than the leaseholders. The landlord would not have the right to resist enfranchisement or extension of the lease on the ground that he wished to redevelop the property. Amendments to text. Publication. C 36, 11 (3).

LEBANON
See Super VC-10s for Middle East Airlines.

LEGISLATIVE PROGRAMME FOR 1966–67
See also—
PARLIAMENT.
Pirate Broadcasting.
Social Services.

The desirability of avoiding the pressure of business to which Parliament had been subjected in previous Sessions. Important Bills to be phased over several Sessions. The Leasehold Reform Bill and an amended Road Safety Bill to be added to the main programme for 1966–67; certain Bills to be placed on the reserve list. Bills for consideration for addition to the main programme. C 56, 18 (4).

Companies Bill and the Report of the Committee on Company Law (the Jenkins Committee): Bill’s exclusion from the programme of legislation for the 1966–67 Session liable to arouse criticism. Unless the present Bill could be taken in the present Session there would be no legislation on the more urgent issues relating to companies for up to three years. Discussion to be resumed. C 61, 19 (5).

Companies Bill: need for early legislation. Consideration to be given to the desirability of appointing a committee of Ministers to examine the proposals for a comprehensive Companies Bill for possible introduction in the 1967-68 Session, or, if preferable, the introduction of a shorter Bill in the current Session. C 61, 20 (2).

Ministry of Social Security Bill: Bill to pass through all its stages before the Summer Recess. Parliament to sit until 5th August. The Lord President to further consider the Parliamentary Time table with a view to ensuring that the Iron and Steel Bill, the Prices and Incomes Bill and the Industrial Reorganisation Corporation Bill receive a Second Reading before the Summer Recess. C 67, 23 (3).

Homosexual Law Reform: Mr. Abe’s Bill should be given a half day of Government time, although they would not be committed to giving it any further time. The Government’s attitude should be one of neutrality, and a free vote should be allowed. C 144, 52 (3).
LEISURE IN THE COUNTRYSIDE

Draft White Paper—Leisure in the Countryside: England and Wales. Proposals for the reconstruction of the National Parks Commission with wider functions; the encouragement of local initiative in the provision of facilities in the countryside; the empowering of county councils and local authorities to create and provide “country parks” picnic places, camping sites; the improvement and preservation of woodlands, the removal of eyesores and the purchase of land; the provision of facilities for the recreational use of lakes and waterways. A grant at the rate of 75 per cent to be paid to local authorities for new work in the countryside. Amendments to draft; publication of the White Paper. C 39, 13 (3).

LOCAL AUTHORITIES

See—

LEISURE IN THE COUNTRYSIDE.
LOCAL GOVERNMENT FINANCE.
LOCAL GOVERNMENT REORGANISATION.
PUBLIC EXPENDITURE.


LOCAL GOVERNMENT FINANCE

See also LOCAL GOVERNMENT REORGANISATION.

Changes in the system of financial assistance to local authorities; grants structure: roads and revenue grants. The shift of a major part of the rates burden from ratepayer to taxpayer—not possible at present due to the high level of national taxation. Grants system—a report to be prepared. The charging of rates as a business expense by commerce. Additional Exchequer assistance to be concentrated on the domestic ratepayer. All possible sources of supplementary local revenue to be pursued. Use of computers. C 1, C 2, 2 (2).

Proposal for a separate grant for education services—not to be pursued. Grants for the improvement and construction of highways to remain at 75 per cent. Additional assistance to be given to local authorities for the relief of domestic ratepayers and a grant for highways maintenance by county borough councils, and the Greater London Council. Need for a long-term and radical review of local authority finance including the rating system and Government grants. C 17, C 20, 4 (3).

Draft White Paper: rating system—a temporary measure to ease the ratepayer’s burden, until a reform of local government structure made major changes to be made in the structure of local government finance. No commitment that the Government would either retain or abolish the rating system. A possibility that eventual developments might replace the rating system by other sources of revenue such as a local income tax. Amendments. Publication. A similar White Paper on Local Government in Scotland to be published simultaneously. C 37, 12.

LOCAL GOVERNMENT HOUSING

See PUBLIC EXPENDITURE.

LOCAL GOVERNMENT REORGANISATION

See also LOCAL GOVERNMENT FINANCE.

Necessity for a radical enquiry into the functions and organisation of local government in England: the present standing structure inadequate; the relationship between the size of local authorities and their modern functions and the historic division between town and country no longer appropriate. A Royal Commission to be appointed. The current reorganisation being considered in Wales to continue without interruption. Separate enquiries for England and Scotland—the Secretary of State for Scotland to consider the appointment of a body for Scotland. C 6, C 15, 4 (4).

Proposed Royal Commissions on the Reorganisation of Local Government in England and Scotland: terms of reference and organisation. Exclusion of Greater London from the terms of reference of the English Commission. Consideration to be given to the appointment of specialist staff from the Ministry of Transport to assist the English Royal Commission and to the desirability of reviving the practice of appointing paid Assistant Commissioners to Royal Commissions. C 68, 23 (4).

LONDON

See TRANSPORT POLICY.

LORD CHANCELLOR

A message of sympathy on the death of his wife. 17 (1).

LORDS, HOUSE OF

See REFORM OF THE HOUSE OF LORDS.
MAGISTRATES
See Appointment of Justices of the Peace in England and Wales.

MALAYSIA
See INDONESIA.

MARINE BROADCASTING (OFFENCES) BILL
See PIRATE BROADCASTING.

MIDDLE EAST
See—
DEFENCE REVIEW.
SUPER VC-10s FOR MIDDLE EAST AIRLINES.

MILITARY AID
See PUBLIC EXPENDITURE.

MILK
See FARM PRICE REVIEW.

MINISTER OF TECHNOLOGY
See CABINET.

MONETARY FUND
See ECONOMIC SITUATION.

MOTOR INDUSTRY
Rootes Motors in serious difficulties. An injection of further capital by the end of January 1967 essential. An application by Rootes to the Treasury for permission to increase Chrysler holding to give them complete control. Negotiations to maintain British control. 67 (5). Government approval should be given to a further investment in Rootes Motors by Chrysler involving the passing of voting control to Chrysler, subject to the Board of Chrysler confirming their willingness to give undertakings to Her Majesty's Government (which would be for publication). 68 (2).

NATIONAL ASSISTANCE
See SOCIAL SERVICES.

NATIONAL BOARD FOR PRICES AND INCOMES
See—
ECONOMIC SITUATION.
PRICES AND INCOMES POLICY.

NATIONAL HEALTH SERVICE
See PRICES AND INCOMES POLICY.

NATIONAL INSURANCE
See—
PARLIAMENT.
SOCIAL SERVICES.

NA VY
See DEFENCE REVIEW.

NEWSPAPER INDUSTRY
Consent given to a proposal that The Times and The Sunday Times should come under common ownership. Any demand in Parliament for a general debate on the newspaper industry in the New Year should be agreed to. 67 (4).
NIGERIA

Strong opposition in the North to recent constitutional proposals for a unitary Government put forward by the Military Government. A possibility of disorder and riots which would threaten the Government's position. 29 (2).

A further meeting in Nigeria. Major-General Ironsi kidnapped and possibly killed. Lieutenant-Colonel Yakubu Gowan had assumed charge of the Government. Advice by our High Commissioner and the United States Ambassador against promoting the secession of the North from the Federation. 41 (3).

Little prospect of further progress in the constitutional conference; threats of secession by the Eastern Region and a risk of pre-emptive action by the central authorities. 48 (1).

The army incapable of controlling the situation. The police were doing their best to do so. Provisional arrangements for the evacuation of United Kingdom citizens in case law and order broke down completely. 50 (2).

A general breakdown of the Federation might be avoided. A possibility of a mission of Commonwealth representatives which might help to bridge the gap between the Northern and Eastern Regions. United Kingdom nationals did not appear to be in danger. 52 (4).

Little outward change in the situation, which remains tense. The United Kingdom Government playing a part in efforts designed to achieve a meeting between Colonel Gowan, Head of the Military Government, and Colonel Ojukwu, Military Governor, Eastern Region. 58 (2).

NKRUMAH, DR.

See GHANA.

NON-CONTRIBUTORY BENEFITS

See SOCIAL SERVICES.

NORTH ATLANTIC TREATY ORGANISATION (NATO)

See also—

CANADA.
FOREIGN SECRETARY'S VISIT TO NATO.
VISIT OF FEDERAL GERMAN CHANCELLOR.

French withdrawal from NATO—implications. An alteration in the relative importance and standing of the United Kingdom and Germany possible. The attitude to be maintained towards France and the North Atlantic Alliance. 17 (5).

Indications of concern in France at the reaction of the other NATO powers to the French Government's announcement of their withdrawal from NATO. 23 (2).

Consultations with representatives of NATO Governments. The reorganisation of the Alliance; participation of France; the location of NATO headquarters. Nuclear sharing: the United States Government unlikely to pursue the problem until agreement had been reached on the major problems of reorganisation. 24 (2).

Relocation of NATO military headquarters in the Benelux countries or Germany: decisions reached at the NATO meeting in Brussels. The French Government willing to have the North Atlantic Council remain in Paris; French forces in Germany—French proposals unacceptable; issues to be discussed in the North Atlantic Council. NATO to be kept efficient and workable with or without France. Attempts to improve relations with Eastern Europe. The need for a united approach on German reunification. General de Gaulle's visit to Moscow—no indication of his intentions; some fear that he may attempt to make bilateral arrangements on reunification. Possibility of a European Conference to be further discussed in the North Atlantic Council. 27 (4).

An objection by some of our NATO Allies to the tripartite talks between the United States, the Federal German Government and ourselves on foreign exchange costs of United States and United Kingdom Forces in Germany. The Secretary-General of NATO had been invited to take part. 50 (2).

France: General de Gaulle's Policy over the next two years. C 16.

NORTH SEA GAS

See GAS INDUSTRY.

NUCLEAR FORCE

See—

DEFENCE REVIEW.
NORTH ATLANTIC TREATY ORGANISATION.
NUCLEAR TESTS.
VISIT OF FEDERAL GERMAN CHANCELLOR.

NUCLEAR TESTS

Claim by the People's Republic of China that the third nuclear test, just completed, had been a thermo-nuclear explosion. Evidence to assess this claim would soon be available. The Indian Government's reaction. A public statement on the Chinese test and the forthcoming French tests to be on broadly similar terms. 24 (2).
OFFICIAL INFORMATION, DISCLOSURE OF
See Disclosure of Official Information.

OPTION MORTGAGE SUBSIDY
See Public Expenditure.

OSLO CONFERENCE
See Broadcasting and Television.

OTHER ENVIRONMENTAL SERVICES
See Public Expenditure.

OVERSEA AFFAIRS
See—
CANADA.
CHINA.
EUROPEAN ECONOMIC COMMUNITY.
FALKLAND ISLANDS.
FRANCE.
GERMANY.
GHANA.
GIBRALTAR.
INDONESIA.
IRAN.
LATIN AMERICA.
NIGERIA.
NORTH ATLANTIC TREATY ORGANISATION.
PORTUGAL.
RHODESIA.
SEYCHELLES.
SOUTH ARABIA.
SOVIET UNION.
SYRIA.
UGANDA.
VENEZUELA.
VIETNAM.

OVERSEAS AID
See Public Expenditure.

OVERSEAS EXPENDITURE
See Public Expenditure.

OVERSEAS INFORMATION
See Public Expenditure.

OVERSEAS REPRESENTATION
See Public Expenditure.

P-1127
Agreement that the P-1127 should be continued and that a firm order for 60 aircraft should be placed, to be followed by an order for 10 dual aircraft at a later stage. C 185, 68 (1).

PAKISTAN
See Soviet Union.

PARENTAL CONTRIBUTIONS FOR STUDENTS
See Public Expenditure.

PARKING RESTRICTION
See Transport Policy.

PARKS
See Leisure in the Countryside.
PARLIAMENT

See also—

AIRCRAFT INDUSTRY.
CABINET.
INDUSTRIAL DISPUTES.
PRICES AND INCOMES POLICY.
SPECIALIST COMMITTEES.
TELEVISING PARLIAMENTARY PROCEEDINGS.

Abortion and Sexual Offences—
Private Members' Bills: Government to adopt an attitude of neutrality—services of the
official draftsman to be offered to assist in the preparation of any measure which might
appear to be acceptable in principle to the House. 5 (1).

Budget, The—
Date of introduction. 18 (2).

Christmas Recess—
Dates of adjournment and resumption. 65 (1).

Dissolution of Parliament and the General Election—
The Dissolution to take place on Thursday, 10th March; the General Election on Thursday,
31st March: summoning of the new Parliament for Monday, 18th April and the opening
on Thursday, 21st April. The conduct of public business during the campaign. Certain
issues of policy to be resolved as quickly as possible. No new Bills to be introduced.
Parliament not expected to proceed further with the Committee stages of Bills which
would not be enacted. 14 (1).

Foreign Affairs Debate—
Foreign Affairs Debate dependent on the outcome of the meeting between the Prime
Minister and his colleagues, and Mr. Smith and his advisers. 62 (1).

Guillotine Motions—
A motion to be introduced for use of the guillotine procedure to restrict discussion on the
remainder of the Finance Bill and the Selective Employment Payments Bill to allow
Parliament to rise at the end of the first week of August. A committee of Ministers to
review the procedure for dealing with Finance Bills with a view to shortening the time
required for their discussion. 33 (1), 36 (1).

Guillotine Procedure—
Unless the opposition could agree to a suitable time-table for dealing with further stages
of the Prices and Incomes Bill a guillotine motion would be tabled. 40 (3).

National Insurance (Further Provisions) Bill—
The Bill, due for a Second Reading, was for the provision of retirement pensions for those
over the minimum pension age in 1948 and not then insured—unacceptable, and should be
opposed and defeated on a vote. 31 (1).

Parliamentary Procedure and Specialist Committees—
Experimental morning sittings on Mondays and Wednesdays agreed in principle; business
to be taken should be as proposed by the Select Committee on Procedure with the addition
of adjournment debates and, time permitting, short debates on regional matters. The
debate on procedure in the House of Commons; not to be a free vote as far as Government
supporters are concerned. Consideration by the Prime Miniser and Lord President of a
statement to be made in the debate on Government proposals regarding Parliamentary
Procedure and Specialist Committees. C 163, 58 (3).

Plowden Report (Committee of Inquiry into the Aircraft Industry)—
The Government to table a motion to take note of the Report of the Committee of Inquiry
into the Aircraft Industry in the House of Commons debate on 1st February. The
Minister of Aviation to welcome only the broad principles and the proposals for international
co-operation in his speech. 4 (1).

Prices and Incomes Policy—
A Motion by the Opposition to transfer consideration of the Prices and Incomes Bill from
Standing Committee B to a Committee of the whole House—devised to permit a Second
Reading Debate on the new clauses providing powers to enforce the standstill on wages
and prices; the Debate should be conducted on that basis. 41 (1).

It would be necessary to make orders under Section 29 of the Prices and Incomes Act to
enforce the withdrawal of increases of wages in two cases. The rate of dividends to be
kept under close examination. 50 (1).

The First Secretary of State to explain measures relating to public presentation of the White
Paper on Prices and Incomes Policy to an appropriate group of Members of Parliament
and the Lobby and industrial correspondence. 58 (1).

Rhodesia—
Recall of Parliament to discuss Rhodesia decided against. 46 (1).

Seamen's Strike—
The Proclamation of an Emergency before the Whitsun Adjournment. 25 (1).

Select Committees—
A proposal that, as an experiment, Select Committees composed of back-bench members
should be set up to investigate matters within the preview of particular Government
Departments to provide interesting work for these Members and to implement proposals
for enabling Parliament to scrutinise the work of Departments more effectively. An
announcement to be made during the Debate on the Address. The Ministerial Committee
on Parliamentary Procedure to consider the procedure which might be adopted and other
problems; and to consider means of modernising the procedure of the House of Commons
and of facilitating the discharge of its business. C 59, 19 (4).
PARLIAMENT (continued)

Session, 1966-67 and Legislation Programme—
A provisional list of Main Programme Bills for the next Session, and a list of those Bills which might be held over to 1967-68, to be sent to all Ministers by the Lord President. The first Session of the new Parliament, if the present Government were re-elected, would be opened on 21st April, 1966, and continue until the end of July 1967. There would be no Queen's Speech and no Debate on the Address in the Autumn of 1966. 17 (3).

Parliament to sit until 5th August to pass the Ministry of Social Security Bill through all its stages before the Summer Recess. 23 (3).

South Arabia: the Aden base—
An allegation that the House of Commons had been misled by the Prime Minister on the course of earlier discussions with the leaders of the South Arabian Federation on the future of the Aden base. A debate and the appointment of a Select Committee could prejudice forthcoming discussions—to be further considered. 25 (1).

PENSIONS
See—
PUBLIC EXPENDITURE.
SOCIAL SERVICES.

PERSIAN GULF STATES
Sheikh Shakhbut, the Ruler of Abu Dhabi, deposed: the ruling family had formally requested his deposition and action had been taken in consequence. 43 (2).

PERU
See LATIN AMERICA.

PIRATE BROADCASTING
See also BROADCASTING AND TELEVISION.
The Government committed by an International Agreement to legislate against pirate broadcasting stations: urgent need for legislation due to an increase in pirate stations, with more threatened, and an increasing number of complaints of interference with the domestic services of European countries. Violence and gangsterism developing; public and Press criticism of inaction; the ability to enforce law and order at issue. Introduction of legislation before the Summer Recess and proceedings against stations within territorial limits to be considered. The Marine Broadcasting (Offences) Bill to be brought before the Legislation Committee. C 94, 33 (7).

PLOWDEN REPORT
See—
— AIRCRAFT INDUSTRY.
— PARLIAMENT.

POLICE
See PUBLIC EXPENDITURE.

PORTS
See PUBLIC EXPENDITURE.

PORTUGAL
The Portuguese Government seeking to maintain relations with both sides in the Rhodesian situation: co-operation with the Zambian Government by facilitating an increase in railway traffic and the use of Beira airport for an airlift, provided only civil aircraft were used; unconfirmed reports of negotiations with Rhodesia for certain exports to pass through Beira and of permission for the building of crude oil storage tanks on behalf of the Rhodesian Government. 13 (2).

POST OFFICE
See also REORGANISATION OF THE POST OFFICE.
A statement on the reorganisation of the Post Office to be made on Wednesday, 20th July. 36 (1).
Telecommunications and Postal Tariffs. C 77.

POST OFFICE PROCUREMENT POLICY
See TELECOMMUNICATIONS INDUSTRY AND POST OFFICE PROCUREMENT POLICY.
PRESS, THE
See—
CABINET.
DISCLOSURE OF OFFICIAL INFORMATION.
GHANA.

PRICES
See—
COMMERCIAL POLICY.
PRICES AND INCOMES POLICY.

PRICES AND INCOMES POLICY
See also—
CABINET.
COAL PRICES.
DISCLOSURE OF OFFICIAL INFORMATION.
ECONOMIC SITUATION.
INDUSTRIAL DISPUTES.

Proposed Prices and Incomes Bill: problems. Long-term policy for prices and incomes a condition of achievement of steady economic growth and a fulfilment of social policies. Threats of industrial action. The National Board for Prices and Incomes—broadening of membership; re-establishment of compulsory arbitration; pay claims; equal pay; union resistance; abolition of restrictive practices; food prices; development and strengthening of the prices and incomes policy. C 3, 1 (2).

Draft of Prices and Incomes Bill: support from the Trades Union Congress but the Confederation of British Industries non-committal. Bill approved in principle. Possibility of an explanatory White Paper—to be published at the same time as the Bill. C 5, 1 (3).

Armed Forces pay and pay of the Higher Civil Service: acceptance of reports by the National Board for Prices and Incomes and publication authorised. The Government's commitment to the Grigg formula; Franks Committee recommendations. C 8, 2 (3).

Scottish teachers' salaries: a fair relationship with English teachers; an avoidance of "leapfrogging": The terms in which a reference should be made to the National Board for Prices and Incomes. Draft salary scales for Scottish teachers—publication. C 13, 2 (3).

Armed Forces pay and pay of the Higher Civil Service: an announcement of the acceptance of the reports could embarrass the Government in their efforts to achieve a settlement of the threatened railway strike; publication to be further considered. 3 (2).

Armed Forces pay and pay of the Higher Civil Service: reports to be published on Friday, 28th January, 1966. 4 (2).


Draft Prices and Incomes Bill: suggested measures. Introduction of the Bill in July agreed. Items to be considered. C 80, C 81, C 82, C 83, 31 (3).


Prices and Incomes Bill: amendments to be supplied to the opposition: Agreement on an acceptable timetable for dealing with further stages required—otherwise a guillotine motion would be tabled. 40 (3).

Prices and Incomes Standstill: implications of the possible introduction of Part IV of the Prices and Incomes Bill. 41 (2).

Standstill: widespread compliance so far. Should legal action by the unions threaten voluntary operation Part IV of the Act would be enforced. Criteria for the period of severe restraint following the standstill should be given early consideration. 44 (3).

Part IV of the Prices and Incomes Act: Legal action against employers: A Government statement on discussions with the Trades Union Congress and Confederation of British Industries on the possible introduction of Part IV. Collection of data on price and wage increases by the Department of Economic Affairs. C 137, 48 (3).

Part IV of the Prices and Incomes Act: A Government statement announcing their decision to bring Part IV of the Act into force, with The Queen's approval. 49.

Draft White Paper on Period of Severe Restraint: agreed amendments. A suitable Press release to accompany the publication of the White Paper. Consultations with management and staff sides in the public sector to be postponed until after the Cabinet had approved the draft, except where postponement would prejudice good relations. C 151, 56 (5).
PRICES AND INCOMES POLICY (continued)

Prices and Incomes Standstill: existing commitments to review the pay of public service employees and retrospection. Increases in salaries in private industry. Publication of the White Paper in week beginning 21st November—avoidance of publication coinciding with any major announcement on Rhodesia. A statement to be made in Parliament immediately before publication. C 156, C 167, 57 (1).

Reaction of the Trades Union Congress to the White Paper on Prices and Incomes Criteria in the Period of Severe Restraint. 59 (1).

The Government prepared to offer a 10 per cent increase in the basic pay of Service doctors and dentists, payable from 1st July, 1967, to take effect from 1st October, 1966. C 184, 67 (6).

PRIME MINISTER'S VISIT TO WASHINGTON
See VISIT OF PRIME MINISTER TO WASHINGTON.

PRISONS
See PUBLIC EXPENDITURE.

PRIVATE TRANSPORT
See TRANSPORT POLICY.

PRODUCTIVITY
See PRICES AND INCOMES POLICY.

PUBLIC EXPENDITURE
See also DEFENCE REVIEW.


Slowing down of the rate of expenditure on capital projects and on stores and equipment in the public sector: operation in terms of deferred projects no longer possible—continuation of arrangements to be in terms of new expenditure limits. Programme for certain capital expenditure. A statement to be made in the House of Commons. C 22, 5 (4).


Local authority housing programme: the target of house completions by 1970. Public and private sector approvals. Additional authorisations to non-priority areas. An increase in the local authority housing programme. Consideration to be given to the relationship between financial and real resources, and the building of local authority houses for sale. C 92, C 93, C 95, 33 (4).

Cost of United Kingdom forces in Germany: the United States proposal for tripartite discussions made to dissuade us from withdrawing our forces. 44 (1).

Local Authority Current Expenditure (England and Wales): 1967-68 and 1968-69. Both Government and local authorities would be expected to accept some restraint on the rate of growth of expenditure and development of their services. Reductions for purposes of negotiations on the rate support grant; discrimination in favour of the development areas not possible. C 152, C 154, 56 (6).

Agreed limits on Expenditure for 1967-68: defence; civil defence; other overseas services; roads; railways defect; assistance to agriculture and industry; aviation; housing subsidies and grants; housing investment. C 158, C 161, C 166, C 168, 57 (2).

Agreed limits on Expenditure for 1967-68: local authority other environmental services; police and prisons; education (excluding school meals); education charges and family endowment; pensions; administrative and miscellaneous services. C 157, C 158, C 159, C 160, C 161, C 166, 58 (4).

Agreed limits on Expenditure for 1967-68: administrative and miscellaneous services; police and prisons; aviation and space; finance for container ships; defence. C 158, C 169, C 170, 59 (2).


PUBLIC SECTOR HOUSING INVESTMENT
See PUBLIC EXPENDITURE.

PUBLIC TRANSPORT
See TRANSPORT POLICY.
QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT
See PARLIAMENT.
Draft. Suggested inclusion of: a statement on the continuation of aid towards the social and economic development of countries overseas; greater stress on the Government's intention to take action to promote increased productivity. Omission of the paragraph on policies for the aircraft and shipbuilding industries—issues to be dealt with in the course of the Debate on the Address. Draft text approved, subject to agreed amendments. C 57, 18 (5).

QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT
See also PARLIAMENT.
A draft of The Queen's Speech on the Prorogation of Parliament to be prepared as a matter of urgency, for consideration by the Cabinet. 15 (1).
The Queen's Speech on the Prorogation of Parliament. C 50, C 52.

RAILWAYS
See—
CHANNEL TUNNEL.
INDUSTRIAL DISPUTES.
PUBLIC EXPENDITURE.
TRANSPORT POLICY.

RATES
See LOCAL GOVERNMENT FINANCE.

REACTOR
See SITING OF THE PROTOTYPE FAST REACTOR.

RECREATION
See LEISURE IN THE COUNTRYSIDE.

REFORM OF THE HOUSE OF LORDS
32 (2).

REGIONAL DEVELOPMENT
See CHANNEL TUNNEL.

REORGANISATION OF THE PORTS
Reorganisation of the Ports. C 127.

REORGANISATION OF THE POST OFFICE
A statement to be made about the rationalisation of Post Office Tariffs and the future of the Post Office. 36 (1).
Reorganisation of the Post Office as a nationalised industry; status to be that of a public corporation. A closer relationship with the Government than existing nationalised industries in respect of the agency services provided. Responsibility for national telecommunications and postal services would be retained. The position of the staff; the attitude of the staff associations. C 105, 36 (4).

RESTRICTIVE PRACTICES
See PRICES AND INCOMES POLICY.

REVENUE
See—
LOCAL GOVERNMENT FINANCE.
TRANSPORT POLICY.

RHODESIA
See also PORTUGAL.
The Meeting of Commonwealth Heads of Government at Lagos: the United Kingdom view that military force should not be used; the impact of economic sanctions; the effectiveness of the oil embargo; the success of the Zambian airlift. Agreement with President Kaunda to close the Zambia frontier to imports from Rhodesia, except for coal, at a selected time. Cancellation of the proposed visit of the Commonwealth Secretary. 1 (1).

SECRET
RHODESIA (continued)

The Government's terms for ending the rebellion and the constitutional future of Rhodesia: the Prime Minister to release a statement. Further financial and economic measures: repudiation of obligations incurred by the regime; a total ban on exports and imports. Consideration of further measures. 3 (3).

Eviction of the oil embargo by road supplies from South Africa. The attitude of the South African Government. South Africa to be warned of the probability of a Resolution in the United Nations being raised by one of the moderate African leaders calling for an oil embargo on the whole of Southern Africa. 11 (2).

Oil embargo: the South African Government not prepared to take specific measures to prevent South African citizens from breaking the embargo. The South African Ambassador informed of possible serious international repercussions. 13 (2).

A full explanation of the steps being taken by the United Kingdom Government in respect of the oil embargo given to the Commonwealth Sanctions Committee. 13 (2).

The Government no longer able to deal with the situation alone—international action would be required. No decision yet on the form of action that the United Kingdom should seek to promote. 18 (2).

Oil: the United Kingdom's immediate concern to prevent Rhodesia receiving greater supplies from South Africa than before the illegal declaration of independence. Possible effects of economic sanctions; some signs of dissension among members of the Rhodesia Front Party. 19 (2).

Informal talks to be arranged between United Kingdom and Rhodesian officials to examine whether a basis existed on which a solution to the Rhodesian problem could be reached. 21 (2).

Rhodesia talks: no developments; the arrival of the Rhodesian officials still awaited; concern of African countries that no Africans would be associated with the talks; the possibility of the Commonwealth Secretary visiting Zambia for talks. Mr. Ian Smith under pressure from extreme members of the Rhodesia Front. Avoidance of publicity about the talks. The United Kingdom seeking to avoid a meeting of the Security Council on Rhodesia. 23 (2).

A draft resolution by the African States for tabling at a meeting of the Security Council on the use of force in Rhodesia; unacceptable to the United Kingdom. The necessity of avoiding a vote. The effect on Zambia and United Kingdom copper supplies of a mandatory resolution confined to economic sanctions. The Rhodesia talks and United Kingdom policy. Indications that the Rhodesians were prepared to envisage the prospect of majority rule. 24 (2).

No developments yet in the informal talks. The possibility of fact-finding talks continuing in Salisbury. A change in the regime's attitude to majority rule revealed. The ejection of economic sanctions on Rhodesia and on the United Kingdom economy. Any negotiations must include an agreement that African nationalist leaders would be included in discussions. 25 (2).

United Nations: failure of the extreme Resolution for the imposition of mandatory economic sanctions against nations not co-operating in the economic measures against Rhodesia. 26 (2).

Informal talks: no progress being made. The effect of the seamen's strike on the United Kingdom's attitude. A pause in the talks and the intensification of economic sanctions might have a growing influence on European opinion in Rhodesia. 33 (3), 34 (2).

Intensification of Sanctions by Zambia: a further offer of increased aid by the United Kingdom to be made to Zambia. The conditions relating to the offer. The cost of our aid. C 120, 121, 41 (5).

A statement to be made in Parliament announcing the resumption of talks between United Kingdom and Rhodesian officials in Salisbury. The subject of the talks. 42 (2).

Adjournment of talks with the Smith regime. Our present policy to be maintained. Our attitude at the forthcoming Meeting of Commonwealth Prime Ministers. The resumption of talks to be considered in the light of the Meeting. 44 (2).

The Commonwealth Prime Ministers' Conference: an endeavour to be made to seek agreement on the basis of the prepared draft statement save that we could only accept mandatory oil sanctions if they were limited to the transit of oil through Mozambique. An offer to be made of a resumption of talks in the Meeting in the spring. Additional offers. C 128, 45.

The Commonwealth Prime Ministers' Conference: the outcome of the Meeting, an almost exclusive concern with Rhodesia; establishment of a caucus. Approximately half the Members in favour of the use of force to defeat the illegal régime and just under two-thirds in favour of the régime's independence would be granted before majority rule. Comprehensive mandatory sanctions favoured by a somewhat smaller number. The Commonwealth Secretary to visit Rhodesia in the near future on the conditions and subject to the considerations indicated by the Prime Ministers. The recall of Parliament to discuss Rhodesia decided against. 46 (1).

The visit of the Commonwealth Secretary to Salisbury: five meetings with Mr. Smith; meetings with 96 people representing a wide cross-section of Rhodesian opinion. A statement of the United Kingdom Government's position to be prepared. Public opinion in Rhodesia to be made aware of the true nature and extent of our proposals and the possible consequences of final rejection by the illegal régime. The supply situation in Zambia to be considered urgently. 48 (2).

Consideration of the Government's terms for a settlement in Rhodesia: Sir Morris James to take the statement to Salisbury for handing to Mr. Smith after the Governor had seen and accepted it. Future plans in the event of rejection of our offer. C 139, 30 (3).

Sir Morris James's visit to Salisbury: Mr. Smith would almost certainly reject our proposals, 51 (4).
RHODESIA (continued)

The reply from Mr. Smith to our statement of terms for a settlement: a rejection on any terms which we could accept. We must prepare for a break. Our position to be clarified for public presentation. In the event of prior publication in Rhodesia of the terms of our offer and of the régime's reply a statement would have to be made immediately. Further questions to be put to the illegal régime. 55 (1).

Draft White Paper on Rhodesia: agreed amendments and additions. A paper to be circulated on the resolution to be introduced at the United Nations for mandatory sanctions on selected Rhodesian exports and a general oil embargo, and on the implications of United Nations action for the United Kingdom economy. The Commonwealth Secretary to visit Rhodesia at the Governor's request. C 172, 60 (3).

The Meeting between the Commonwealth Secretary, Mr. Smith and the Chief Justice, Sir Hugh Beadle, in Salisbury: Sir Morrice James, Commonwealth Office, now on his way to Salisbury to propose a Meeting between the Prime Minister, the Commonwealth Secretary, Mr. Smith and the Governor. Strict secrecy to be observed meanwhile. Assistance needed by the Governor to exercise effective control over the Rhodesian armed forces and police after a return to legality. C 173, 61 (1).

The Meeting between the Prime Minister and Mr. Smith: in the event of failure to reach a settlement action in respect of resolutions at the United Nations for mandatory sanctions against Rhodesia should be in accordance with the proposals attached to C (66) 173, subject to the point agreed in discussion relating to aircraft parts; in the event of such action being necessary we should make known our reservations on oil sanctions. C 173, 62 (3).

Discussion about H.M.S. Tiger: agreement by the Cabinet that the document worked out by the Prime Minister and Mr. Smith should be accepted. The Governor of Rhodesia to be informed of this agreement and to be asked to arrange for the régime in Salisbury to be similarly informed. The South African Government to be informed. It should be made known publicly that the Cabinet had received the report and fully supported the line taken. 63.

Rejection by the illegal régime of the document worked out aboard H.M.S. Tiger. Action to be taken as a result of the commitment made at the September Meeting of Commonwealth Prime Ministers. Consideration of the Government's publicity to be carried out in Rhodesia and the United Kingdom. Longer term strategy. 64 (1).

The proposal by the Opposition in the House of Commons for a Royal Commission to test public opinion in Rhodesia on the acceptability of the proposed new constitution: reasons for non-acceptance by the Government, even if the illegal régime purported to accept it. The text of a telegram to be sent to the Foreign Secretary at the United Nations regarding the wording of his statement in the Security Council on enforcement action against South Africa in respect of mandatory sanctions. 65 (2).

A possible declaration of a republic in Rhodesia. Future courses of action. Consideration to be given to establishing a Commission to study future constitutional arrangements for Rhodesia, and to extending the United Nations resolution on Rhodesia to cover the import of motor vehicles, aircraft and components. Consultations to be held with the Australian Government about the possibility of encouraging European emigration from Rhodesia to Australia. The signing of the memorandum of understanding with the Zambian Government. C 179, 66.

Adoption of the resolution by the Security Council: a satisfactory result. We would no longer be prepared to grant independence before majority rule. 67 (3).

Terms for a Settlement in Rhodesia. C 153.

ROADS
See—
LOCAL GOVERNMENT FINANCE.
PUBLIC EXPENDITURE.

ROYAL COMMISSIONS
See also—
ASSIZES AND QUARTER SESSIONS OUTSIDE LONDON.
LOCAL GOVERNMENT REORGANISATION.

Any factual advice and information required by a Commission should be obtained from officials. A Minister might, however, give his views in a private discussion with the Chairman of a Royal Commission on a specific issue which affected him personally in his capacity as the responsible Minister. Secretaries of Royal Commissions should consult the Cabinet Office before issuing invitations to Ministers to give evidence and any Minister receiving such an invitation should similarly consult the Cabinet Office before accepting it. 51 (2).

Ministers should take no action as regards invitations to give evidence to Royal Commissions, pending further discussion. 56 (2).

Individual Ministers should give evidence to Royal Commissions on the facts and on the full range of administrative and technical considerations relevant to each Ministry's task, but this evidence should not indicate any general governmental view on the solutions which should be devised to the problems before the Royal Commission. Ministers should feel free to accept an invitation from the Chairman of a Royal Commission to give evidence provided it were done informally and not on the record and did not purport to put forward a collective governmental view on the conclusions which should emerge. C 162, 59 (5).

RUSSIA
See SOVIET UNION.
SALARIES
See PRICES AND INCOMES POLICY.

SANCTIONS
See RHODESIA.

SARAWAK
See INDONESIA.

SCHOOL MEALS AND WELFARE MILK
See PUBLIC EXPENDITURE.

SEAMEN'S STRIKE
See INDUSTRIAL DISPUTES.

SERVICE DOCTORS AND DENTISTS: AMOUNT OF PAY INCREASES
See PRICES AND INCOMES POLICY.

SEXUAL OFFENCES
See PARLIAMENT.

SEYCHELLES
The landing of fifty seamen from one of Her Majesty's frigates in response to a request of the Colonial Government for assistance in dealing with disorder arising from a strike; a further reinforcement of marines might be sent later. 29 (2).

SHIPBUILDING INDUSTRY
The Geddes Report: broad acceptance of the proposals, to set up a Shipbuilding Industry Board, to provide finance over a period of years, to introduce legislation in the current session, and to put into effect the concession on indirect taxation. The possible use of procurement powers for the purpose of promoting rationalisation. C 126, 42 (4).

SITING OF THE PROTOTYPE FAST REACTOR
A prototype fast reactor (PFR) to be constructed; to be sited at either Dounreay, Caithness or Winfrith, Dorset. The most suitable site, Winfrith, but Dounreay was in greater need, economically, of the PFR which would remain as an electricity generating station when the foreseeable programme of work eventually ran down. The reactor to be sited at Dounreay. C 24, C 26 6 (2).

SOCIAL SECURITY, MINISTRY OF
See SOCIAL SERVICES.

SOCIAL SERVICES
Draft White Paper and proposed statement to the House of Commons: changes in national assistance; limitations on the general increase of benefits; non-contributory benefits—liability to taxation; pensions, health and welfare. C 44, 15 (3).

Recast of Draft White Paper; procedural and organisational improvements, general reference to changes in the rules for the treatment of resources. New arrangements not to apply exclusively to old people; administration; legislation. C 48, 16 (3).

Ministry of Social Security Bill: the timing of introduction; the level of benefits; financing. The possibility of bringing the scheme into operation by the end of November. C 65, C 66, 21 (3).

Ministry of Social Security Bill: the new non-contributory benefits could be brought into operation on 12th December. Arrangements for Parliament to sit until 5th August. The Bill to pass through all its stages before the Summer Recess. C 67, 23 (3).

Family Endowment: consideration of schemes involving an increase in family allowances, associated with a reduction in income tax allowances in respect of children or of personal allowances. Possible increases of income qualification for free school meals and welfare milk. C 181, C 182, C 183, 67 (7).

SOCIAL WORK SERVICES IN SCOTLAND

SOUTH AFRICA
See also RHODESIA.

The International Court of Justice to give judgment in July on the South African Government's position in relation to the mandate for South West Africa. Possible courses of action by the United Kingdom Government. 36 (2).

A resolution in the United Nations declaring that South Africa had forfeited her mandate over South West Africa and that the United Nations should assume responsibility for it; the United Kingdom representative instructed to abstain from voting on the resolution. 52 (4).
SOUTH AMERICA
See—
LATIN AMERICA.
VENZUELA.

SOUTH ARABIA
See also PARLIAMENT.

Military Aid to South Arabia: no defence agreement to be concluded with an independent South Arabia on the United Kingdom's withdrawal from Aden; an obligation to provide adequate defence to ensure orderly progress to independence. The political consequences of a breakdown in internal security. The build-up of local forces. OPD (66) 62, 26 (6).

Increased financial aid offered to the Federal Ministers, subject to the maintenance of their own contribution to the total cost of the Federal security forces. The United Kingdom Government prepared, in principle, to further increase this aid if the States of the Eastern Aden Protectorate were to enter the Federation. 29 (2).

A United Nations Mission for South Arabia—a proposal by the Secretary-General of the United Nations. No decision yet on the United Kingdom's attitude. 33 (3).

A raid by two aircraft from the Yemen on a village in Beihan: the protecting powers requested to make strong protests to the UAR and the Yemen. 41 (3).

Mr. Bowen's report on procedures in respect of detainees in Aden suspected of terrorist activities: a paper on the issues arising from the report to be circulated to the Defence and Oversea Policy Committee. 60 (2).

SOUTH WEST AFRICA
See SOUTH AFRICA.

SOVIET UNION
See also—
NORTH ATLANTIC TREATY ORGANISATION.
VIETNAM.

The meeting at Tashkent between India and Pakistan: the successful mediation by the Soviet Government welcomed; over-optimism about future Soviet co-operation with the West to be avoided; Soviet policy in this case was probably directed to the containment of Communist China. 2 (1).

Visit of the Prime Minister to Moscow on 16th-18th July, to see the British Trade Fair as guest of the Soviet Premier, Mr. Kosygin: the possibility of an overture which might lead to negotiations on Vietnam would be explored. 34 (2).

Visit of the Prime Minister to Moscow: frank discussions with Mr. Kosygin. The Soviet Government's apparent desire to use the United Kingdom as an intermediary in any discussions with the United States Government. Any means of ending the conflict would be welcomed but overt action by the Soviet Government was not possible beyond what was acceptable to the North Vietnamese, in view of their own difficulties in relations with the People's Republic of China. The execution of captured United States pilots would inflame opinion in the United States, alienate any sympathy in the Western world and risk further escalation of the conflict. No joint Anglo/Soviet move on Cambodia would be acceptable. A possible joint East-West declaration might help ease international tensions; but the most useful practical results were likely to flow from bilateral talks between the nations primarily concerned. Possible discussions on agreed reductions in force levels on either side of the East-West frontier in Western Europe. 39 (3).

Visit of Mr. Kosygin to the United Kingdom: a warm response to the proposal that the visit should take place, probably in early February. This was a further indication that the Soviet Government's attitude on a number of international issues might become more flexible. 36 (4).

The Foreign Secretary's visit to Moscow: the Soviet Government no longer maintained a wholly negative attitude to a number of major international issues; they wished to keep discussions in progress and believed we could help to find a solution for some of them. Discussions on Vietnam, nuclear weapons, underground nuclear tests, Europe and United Kingdom claims for compensation. 62 (2).

SPACE POLICY
See EUROPEAN LAUNCHER DEVELOPMENT ORGANISATION.

SPAIN
See GIBRALTAR.

SPECIALIST COMMITTEES
See also PARLIAMENT.

The Minister of Agriculture, Fisheries and Food, in consultation with the Secretary of State for Scotland and the Secretary of State for Wales, to consider the possible establishment of a Select Committee on the work of his Department. C 163, 58 (3).
STEEL NATIONALISATION BILL

See—
IRON AND STEEL NATIONALISATION.

SUNDAY ENTERTAINMENT

Lord Willis’ Bill: some important differences from the recommendations of the Crathorne Committee. The Government spokesman in the House of Lords to adopt an attitude of neutrality and the Government should consider further their policy on Sunday entertainment. 52 (2).

SUPER VC-10s FOR MIDDLE EAST AIRLINES

An attempt by the British Aircraft Corporation to conclude an agreement on the sale of Super VC-10s to Middle East Airlines: the terms would require a Government subsidy and were conditional on the purchase of Lebanese apples. The possibility of the sale being concluded on a normal commercial basis without Government assistance by the use of credit under the German Offset Agreement. C 7, 1 (4).

STRIKES

See INDUSTRIAL DISPUTES.

SWEDEN

See also EFTA.
A representative to visit Stockholm immediately with a message for the Swedish Minister of Commerce on our proposed intentions with regard to Europe. C 149, C 150, 55 (2).

SYRIA

A coup d’etat: the Army in control of the Government; this move was apparently based on internal dissensions and was unlikely to alter Syria’s external relations. 13 (2).

TASHKENT

See SOVIET UNION.

TAXATION

See SOCIAL SERVICES.

TECHNOLOGY

See PUBLIC EXPENDITURE.

TELECOMMUNICATIONS INDUSTRY AND POST OFFICE PROCUREMENT POLICY

An immediate announcement to be made that a system of competitive tendering would be introduced following the expiry in March 1968 of the Bulk Supply Agreement for the supply of subscribers’ telephone apparatus. Arrangements to be made for a further study of the need for changes in the structure of the telecommunications industry, including the possibility of establishing a consortium for exports; early discussion with the Industrial Reorganisation Corporation. C 145, 52 (5).

Telecommunications and Postal Tariffs. C 77.

TELEVISING PARLIAMENTARY PROCEEDINGS

Government spokesmen in forthcoming debates to indicate that the Government would be prepared to provide facilities for experiment but no indication should be given that the principle for televising of proceedings of Parliament or any particular form of permanent arrangements was favoured. The issue should be left to a free vote but, in view of the restrictions on public expenditure generally, the Government think any experiment should be deferred, if necessary, until early in 1968. C 147, 56 (7).

TELEVISION

See BROADCASTING AND TELEVISION.

TRADES UNION CONGRESS

See—
INDUSTRIAL DISPUTES.
PRICES AND INCOMES POLICY.

TRAFFIC

See TRANSPORT.

TRANSPORT (OTHER)

See PUBLIC EXPENDITURE.
TRANSPORT POLICY
Urban traffic and transport: proposals for further restraints on private traffic in London and for the improvement of public transport. The expansion of parking controls and their intensification; the raising of additional revenue by supplementary licensing. Traffic wardens. C 10, 3 (4).

TRIPARTITE TALKS
See GERMANY: TRIPARTITE TALKS.

UGANDA
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CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 18th January, 1966, at 10.30 a.m.

Present:
The Right Hon. Harold Wilson, M.P., Prime Minister

The Right Hon. George Brown, M.P., First Secretary of State and Secretary of State for Economic Affairs

The Right Hon. Lord Gardiner, Lord Chancellor

The Right Hon. Michael Stewart, M.P., Secretary of State for Foreign Affairs

The Right Hon. Arthur Bottomley, M.P., Secretary of State for Commonwealth Relations

The Right Hon. William Ross, M.P., Secretary of State for Scotland

The Right Hon. The Earl of Longford, Secretary of State for the Colonies

The Right Hon. Anthony Greenwood, M.P., Minister of Overseas Development

The Right Hon. Richard Crossman, M.P., Minister of Housing and Local Government

The Right Hon. Douglas Houghton, M.P., Chancellor of the Duchy of Lancaster

The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food

The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science

The Right Hon. Sir Frank Soskice, Q.C., M.P., Lord Privy Seal

The Right Hon. R. J. Gunter, M.P., Minister of Labour

The Right Hon. Frederick Lee, M.P., Minister of Power

The Right Hon. Barbara Castle, M.P., Minister of Transport (items 1-3)

The following were also present:
The Right Hon. Kenneth Robinson, M.P., Minister of Health (items 2 and 3)

The Right Hon. John Diamond, M.P., Chief Secretary, Treasury (item 4)

The Right Hon. Sir Elwyn Jones, Q.C., M.P., Attorney-General (items 1-3)

The Right Hon. Edward Short, M.P., Parliamentary Secretary, Treasury (items 1-3)

SECRET
SECRET

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. J. H. Locke
Mr. R. T. ARMSTRONG

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1. The Prime Minister said that the Meeting of Commonwealth Heads of Government at Lagos had proved to be more favourable to our interests than had been expected. In particular, we had maintained our view that military force should not be used to end the rebellion and we had not been held to a specific timetable for bringing it to an end, though it had been agreed that there should be a further meeting in July if by then economic sanctions had not succeeded in doing so. Since the Lagos meeting it had become apparent that sanctions were having a considerable impact on the economy of Rhodesia and the oil embargo had been extremely effective. The Rhodesia refinery had closed down and there would be the utmost difficulty in any oil tanker discharging its oil into the pipeline at Beira, since the use of the storage tanks there, through which the oil would normally have to pass, would be denied by the two companies concerned. Despite the statements of the Prime Minister of the illegal régime, Mr. Smith, it was estimated that only some six weeks’ stocks were now available in Rhodesia. Nor were supplies entering the country by other means, save for a small quantity of lubricants, at the normal level, from South Africa. The latter had not taken any action which might frustrate sanctions. The airlift to Zambia had been remarkably successful and in the current week imports of oil by this means had exceeded the previous normal weekly consumption. It was hoped that, as soon as stocks had been built up, Zambia would be able to end oil rationing. In discussions with President Kaunda it had been agreed that the Zambia frontier would be closed to imports from Rhodesia, except for imports of coal, at such time as the impact of other economic sanctions made it apparent that a collapse of the rebellion could be quickly achieved by this means.

The visit of the three Labour Members of Parliament to Rhodesia had been most useful, in particular in discussions with the Governor and with the Chief Justice, Sir Hugh Beadle. Further consideration was being given to the most effective use of the radio transmitter at Francistown. The proposed visit of the Commonwealth Secretary to Salisbury for discussions with the Governor had been cancelled because the illegal régime had sought to impose conditions which might imply that we recognised it.

The Cabinet—

Took note, with approval, of the statement by the Prime Minister.

2. The Cabinet considered a memorandum by the First Secretary of State and Secretary of State for Economic Affairs and the Minister of Labour (C (66) 3) on prices and incomes policy.

The First Secretary of State said that the memorandum was circulated as background for the Cabinet’s later consideration of the proposed Prices and Incomes Bill and of the problems that would
arise in this field in the near future. The Government had embarked upon the development of a long-term policy for prices and incomes not as an end in itself but as a condition of the achievement of steady economic growth and the fulfilment of their social policies. Though recent economic indicators, such as the trade figures, might suggest that there was now less need for restraint, and the policy had in fact already been more successful than Press reports implied, the need to maintain and intensify it was as strong as ever. This entailed being prepared to stand up to threats of industrial action aimed at undermining it and, if necessary, to take issue with conventional attitudes to industrial negotiations.

The National Board for Prices and Incomes (NBPI) had achieved a considerable degree of success with its first reports, and was establishing its authority. None the less its reports might from time to time create presentational difficulties for the Government. He was considering in the light of experience so far whether some broadening of the membership of the Board was desirable. It would be important to avoid overloading the Board, or allowing it to be used except as a means of establishing principles of prices and incomes policy in a series of case law decisions. From this point of view the possibility of re-establishing compulsory arbitration, with a body on the lines of the former Industrial Disputes Tribunal but required to have regard to the national interest, might be considered.

In the meantime consideration was being given to the effect of pursuing the prices and incomes policy upon the discharge by the Ministry of Labour of their function of conciliation; and to means whereby arbitration tribunals could be brought to take account of the national interest. One possibility might be to proceed by means of a formal requirement or request to arbitrators to take account of the policy; another might be to make an exemplary reference of an arbitration award to the NBPI.

The Minister of Labour said that a number of serious difficulties would shortly arise in pursuing the policy: for example, in respect of the Government's commitment in principle to introduce equal pay and in dealing with the pay claims of dockers, railwaymen, miners and bakers. The maintenance of the policy would require the full support of all Ministers. The reintroduction of compulsory arbitration would be useful: some unions—mostly those which represented lower-paid workers—would welcome it, but the more powerful might resist it, and it could not in any event be reintroduced in time to assist with the immediate problems.

The Chancellor of the Exchequer said that the prices and incomes policy was essential for the achievement of the Government's economic and social objectives. From the outset it had been recognised that this was a long-term policy, which could not be expected to have dramatic results in a short space of time, particularly since it had had to be introduced at a period of exceptionally heavy pressure on labour and other resources. It was too early as yet to say whether it might be necessary to take other shorter-term measures through the Budget to operate on the additional pressure of demand generated by the rise of incomes the
previous year, but it would be important to see that any short-term measures conflicted as little as possible with the long-term policy. In the coming year prices were expected to rise less rapidly than in 1965; unemployment might well rise, but it was at present at a record low level and the Government had done much to mitigate the regional consequences of the former maldistribution of employment. On prices it would be important to counteract the myth that was being created that large price increases were being temporarily held back. Every possible step was being taken to see that the principles of the prices and incomes policy were maintained in the public service, at the inevitable cost of some injustices.

In discussion the following points were made:

(a) Much of the recent rise in food prices had been seasonal. The rise in the 12 months to December 1965 had been of the order of 3 per cent, compared with 5.1 per cent in the previous 12 months, and was in part due to factors beyond the Government’s control. Insufficient attention had been drawn to prices which had fallen (such as those of pork, butter and sugar).

(b) The role of arbitration, particularly in the public sector, would need further consideration. A statutory requirement upon arbitrators to take account of the national interest would be difficult to enforce, while to refer an arbitration award to the NBPI could put an undue strain on the system of arbitration. One possible course might be for the NBPI to present a case at arbitration hearings.

(c) The value and relevance of fair comparisons, particularly in the public service, needed to be further considered. Fair comparisons of the established kind did not always take account of differences of productivity and efficiency between those who were being compared. A new study of the operation of the principle of fair comparisons in the Civil Service had been put in hand.

(d) It was suggested that the Government might be able to express what the nation could afford by way of incomes increases in terms of a global figure rather than of a percentage. This might encourage reactions within the unions to excessive wage demands which would pre-empt an undue share of this amount, though there was a danger that the unions representing the economically stronger groups would get the larger share.

(e) It was also suggested that, in order to emphasise the relevance of the policy to the Government’s social objectives, the norm should be set at a lower rate—say 1½ per cent—for individuals with incomes over a certain figure. Such a course could, however, present difficulties in relation to salary structures which spanned a wide range of incomes, because of the anomalies created by undue compression.

(f) All the income references to the NBPI had so far been in respect of wages or salaries, not because there were objections of principle to referring other sorts of incomes to the Board but because no suitable case had presented itself. It was for consideration.

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whether some increases of dividends, possibly the current increases in bank dividends, or increases in the cost of some financial service, should be referred.

The Prime Minister, summing up the discussion, said that the Cabinet were fully agreed that it was necessary to maintain and intensify the prices and incomes policy on the lines indicated by the First Secretary of State and the Minister of Labour. Presentation of the policy in Ministerial speeches could with advantage take a less defensive form, stressing the successes of the policy and the limited nature of recent price increases. It would be helpful if the Minister of Agriculture would circulate to other Ministers notes on recent movements of food prices, which could be very helpful in this connection. It was also particularly important to stress in relation to the policy the need for, and advantages of, improvements in productivity and technological efficiency. Ministers should lose no opportunity of pressing forward improvements in productivity and agreements to bring restrictive practices to an end in industries for which they were responsible. Detailed aspects of the policy could best be further considered in the Ministerial Committee on Economic Development.

The Cabinet—
(1) Took note, with approval, of C (66) 3.
(2) Invited the Minister of Agriculture to circulate notes on recent movements of food prices.
(3) Invited the First Secretary of State to arrange for the Ministerial Committee on Economic Development to consider further the ways in which the prices and incomes policy could best be further developed and strengthened.

3. The Cabinet considered a memorandum by the First Secretary of State and Secretary of State for Economic Affairs (C (66) 5) to which was attached the draft of a Prices and Incomes Bill.

The First Secretary of State said that, since the proposed prices and incomes legislation had last been discussed by the Cabinet, the Law Officers had advised on ways of reframing the Bill in order to minimise its penal effects on the unions. As now drafted, the Bill would enable the Government to operate a standstill on prices without also operating a standstill on incomes, and, in practice, to apply the procedure for prior notification to employers only. There was considerable support for the Bill from the Trades Union Congress (TUC), and while the Confederation of British Industries (CBI) were unwilling to commit themselves outright to public support, its leaders had said in private that the early warning and standstill systems could be effective only if they were or could, if necessary, be made statutory. If the Cabinet approved the Bill in principle, the details would be considered later in the week by the Ministerial Committee on Economic Development and subsequently,
after further discussion with the TUC and CBI, by the Legislation Committee, in order that the Bill might be ready for introduction at about the beginning of February.

In discussion the following points were made:

(a) It was questionable whether the power given by the Bill to delay increases in prices and incomes and require them to be submitted for examination justified the political or Parliamentary difficulty which its introduction would create for the Government. It had, however, to be borne in mind that to refer a price or wage increase to the National Board for Prices and Incomes after it had been announced was of limited value; the powers in the Bill would enable the Government to refer proposals or claims before decisions were reached, when there was a better prospect that considerations arising from the prices and incomes policy could be brought to bear on the result. The only other course would be to institute a statutory holding of wages and prices and this was not acceptable to the Government.

(b) The provisions for enforcement, which created new criminal offences, might be strongly opposed in Parliament and might give rise to difficulty for the Government when they had passed into law. It was for consideration whether it would be preferable to rely on the common law for sanctions rather than to create new criminal offences. On the other hand, if reliance were placed only on the common law, it would not be possible to provide immunity from criminal liability for conspiracy or to avoid the risk that a trade union might be sued for damages. Even as drafted, the Bill did not avoid the danger that a strike leader who refused to pay a fine imposed on him under the enforcement provisions would be liable to imprisonment.

(c) It would be necessary to add a further clause to the Bill to ensure that it was not an offence for persons and companies to act in concert to keep prices down.

(d) As drafted, the Bill was in conflict with the Remuneration of Teachers Act, and further provision would be required to deal with this point.

(e) It was for consideration whether a White Paper explaining the provisions of the Bill should be published at the same time as the Bill.

The Prime Minister, summing up the discussion, said that the Cabinet approved the proposed Prices and Incomes Bill in principle, and agreed that it should now go forward for detailed discussion by the Ministerial Committees concerned.

The Cabinet—

(1) Approved in principle the draft Bill attached to C (66) 5.

(2) Invited the First Secretary of State to arrange for the Bill to be considered in detail in due course by the Ministerial Committee on Economic Development and
subsequently by the Legislation Committee, taking account of points made in the discussion.

(3) Invited the First Secretary of State to consider the possibility of publishing an explanatory White Paper at the same time as the Bill.

4. The Cabinet considered a memorandum by the President of the Board of Trade (C (66) 7) about the sale of Super VC-10s to Middle East Airlines.

The President of the Board of Trade said that for the past year the British Aircraft Corporation (BAC) had been trying to conclude an agreement with Middle East Airlines (MEA) for the sale of a number of Super VC-10s. In March 1965 the Government had agreed to arrangements which would have probably involved a Government subsidy of about £1 million but an agreement had not been concluded on the basis then contemplated. The Chairman of MEA had now indicated the terms on which he would be prepared to buy three VC-10s. BAC could only meet these if they received a Government subsidy which would amount to some £2 million, through an interest free loan of about £1 ½ million and the provision of working capital by the Government of £1 ½ million. They also involved agreement to the sale of Lebanese apples in the United Kingdom to the value of at least 20 per cent of that of the aircraft.

The Ministerial Sub-Committee on External Economic Policy had not been able to agree whether the Government should be prepared to offer such assistance. His own opinion was that, having gone so far already, it was desirable to enable BAC to meet the terms. Although payment for the aircraft would be spread over 10 years, there was no reason to suppose that MEA would not meet their obligations and a considerable sum in foreign exchange would be earned over the period. Undoubtedly a subsidy to the export of the aircraft would be involved; but this was a feature of many sales of aircraft on the international market and we would not encounter international difficulties on that account. If we failed to secure an order from MEA, it would be a major setback to any hope of selling the VC-10s to any other airline. BAC would arrange for the sale of Lebanese apples in the United Kingdom and the Government would not directly be involved. It would be desirable for this to be done within the present quotas, although it would lead to complaints from such traditional suppliers of apples as Italy and Canada. We should not, however, exclude the possibility that a small increase in the total quota for United Kingdom imports of apples might be necessary.

The Minister of Aviation said that it had been made clear to BAC that any governmental assistance could apply only to the three aircraft now under discussion and could not apply to any other aircraft for which options were given to MEA. The terms suggested should not be regarded as a precedent for any sales of VC-10s or other aircraft to other airlines. There were, however, substantial
reasons for accepting them in the present instance. The United States companies were making a determined effort to secure this contract in the belief that thereafter MEA would be committed to United States aircraft. The Douglas company had offered a very much larger interest free loan than was now proposed. If we now withdrew support there would be strong criticism of the Government and damaging publicity for the VC-10.

In discussion it was urged that international competition for aircraft sales could only be conducted on the kind of terms suggested and that these were necessary to enable the United Kingdom aircraft industry to compete against the effort of the United States companies to secure a monopoly. If the sale to MEA were concluded, there remained the hope that BAC might sell a further 10 or 15 VC-10s to other airlines at the same kind of price. The company themselves were not anxious to secure such orders and might well prefer to close down the VC-10 production line as soon as possible. This would, however, result in a United States monopoly for long-range civil aircraft and would lose an opportunity of significant foreign exchange earnings from the sale of VC-10s over the next few years. It might well be possible to make use of the probable cancellation charges on the existing BOAC orders for the VC-10s to reduce the price of the aircraft to overseas airlines. It was also argued that the results of withdrawing Government support would be damaging to our relations with the Lebanon in view of the importance which they attached to the sale of their apple crop.

On the other hand it was argued that the prospects of sales of VC-10s in world markets were not adequate to justify so unsatisfactory and so costly an agreement. The cost of the VC-10 was too high to attract airline operators in competition with equivalent United States aircraft. The proposal involved selling the aircraft abroad as a substantial loss and any further sales could hardly be on better terms. The number of aircraft sold would be small and their production would involve the use of scarce engineering resources which could be better employed in producing other goods for export which could be sold at a profit. The Report of the Committee of Inquiry into the Aircraft Industry (Plowden Report) had indicated clearly that it was not possible for the United Kingdom aircraft industry on its own to compete in the market for large civil aircraft. Moreover, the future of BAC was in considerable doubt and it would be imprudent to advance further large sums to the company in order to finance the production of aircraft to be sold at a loss. Although the Government would not be directly concerned with the purchase of the Lebanese apples it would be presented as an integral part of an agreement which we supported. If the import quota for apples were not increased there would be serious complaints from such traditional suppliers as Canada and Italy. If, on the other hand, the quotas were increased to meet their complaints there would be serious repercussions on the United Kingdom horticultural industry.
In further discussion the Chief Secretary put forward an alternative proposal. It now seemed possible that credit might be provided for the MEA purchase under the German Offset Agreement. This would not be repayable until the end of 10 years and it would carry interest at perhaps half the normal commercial rate. Such a deal might be as advantageous to MEA as the terms so far discussed and might therefore make it possible to sell the aircraft on an ordinary commercial basis without special governmental assistance.

The Prime Minister, summing up the discussion, said that on balance the Cabinet were opposed to Government support of the order and kind envisaged to enable BAC to meet the terms set by MEA for the purchase of Super VC-10s. The Chief Secretary's proposal should, however, be further examined. If it appeared that it was possible to conclude the deal on reasonable normal commercial terms by the use of credit under the German Offset Agreement the matter should be brought before the Cabinet again.

The Cabinet—

(1) Agreed that the Government should not give special assistance to BAC as set out in C (66) 7 to enable them to meet the terms set by MEA for the purchase of Super VC-10s.

(2) Invited the Minister of Aviation and the Chief Secretary, Treasury, to examine the possibility of the sale being concluded on a normal commercial basis without governmental assistance by the use of credit under the German Offset Agreement.

Cabinet Office, S.W.1,
18th January, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 20th January, 1966, at 10 a.m.

Present:

The Right Hon. Harold Wilson, M.P., Prime Minister

The Right Hon. George Brown, M.P., First Secretary of State and Secretary of State for Economic Affairs (Items 1-4)

The Right Hon. Lord Gardiner, Lord Chancellor

The Right Hon. Michael Stewart, M.P., Secretary of State for Foreign Affairs

The Right Hon. Arthur Bottomley, M.P., Secretary of State for Commonwealth Relations

The Right Hon. William Ross, M.P., Secretary of State for Scotland

The Right Hon. The Earl of Longford, Secretary of State for the Colonies (Items 1-4)

The Right Hon. Anthony Greenwood, M.P., Minister of Overseas Development

The Right Hon. Richard Crossman, M.P., Minister of Housing and Local Government

The Right Hon. Douglas Houghton, M.P., Chancellor of the Duchy of Lancaster

The Right Hon. Frank Cousins, M.P., Minister of Technology

The Right Hon. Frederick Lee, M.P., Minister of Power

The Right Hon. Herbert Bowden, M.P., Lord President of the Council (Items 1-4)

The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer

The Right Hon. Denis Healey, M.P., Secretary of State for Defence

The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department

The Right Hon. James Griffiths, M.P., Secretary of State for Wales

The Right Hon. Douglas Jay, M.P., President of the Board of Trade

The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science (Items 1-3)

The Right Hon. Sir Frank Soskice, Q.C., M.P., Lord Privy Seal

The Right Hon. R. J. Gunter, M.P., Minister of Labour

The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food

The Right Hon. Barbara Castle, M.P., Minister of Transport (Items 1-4)
The following were also present:
The Right Hon. KENNETH ROBINSON, M.P., Minister of Health (Items 2 and 3)
The Right Hon. FREDERICK WILLEY, M.P., Minister of Land and Natural Resources (Item 2)
The Right Hon. EDWARD SHORT, M.P., Parliamentary Secretary, Treasury
The Right Hon. FREDERICK MULLEY, M.P., Minister of Aviation (Item 4)
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Items 2–5)
Mr. JAMES BOYDEN, M.P. Parliamentary Secretary, Ministry of Public Building and Works (Item 4)

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. J. H. LOCKE
Mr. R. T. ARMSTRONG

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SECRET
1. The Foreign Secretary said that he proposed to circulate a paper to the Cabinet giving his impressions after his recent tour of Peru, Chile and the Argentine, in the course of which he had had discussions with all our Ambassadors in Latin America. It was clear that there was much for the United Kingdom to do in order to make up ground that had been lost commercially in Latin America over recent decades. There were opportunities for the expansion of our trade and, in particular, for the sale of capital goods. There was also a greater appreciation than hitherto of economic priorities on the part of Latin American Governments, which suggested that these countries would be more reliable customers in future. Furthermore, despite the continued existence of highly privileged sections of the community, and the danger either of Communist Governments assuming power in some countries or of a continuation of the previous pattern of alternating military dictatorships in others, there was now a real prospect of the emergence of a number of democratic régimes.

The French Government had now delivered what was practically an ultimatum to their partners in the European Economic Community. It did not, however, appear that the remaining five members of the Community would, as they had done in the past, give way in the face of French intransigence.

We should welcome the outcome of the mediation by the Soviet Government at the meeting in Tashkent between India and Pakistan and the Soviet Prime Minister Mr. Kosygin was to be congratulated on the outcome. We must not, however, be over-optimistic in drawing from this event conclusions on the likelihood that the Soviet Union would in future be more willing to work with the West for common objectives. Basically they would continue to be opposed to us, but the containment of the People’s Republic of China was clearly an important part of their policy and it was no doubt principally on this account that their efforts at mediation at Tashkent had been made.

The Cabinet—

Took note of the Foreign Secretary's statement.

2. The Cabinet considered memoranda by the Minister of Housing and Local Government (C (66) 1) and by the Chancellor of the Exchequer (C (66) 2) on Local Government Finance.

The Minister of Housing and Local Government said that in September the Cabinet had approved (CC (65) 48th Conclusions, Minute 1) proposals for a new system of financial assistance to local authorities designed to keep the growth of rates broadly in line with the growth of the economy. It was estimated that the new system would increase the amount of Exchequer grants to
local authorities as compared with existing arrangements by about £30 million in the first year, £60 million in the second year and so on. The Cabinet had also agreed to a major revision in the arrangements for both capital and revenue grants to local authorities. Discussions had been held on these matters with representatives of local authorities. In the light of these discussions and of further consideration some changes now appeared desirable.

As regards the structure of grants, the capital grant for the construction and improvement of main roads should be retained at its present level of 75 per cent instead of being reduced to the 50 per cent which was to apply to other capital grants. As regards revenue grants, there should be a flat increase of £5 million for assisting county boroughs and Inner London boroughs with highways maintenance, and, more important, the separate education grant of 50 per cent of expenditure should be merged in the general grant because of the presentational problems in introducing a 50 per cent grant in place of the previous 60 per cent.

A separate issue arose on the distribution of the additional Exchequer assistance involved in the new proposals. It seemed likely that under the present arrangements the increase in the rates in 1967–68 would be of the order of 1½d. in the £. The additional Exchequer assistance of £25 to £30 million would reduce the average increase in rates to 8·2d. in the £. In view of the smallness of this relief it would be desirable to use the additional Exchequer assistance to reduce the rates of domestic ratepayers only. If this were done, it would mean that the rise in domestic rates would be about 5·6d. in the £ or half what it would otherwise be.

It was unfortunate, but inevitable, that the increase in Exchequer assistance could, at this stage, amount to little more than tinkering with the problem while a major reform of local government finance was being worked out. This would probably need to be part of the general reform of the structure and the functions of local government. The Government were pledged to shift a major part of the burden of local expenditure from the ratepayer to the taxpayer: but in present circumstances it was impossible to make a major shift because of the difficulties of raising national levels of taxation further. Moreover, under the present system of local government the transfer of too great a part of local expenditure would tend to undermine the effectiveness of local government. A transfer of the order of £30 million a year was therefore the maximum which could be contemplated in the next few years. It had originally been intended to restrict the rise in the rate burden to the rate of growth in national income and for any excess in local expenditure over this figure to be met from the Exchequer. It was however clear from the discussions with the local authorities that there would be great difficulties in carrying through the necessary calculations and that it would be better to base the new scheme on an increase in the proportion of local expenditure met by the Exchequer of 1 per cent each year. This would in practice amount to an additional £30 million or so every year.

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The Prime Minister said that, in view of the objections raised by the Chancellor of the Exchequer to some of the proposals made by the Minister of Housing in connection with the structure of the grants system, he had asked for a report from the Official Committee on Local Government Finance to be prepared on these aspects. Discussion of them should be deferred until the report was available. The question of distribution of the additional Exchequer assistance could however be discussed as a separate issue.

The Chancellor of the Exchequer said that there was no prospect at present of finding any alternative to the rates as a source of taxation for raising £1,000 million a year. Moreover the level of local expenditure must continue to rise sharply so long as successive Governments made major increases in social expenditure. The concentration of the additional Exchequer assistance upon the domestic ratepayer would not in practice have great advantages, since there would, in any case, be a substantial increase in the rate burden. Equally there was no great objection to this course if the Cabinet considered it desirable. The arrangement would, however, mean that the amount of rates paid by industry and commerce would be higher than under the scheme previously approved. Since industry and commerce could charge rates as a business expense, there would be a reduction in receipts from Corporation Tax which must be taken into account in calculating the cost to the Exchequer of the new arrangements. Further consideration would have to be given to the amount available for assistance to domestic ratepayers in the light of this factor, which might involve as much as £7½ million a year.

In discussion it was suggested that a disadvantage of the new proposal would be that the increases in local expenditure at the margin would appear to be paid by industry and commerce whereas under the arrangements previously agreed they appeared to be paid by the Exchequer and this might influence local councils to reduce local expenditure on such services as education. It could also be argued that industry and commerce did not benefit from much of the local expenditure and that it was wrong for a higher rate burden to be imposed upon them than upon domestic ratepayers. Furthermore the new arrangements would be particularly favourable to areas which were predominantly residential and the relief to domestic ratepayers might vary considerably from one area to another. This might be difficult to defend and there might therefore be a case for maintaining the scheme originally agreed for one or two years and postponing any major reform until later.

On the other hand it was argued that industry and commerce were already treated more favourably than domestic ratepayers since they could charge rates as an expense for calculation of Corporation Tax. Moreover, the decision to postpone the next revaluation of property would probably bring more benefit to industry than to domestic ratepayers. Concentrating assistance on domestic ratepayers would also assuage some of the objections now
being voiced by ratepayers to the introduction of the rate rebate scheme for poorer ratepayers, part of which was being borne by other ratepayers. In general, considerable support was expressed for the view that, since any additional Exchequer assistance must be limited, it would be highly desirable to concentrate it on domestic ratepayers.

In further discussion it was emphasised that the rating system was manifestly unfair because of its regressive character and it was urgent to decide how best it could be made more equitable. The Ministerial Committee on Local Government Finance had considered reports on the possibility of graduating the level of rates in relation to rateable values. But this could not be fairly done until more information was available from a pilot survey about the relation between rateable values and incomes. An alternative approach might be to link the amount of rates paid directly with incomes. This, however, raised major administrative problems, though when income tax arrangements were dealt with by computers it might well be possible to devise a link with income tax or even to have a separate local income tax with rates fixed individually by local authorities.

The Prime Minister, summing up the discussion, said that the general view of the Cabinet was that additional Exchequer assistance should be concentrated on the domestic ratepayer. The exact amount and the method of distribution should be determined by the Ministers concerned. There was also general agreement that all possible supplementary sources of local revenue, including the possibility of local broadcasting stations carrying advertisements, should be pursued in order to reduce the burden on the rates. In the longer term every effort should be made to devise a more equitable system of local government finance. The prospects opened up by the use of computers for the income tax system should be kept in mind, even if they could not be introduced for several years. In the meantime the Ministers concerned should discuss further a statement of the Government’s policy for the long term on local government finance, including the need to recast it in order to remove the present regressive character of the rating system and, if possible, to make it progressive in its effect.

The Cabinet—

(1) Approved the proposals in paragraph 16 (1) and (2) of C (66) 1.

(2) Invited the Minister of Housing and Local Government, in consultation with the other Ministers concerned, to determine the amount to be used for the relief of domestic ratepayers and the method of distribution between local authorities.

(3) Invited the Minister of Housing and Local Government, in consultation with the other Ministers concerned, and having regard to the points made in discussion, to consider further the remaining issues indicated in the Prime Minister’s summing up.
The Cabinet had before them a note by the First Secretary of State and Secretary of State for Economic Affairs (C(66) 8) to which were attached copies of reports by the National Board for Prices and Incomes (NBPI) on the pay of the Armed Forces and of the Higher Civil Service, and a memorandum by the Secretary of State for Scotland on Scottish Teachers’ Salaries.

The First Secretary of State said that he had now received the reports prepared by the NBPI as a result of the references approved by the Cabinet the previous November, and it was necessary to decide whether to accept and implement the Board’s recommendations and whether to publish their reports. It would be very difficult to withhold publication. The reports of Royal Commissions—and the NBPI was a Royal Commission—were customarily published, and failure to do so would set an embarrassing precedent. Moreover, the Government were bound to be faced with strong demands for publication. In his view the Government were virtually bound to accept the report on Armed Forces’ pay, in view of the emphasis laid by the NBPI upon the extent of the Government’s commitment to the Grigg formula until another system had been adopted. The report on Higher Civil Service pay should similarly be accepted. Though the Standing Advisory Committee on the Pay of the Higher Civil Service (the Franks Committee) had indicated briefly that they had taken the economic situation into account, it had not been possible to be sure that their recommendations had been tested by the criteria of the Government’s policy on prices and incomes. The NBPI had now found that the Committee’s recommendations were in accordance with the policy, and had given cogent reasons for the increase at Under-Secretary level, which was required to restore a reasonable pattern of differentials. For the Higher Civil Service as a whole the average increase was within the norm, and the NBPI had said that it would contribute to the need to balance above average increases in income with increases below the average. In general the Government would be in an indefensible position if, at a time when they were pressing other interests to accept reports by the NBPI which created difficulties for them, the Government rejected recommendations which they found politically inconvenient. It would not be desirable to pay increases to the Armed Forces by instalments, as had been done in 1962. On balance the right course was that the reports should be accepted, published and implemented.

In discussion, though there was general agreement that the Government could hardly do otherwise than accept the recommendations on Armed Forces’ pay, it was argued that the consequences of accepting both reports at the present time, particularly in view of the imminence of a railway strike as a result of the recommendations by the NBPI on railwaymen’s wages, could be very serious. It would be difficult to explain to railwaymen disappointed at an award of only 3½ per cent (which was also now

* Previously recorded in a Confidential Annex.
based on a comparability of earnings as opposed to the previous comparison based on wage rates) how it was justifiable within the incomes policy to pay to those who were already on high rates of pay increases which in some cases amounted in absolute terms to as much as some workers earned in total. The Government were not bound to accept the reports of the NBPI and must retain the right of final decision. There was a danger that not enough precision was being given to the doctrine implicit in the concept of the norm that, if money incomes were to rise at a certain average rate, some people would receive less than the average. There were also strong arguments for applying a different norm for those on higher levels of pay from that applied for those on lower levels of pay, in order to achieve a measure of income redistribution and allow the wages of lower paid workers to rise without breaching the objectives of incomes policy. The view was however expressed that the latter would be a difficult policy to sustain and would not be consistent with the practice of many unions: only recently two major unions which supported the prices and incomes policy had, with the approval of their members, secured more generous rates of increases for more highly skilled and paid men than for lower paid and unskilled men.

In the light of these considerations the proposal was made that the implementation of the Franks Committee's recommendations should be phased so that the Higher Civil Service received increases of 3\% per cent from 1st January, 1966, and the balance from 1st January, 1967.

On the other hand, although the immediate difficulties that would follow from accepting the two reports were generally recognised, it was argued that these considerations should not prove decisive. It would be difficult for the Government to reject or modify the Franks Committee's recommendations, now that they had been approved by the NBPI and it would be represented that, if the Government were in any event unwilling to accept the Committee's recommendations, the right course would have been to decide accordingly when they received them and not to refer them to the NBPI. If the reports were accepted, they would, however, have to be very carefully presented: for instance, it should be stressed that the increase in total emoluments of the Armed Forces averaged 12\% per cent, that the Grigg system for settling Armed Forces' pay was to be reviewed, and that the increase for the Higher Civil Service, taken as a whole, was of the order of 6 per cent for a period of two years and thus within the norm of 3 to 3\% per cent per year.

The Prime Minister, summing up this part of the discussion, said that on balance the Cabinet inclined to the view that both reports of the NBPI should be accepted, despite the immediate political difficulties. The presentation of the reports would be very important, and it would be desirable for the First Secretary of State to agree the terms of his announcement with the Ministers directly concerned. In the light of the discussion it was clear that there was need for a further review of the application of the principle
Scottish Teachers' Salaries

(Previous Reference: CC (65) 73rd Conclusions, Minute 3)

of fair comparisons in the determination of incomes, particularly in the public services. This review should be conducted centrally, and should cover both the Civil Service and the Armed Forces, as well as other services in which it had been applied. Further consideration should also be given to the possibility that, within a norm of 3 to 3½ per cent a year, increases above the average might apply to those who were underpaid as a result of distortions in salary relativities. This might call for some modification of, or addition to, the terms of reference of the NBPI.

The Cabinet—

(1) Agreed that the reports by the NBPI on the pay of the Armed Forces and of the Higher Civil Service should be accepted, implemented and published.

(2) Invited the First Secretary of State to agree the terms and timing of an announcement of the Government's decision with the Ministers chiefly concerned, taking account of the points made in discussion.

(3) Invited the First Secretary of State, in consultation with other Ministers concerned, to consider how the remaining points made in the Prime Minister's summing up could be incorporated in the development of the Government's policy on prices and incomes.

The Secretary of State for Scotland said that on 23rd December the Cabinet had decided that the salary increase for Scottish teachers should be reduced from an average of 15 per cent from 1st April, 1966, as recommended by the negotiating body, to an average of 13 per cent from the same date in order, having regard to the increase received by English teachers from 1st April, 1965, to minimise the risk of damage to the policy on incomes. The Cabinet had also decided that the NBPI should be asked to consider whether this would put Scottish teachers into a fair relationship with English teachers; if not, what further adjustment was required to achieve that objective; and how to ensure that in future English and Scottish teachers' salaries came up for review simultaneously, in order to minimise the risk of "leapfrogging". He proposed to implement the Cabinet's decision by increasing all scales and rates for Scottish teachers by a uniform 13 per cent. This would be a different pattern of distribution from that recommended by the negotiating body and that adopted for English teachers, whereby proportionately larger increases had been given to the basic scale and smaller increases at higher points. In Scotland the basic scale applied in general only to non-graduate women teachers, of whom there was no shortage, and it would be indefensible to give larger increases to them than to the graduate men teachers whom it was more important to recruit. The Chancellor of the Exchequer, however, feared that, if the increases were given uniformly at all points and the NBPI were subsequently asked to consider whether
the increases put Scottish teachers into a fair relationship with English teachers, they were likely to find that a 13 per cent increase on the basic scale in Scotland did not put the teachers concerned into a fair relationship with teachers on the basic scale in England; that there was a danger that they would in consequence recommend further increases on the Scottish basic scale without countervailing reductions at higher levels; and that this would lead to further "leapfrogging".

In discussion it was suggested that the difficulty would be removed if the NBPI were not asked to consider whether the increase proposed would put Scottish teachers into a fair relationship with English teachers but solely whether the overall increase of 13 per cent represented a fair relationship with the overall increase received by the latter. In that event however it would be for consideration whether to proceed with the other parts of the proposed reference. If all the NBPI were being asked to do was to suggest means of ensuring that in future English and Scottish teachers' salaries came up for review simultaneously, this should be a matter which the Departments concerned could settle for themselves without the assistance of the Board. It was however urged that it would be inconsistent with the Cabinet's original decision completely to abandon the reference to the NBPI for an assessment of the fairness of the average increase in relation to English teachers, though the proposed terms of reference might be reframed in such a way as to ensure that the NBPI considered only the comparison overall and did not make comparisons at particular levels.

The Prime Minister, summing up the discussion, said that if the Secretary of State for Scotland distributed the 13 per cent increase uniformly, it would be important to avoid allowing the NBPI specifically to compare increases in the basic scales in the two countries. There were still some doubts whether this could be achieved by reframing the terms of reference to the Board or whether a reference so altered would be worth making. The question of the terms in which such a reference should be made should be considered further by the First Secretary of State, the Chancellor of the Exchequer, the Secretary of State for Scotland and the Secretary of State for Education and Science. The matter should not be referred back to the Cabinet unless the four Ministers were unable to agree. The Cabinet agreed that draft salary scales for Scottish teachers should be published as the Secretary of State for Scotland proposed but this should not be done until the terms of reference had been settled.

The Cabinet—

(1) Invited the First Secretary of State, in consultation with the Chancellor of the Exchequer, the Secretary of State for Scotland and the Secretary of State for Education and Science, to determine the terms in which a reference should be made to the National Board for Prices and Incomes on the salaries of Scottish teachers.
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CC 2 (66)

(2) Agreed, subject to Conclusion (1), that the Secretary of State for Scotland should publish draft salary scales for Scottish teachers giving a uniform increase of 13 per cent at all levels.

4. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C (66) 11) about the 1966-67 Estimates and a memorandum by the Secretary of State for Foreign Affairs (C (66) 12) about the Estimates for the European Launcher Development Organisation (ELDO).

The Chancellor of the Exchequer said that the 1966-67 Estimates had been settled for all the major programmes. The figures for the major civil programmes were based on the public expenditure programme approved by the Cabinet in the summer of 1965. The Defence Budget had been settled (apart from the pay increases) at about the same money figure as in the previous year and the remaining items had been pruned with the same standards of stringency. There remained, however, certain items of expenditure on which agreement had not been reached with the Ministers concerned. These had been discussed by the Public Expenditure Committee, whose recommendations were set out in C (66) 11. They were all items which contained a significant proportion of overseas expenditure: since the balance of payments forecasts for 1966 were less favourable than had been hoped, it was particularly important to contain the expansion of Government expenditure overseas. The Foreign Secretary, although a member of the Public Expenditure Committee, had been out of the country when this met and had reserved his position on the recommendations.

ELDO

The Chancellor of the Exchequer said that the recommendation of the Committee was to restrict provision in the Estimates to £8 million on the basis of terminating our commitment in March 1966. A note would be included that the actual sum was dependent on the decisions to be taken at the meeting of the ELDO Council in that month.

The Foreign Secretary said that the Cabinet’s decision to terminate our commitment to ELDO might call for reconsideration in the light of subsequent events but, however that might be, the present proposal would have unfortunate consequences for our foreign policy. We had voted for the adoption of a budget for ELDO for 1966 on the basis of the continuation of the programme and it would be regarded by the other Governments as a breach of faith if we now failed to provide for it in our own estimates on the same basis. A figure of £12 million should therefore be inserted, with a note that the item might be subject to adjustment in the light of the meeting in March.
The Minister of Aviation agreed with the Foreign Secretary's view on the provision to be made. Our commitment to ELDO should be terminated but the course proposed by the Committee would fail to minimise the political damage of this decision.

In discussion it was suggested that there were several indications that the political reactions to our decision might be less strong than had been suggested. For example, discussion at the Science Conference of the Organisation for Economic Co-operation and Development had shown considerable support for our view that some of the technological programmes were too costly. To include £12 million in the Estimates would be likely to mislead other Governments about our determination to terminate the commitment.

Summing up this part of the discussion, the Prime Minister said that the Cabinet were on balance agreed that provision for £8 million should be made in the Estimates, together with a suitable note as proposed in C (66) 11.

Overseas information

The Chancellor of the Exchequer said that the departments concerned with overseas information had proposed an increase of £3 million (10 per cent) in their Estimates for 1966-67. The Committee had taken the view that substantial economies should be made, by cutting out the less essential items and that an increase of £1 million should be adequate.

The Commonwealth Secretary said that the figure of £32.6 million had been prepared on an austerity basis. In the light of the increase in costs and the commitment to participation in the Montreal Exhibition it would involve a cut in our existing services.

In discussion there was much support for the Committee's view but considerable anxiety was expressed that the necessary cuts would be made by economies in the overseas services of the British Broadcasting Corporation (BBC) and in work connected with trade promotion rather than on less essential kinds of information work.

Summing up this part of the discussion, the Prime Minister said that the Cabinet desired more information about the services which would be curtailed if the recommendation of the Committee were adopted, though it was their view that the provision should not in any event exceed £31.6 million. The Ministers concerned should arrange for a paper to be prepared setting out the broad breakdown of the expenditure covered by such a programme. They should also show what further services would need to be reduced or abandoned in order to bring the provision down to £30.6 million. On the basis of such a report the Cabinet would be able to take a final decision. In establishing priorities the Ministers concerned should seek to avoid cuts in the overseas services of the BBC and in work connected with the promotion of exports.

Defence aid

The Chancellor of the Exchequer said that the Committee recommended reductions in the departmental proposals for military aid to India, and to Malaysia and for the amount spent on military
training facilities for Commonwealth officers and the secondment of United Kingdom officers to Commonwealth Forces.

Discussion showed general agreement with this view.

The Minister of Overseas Development said that some items in the Overseas Aid Programme were of an essentially military nature. The decision to incur additional expenditure in Aden which fell on the Programme but was in support of military activity had further eroded the £12 million which had been included in the 1966–67 Programme to cover contingencies. Allowing for the additional amount already authorised for Colonial territories, for Aden and for famine relief in India, the amount set aside for contingencies was now virtually exhausted, without any provision for further expenditure in Rhodesia when constitutional Government was restored, or for the programme for drought relief throughout Southern Africa.

Overseas representation

Buildings

The Chancellor of the Exchequer said that the Committee had asked the Ministers concerned to make a reduction of about £4 million on the Diplomatic Service Estimate, by making some reductions in staff, and on buildings overseas.

The Parliamentary Secretary, Ministry of Works, said that after the discussion by the Committee it was proposed to reduce the Estimate to £8.5 million, slightly below the figure for the previous year.

In discussion there was general agreement that this figure should be adopted. It was, however, suggested that standards of accommodation and furnishings adopted by the Overseas Departments for their missions were sometimes higher than necessary.

Summing up this part of the discussion, the Prime Minister said that the Estimate should be fixed at £8.5 million for 1966–67. The Chief Secretary, Treasury, should, however, arrange for a thorough review of the standards of accommodation adopted overseas to see whether changes might be made which would affect greater economies in the future.

Diplomatic Service

The Foreign Secretary said that the Estimate for the Diplomatic Service was substantially below the Public Expenditure forecast made in 1965, allowing for changes in salary levels and other costs since the date of the Estimate. There was increasing pressure on the trade services of the Embassies, which were given first priority and also on Consular work in view of the increasing number of tourists. There was thorough and detailed inspection of the staffing of all overseas posts and the adoption of an arbitrary cut in numbers on the scale suggested by the Public Expenditure Committee would be quite impracticable. Some small savings in
staff might be made but any large-scale reduction would not result in savings in 1966–67 in view of the cost of compensation, etc. It would be impossible to make any saving on the scale of allowances, which had only recently been introduced after an independent report and which were essential to enable individuals without private means to enter the Diplomatic Service. It might however be possible to reduce the Estimate for the Diplomatic Services by £1½ million.

After discussion the Prime Minister said that there was a case for considering whether the present scale of activities in certain overseas posts was still necessary when so much more was done directly between Ministers or at International Organisations. This should be further examined as should the scale of entertainment. However, the Estimate for the Diplomatic Service and overseas buildings should be adopted with a combined reduction of £1·7 million for 1966–67.

The Cabinet—

(1) Agreed that the following provisions should be included in the 1966–67 Estimates.

(i) For ELDO £8 million with a note that it would be finally settled in the light of inter-Governmental discussions in March.

(ii) On Defence Aid on the basis set out in Annex C to C(66) 11.

(iii) On Overseas Representation £35·3 million for the Diplomatic Service and £8·7 million for public building overseas.

(2) Invited the Chief Secretary, Treasury, in consultation with the Ministers concerned, to arrange for the preparation of a paper showing what cuts in overseas information services would be necessary to reduce expenditure from £31·6 million to £30·6 million.

(3) Agreed to resume their discussion of the provision on overseas information in the light of Conclusion (2).

(4) Invited the Foreign Secretary and the Commonwealth Secretary to consider further the arrangement for overseas representation in the light of the points raised in discussion.

5. The Prime Minister said that news had just been received of a breakdown of gas supply in the Midlands which would result in some 450 firms being unable to continue operations. The situation required urgent consideration by the Ministers primarily concerned and they should meet to consider the situation in consultation with the Committee on Winter Emergencies under the chairmanship of the Lord Privy Seal.
The Cabinet—

Invited the Lord Privy Seal, in consultation with the Ministers concerned, to arrange for the Committee on Winter Emergencies to give urgent consideration to the situation in the light of the Prime Minister's statement.

_Cabinet Office, S.W.1,
20th January, 1966._
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 25th January, 1966, at 10.30 a.m.

Present:

The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. George Brown, M.P., First Secretary of State and Secretary of State for Economic Affairs (Items 1–6)
The Right Hon. Lord Gardiner, Lord Chancellor
The Right Hon. Michael Stewart, M.P., Secretary of State for Foreign Affairs
The Right Hon. Arthur Bottomley, M.P., Secretary of State for Commonwealth Relations
The Right Hon. James Griffiths, M.P., Secretary of State for Wales
The Right Hon. Douglas Jay, M.P., President of the Board of Trade
The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science
The Right Hon. Douglas Houghton, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. Frank Cousins, M.P., Minister of Technology
The Right Hon. Frederick Lee, M.P., Minister of Power

The Right Hon. Herbert Bowden, M.P., Lord President of the Council
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. The Earl of Longford, Secretary of State for the Colonies
The Right Hon. Anthony Greenwood, M.P., Minister of Overseas Development
The Right Hon. Sir Frank Soskice, Q.C., M.P., Lord Privy Seal
The Right Hon. R. J. Gunter, M.P., Minister of Labour
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Barbara Castle, M.P., Minister of Transport

The following were also present:

The Right Hon. Sir Frank Soskice, Q.C., M.P., Attorney-General (Items 1–3)
The Right Hon. Frederick Mulihey, M.P., Minister of Aviation (Items 5 and 6)
The Right Hon. John Diamond, M.P., Chief Secretary, Treasury (Items 4–7)

Secretariat:

Mr. P. Rogers
Mr. D. S. Laskey
Mr. R. T. Armstrong

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1. The Cabinet discussed the Parliamentary arrangements for replying to the motion of censure tabled by the Opposition for debate in the House of Commons on the following Thursday.

*2. The First Secretary of State said that the discussions which were currently taking place in relation to the threatened railway strike had shown that an early announcement of the Government’s acceptance of the reports of the National Board for Prices and Incomes (NBPI) on the pay of the Armed Forces and the Higher Civil Service might well embarrass the Government in their efforts to achieve a settlement. He had not reached any firm view at the present stage whether or not this made it desirable either for the Cabinet to review their decision or for its announcement to be delayed, but it might be necessary for the question to be further considered at their meeting later in the week.

In discussion it was suggested that the Government’s decision was already widely expected and that a delay in its announcement would not have any effect on the railway dispute. While there might be a case for reviewing the Cabinet’s decision on the implementation of the NBPI report on the pay of the Higher Civil Service, any change would necessitate consequential changes in the pay of senior officers in the Armed Forces. There was general agreement that, subject to this latter aspect, the report of the NBPI on the pay of the Armed Forces should in any event be implemented, though the announcement of the Government’s decision might be deferred.

The Cabinet—

(1) Took note that the First Secretary of State might bring before them at their next meeting the possible need to reconsider the Cabinet’s decision in respect of the pay of the Higher Civil Service, with any consequential effect that might be entailed in respect of the pay of senior officers in the Armed Forces.

(2) Subject to Conclusion (1), invited the First Secretary of State, in consultation with the Chancellor of the Exchequer and the Secretary of State for Defence, to determine in the light of the discussion the dates of publication of the reports of the National Board for Prices and Incomes on the pay of the Armed Forces and of the Higher Civil Service and of the Government’s decisions on them.

* Previously recorded in a Confidential Annex.
3. The Prime Minister said that a statement on terms for ending the rebellion and on the constitutional future of Rhodesia had been drafted in the light of the recent discussions with Sir Hugh Beadle, the Chief Justice of Rhodesia. The effect of sanctions was not yet being felt by the man in the street in Rhodesia and Sir Hugh Beadle did not consider that the statement would at this stage be decisive in turning opinion against the illegal régime. It was difficult to judge the moment when the statement would have the greatest impact in Rhodesia but there were advantages in making it now so that it would be on the record when the effect of sanctions began to be felt.

In discussion of the draft statement (the text of which, as amended, follows this minute) a number of amendments were agreed and the following main points were made:

(a) Paragraph 1. In answer to questions about economic measures it could be said that further measures were under consideration.

(b) Paragraph 2. The reference to constitutional rule might be taken to mean Parliamentary rule; it was, however, pointed out that the phrase “constitutional rule” was now well established as implying the end of illegal independence.

(c) Paragraph 3. It might be unwise for the United Kingdom Government to hold discussions with the illegal régime, even on the limited subject of bringing the rebellion to an end: there would also be a risk in giving the Governor too wide a discretion to undertake such discussions. The statement should therefore be limited to “The Governor is authorised to receive from the régime any proposals about the means by which the rebellion is to be brought to an end”.

(d) Paragraph 7. Reference to “the widest possible spectrum of public opinion of all races in the country” might be interpreted by the European minority to mean that there would be predominant African representation in the interim government. It was, however, pointed out that this phrase had been accepted by Sir Hugh Beadle as being likely to commend itself to reasonable European opinion in Rhodesia, and any change might be liable to misinterpretation by him.

The point was also made that the Government would be asked whether Mr. Smith himself or other members of the illegal régime would be acceptable as members of the interim government. It was the general view that this should not be absolutely excluded, although it seemed likely that after the overthrow of the present régime Mr. Smith would withdraw from public life in Rhodesia or even emigrate to South Africa. In answer to questions, reference could be made to our intention that the interim government should comprise the widest possible spectrum of public opinion of all races in the country; it must, however, be a condition that members of the interim government should be committed to accept constitutional rule and the five principles which the United Kingdom Government had laid down.
(e) Paragraph 11. This paragraph was intended to convey a warning that elections might be deferred for a considerable time. Matters relating to the franchise would have to be determined and this might be done by a variety of means, such as a Royal Commission, a constitutional conference, or a referendum. It would be unwise to go into detail at this stage.

(f) For reasons of brevity the Government’s original five principles had not been repeated in the statement but they should be attached as an annex when the statement was published.

Financial and economic measures

The Chancellor of the Exchequer said that a public statement was ready for issue to the effect that, when constitutional government was restored in Rhodesia, the lawful government would not be bound to accept responsibility for any obligations (including exchange control authorisation) which the illegal régime might have purported to incur. A further measure was also being considered by which the United Kingdom banks would assume the responsibility of their branches in Rhodesia for all overseas transactions. It was, however, doubtful whether this could be made effective and it might only damage our banking reputation and divert business to our competitors.

The First Secretary of State said that a number of further economic measures should be taken. A total ban on exports to Rhodesia should be imposed; but it remained to be decided whether this should exclude goods already paid for and ready for shipment, as the Confederation of British Industries (CBI) had requested. The ban on imports from Rhodesia should also be raised from 95 per cent to 100 per cent. Subject to further discussion with the CBI, United Kingdom firms might be asked to reduce the activities of their Rhodesian subsidiaries. Chrome exports from Rhodesia had already been made illegal by Order in Council in order to assist the United States Government in stopping imports of chrome from Rhodesia into the United States. Similar action could be taken in respect of tobacco and the merchanting of tobacco in Rhodesia with a view to export could also be made illegal.

In discussion it was suggested that to exclude goods already paid for and ready for shipment from the ban on exports to Rhodesia would appear to leave open a loophole and might discourage other Governments from banning exports to Rhodesia. It was, however, pointed out that the amount of such goods was likely to be negligible and that to refuse the CBI’s request would unnecessarily antagonise industry. On balance, therefore, it was the general view that this exclusion should be allowed.

The Prime Minister, summing up the discussion, said that the imposition of further financial and economic measures might best be announced at the end of the week. These should include the repudiation of the obligations incurred by the illegal régime, the ban on exports to Rhodesia and the increase in the ban on imports from
95 per cent to 100 per cent. The ban on exports should exclude goods already paid for and ready for shipment. Subject to further consideration by the Chancellor of the Exchequer, action to freeze the external assets of Rhodesian branches of United Kingdom owned commercial banks might be included in the further series of measures to be imposed when trade between Zambia and Rhodesia was cut off. Action to make illegal the export and merchanting of tobacco might best be deferred until shortly before the tobacco auctions were due to start. Bechuanaland should continue to be exempted from these financial and economic measures.

The Cabinet—

(1) Took note that the Prime Minister would make the statement on terms for ending the rebellion and on the constitutional future of Rhodesia that afternoon.

(2) Invited the First Secretary of State, in consultation with the Chancellor of the Exchequer and the Commonwealth Secretary, to announce the imposition of further financial and economic measures at the end of the week, on the lines indicated by the Prime Minister in his summing up of their discussion.

DRAFT STATEMENT

THE FUTURE OF RHODESIA

The first aim of the British Government is to bring the Rhodesian rebellion to an end as quickly as possible, without lasting damage to the country. To this end, they will maintain and, if necessary, intensify economic measures with a view to a speedy settlement. But it is equally the purpose of the British Government to help the people of Rhodesia, without rancour or recrimination, in making a fresh start towards establishing (in the words of the Lagos communique) "a just society based on equality of opportunity to which all sections of the community could contribute their full potential and from which all could enjoy the benefits due to them without discrimination or unjust impediment.

2. This fresh start must begin with an unqualified return to constitutional rule. It must also engage from the outset the capacities of all Rhodesians of good will in the work of overcoming the fears and antagonisms of the past and of setting Rhodesia on the road to independence in a spirit of inter-racial trust and collaboration.

3. The illegal declaration of independence and the subsequent actions of the rebel régime have created a new situation. Rhodesia's future course cannot be negotiated with the régime which illegally claims to govern the country. There is no confidence inside or outside Rhodesia that they could be relied on to lead the country forward to an independence in which racial harmony would be
ensured. The Governor is authorised to receive from the régime any proposals about the means by which the rebellion is to be brought to an end. But discussion of Rhodesia’s constitutional future must be with responsible persons representing all the people.

4. Rhodesia obviously cannot proceed at one step from rebellion to independence. For all the reasons given by Her Majesty’s Government repeatedly, inside and outside Rhodesia, and as I said at the United Nations on 16th December, 1965, “a return to constitutional rule would not and could not mean an immediate advance to majority rule”. That process must be renewed without delay or impediment: but it can come only with time—and time measured by African advancement and achievement.

5. Once there has been a return to the rule of law and the constitution, the British Government will immediately act to reverse the economic measures taken during the rebellion, in order to permit the resumption of Rhodesia’s external trade, the reopening of markets for her exports, the inward flow of essential supplies such as oil and petrol, and the renewal of investment and the planned development of the country. The necessary statutory instruments are ready and could be made effective immediately.

6. This will be the first step in a period of economic and political rehabilitation during which passions may cool, the economic and social strength of the country may be restored and the energies of all Rhodesians may be enlisted in the tasks of reconstruction.

7. Assuming that there is a speedy and peaceful return to constitutional rule, the best provision for the first stage after this return would appear to be for the Governor to form an interim Government of Rhodesians, responsible to him, comprising the widest possible spectrum of public opinion of all races in the country and constituting a representative Government for reconstruction. During this period, the police and military forces will come under the direct responsibility of the Governor.

8. The first responsibility of this interim Government, as of any Government, will be the maintenance of law and order. This will require not only the normal precautions against domestic disturbance and illegality but also, in the special circumstances of Rhodesia, guarantees to prevent a repetition of the rebellion and to protect human rights. The British Parliament will need to be assured about the adequacy and effectiveness of these guarantees.

9. Urgent action will be needed to restore the Rhodesian economy. The British Government will be ready to contribute to the economic needs of the country and in particular to assist, in co-operation with other Commonwealth Governments, with schemes for the advancement, education and training of Africans so that they may as soon as possible play their full part in the development of the country’s economic and political institutions.

10. Problems of political rehabilitation will also have to be tackled. Persons restricted or detained for purely political reasons will have to be released provided that they give guarantees that their
political activities will be conducted constitutionally. The aim is to create conditions in which, while law and order is maintained, political activities may be conducted in security and freedom from intimidation from any quarter.

11. How long this period of interim government may last cannot immediately be foreseen; neither can the date at which Parliamentary institutions can be restored. Clearly the period of interim government will last until conditions can be stabilised and the social and political wounds inflicted on the country can be healed. The views of the people of Rhodesia will have to be sought on the amendments and changes necessary in the 1961 Constitution to secure a resumption of full constitutional government on the basis of the five principles which have been proclaimed by successive British Governments. To these must now be added a sixth principle, namely, the need to ensure that, regardless of race, there is no oppression of majority by minority or of minority by majority.

12. The course of constitutional development in Rhodesia after this towards independence must be based on the implementation of these principles and it will be necessary in due course to consider the means of ensuring this, for example by a Royal Commission in preparation for a Constitutional Conference, which will in any case need to be held before independence can be achieved.

13. The British Government have maintained throughout that, while Rhodesia is a matter of world concern, it remains a British responsibility and they continue to accept their full responsibility. They intend to discharge their task in the interests of all the people of Rhodesia. The British Government are convinced that there cannot be lasting peace, freedom or prosperity in Rhodesia until constitutional rule is resumed and the country is fairly set on paths leading to a just and democratic society in which full equality of opportunity is assured, racial discrimination is removed and the rights of Europeans and Africans alike are safeguarded.

14. Every week that passes while the rebellion continues increases the economic and political strains within Rhodesia and makes the eventual task of reconstruction more difficult. It now rests with all responsible Rhodesians who have the true welfare of their country at heart to bring the rebellion to an end before it is too late and to support the representative of The Queen in upholding constitutional law in Rhodesia.

4. The Cabinet considered a memorandum by the Minister of Transport (C (66) 10) on the handling of issues relating to problems of urban traffic and transport, particularly in London.

The Minister of Transport said that at their meeting on 7th December, at which they had discussed the proposed increases in London Transport fares, the Cabinet had commissioned a report by mid-January on specific measures to restrain private traffic in London and to raise a financial contribution from non-Exchequer sources to
London transport. It was clear that schemes for restraining private traffic or raising additional revenue by means of supplementary licensing would require legislation and would take a considerable time to work out. It would be unwise to proceed with restrictive measures of this kind in advance of co-ordinated proposals for urban transport, including the improvement of public transport. It would therefore be best that the Government's views on traffic restraint and supplementary licensing should be presented in the context of urban transport policy as a whole in the White Paper on transport policy which it had been announced would be presented during the spring. In the meantime discussions with the Greater London Council were continuing on the scope for expanding and intensifying parking controls in London; the Council were due to report to her next month.

In discussion there was general support for the proposals by the Minister of Transport and a particular welcome for her desire to include simultaneously with further restraints on private traffic positive measures for the improvement of public transport. It had originally been envisaged that a statement would be made at the time when the London Transport fare increases came into operation; that had not proved possible, and it would therefore be right to include proposals on the restraint of traffic in the presentation of a co-ordinated policy.

It was also pointed out that, if further restraints were introduced on public parking in central London, they would not be designed merely to avoid local congestion but would go further than would be necessary on this score alone in order to diminish the volume of traffic coming into London. They would undoubtedly be unpopular; and they would require an increase in the force of traffic wardens, which might have implications for their salaries.

The Prime Minister, summing up the discussion, said that the Cabinet agreed generally with the proposal of the Minister of Transport to deal with measures of traffic restraint and supplementary licensing in the context of a policy for urban transport as a whole.

The Cabinet—

(1) Took note of C (66) 10.

(2) Invited the Minister of Transport to circulate a draft White Paper on transport policy for consideration in due course.

5. The Cabinet considered a memorandum by the First Secretary of State and Secretary of State for Economic Affairs (C (66) 14) reporting the conclusions of a Committee of Ministers on the immediate action to be taken by the Government on the recommendations of the Committee of Inquiry into the Aircraft Industry (Plowden Report) on the aircraft industry.
The First Secretary of State said that the Committee of Ministers under his chairmanship had agreed that the Government should accept the basic analysis of the future of the aircraft industry in the Plowden Report, and that they should promote a merger of the airframe interests of the British Aircraft Corporation (BAC) and Hawker-Siddeley Limited (HS), with a Government shareholding in the new company. The precise nature and terms of the Government's participation should be left for settlement in negotiations with the existing companies. An announcement on these lines, which should avoid committing the Government on details, and particularly on the question of the Government's holding in the proposed new airframe company, could be made by the Minister of Aviation in a debate on the aviation industry early in February.

The Minister of Aviation said that it would also be necessary to accept in general terms the Plowden Committee's forecast of a contraction in the size of the aircraft industry from 250,000 to 200,000 employees or less by 1970. The question whether the guided weapons interests of the two firms should be merged would need to be further considered. Negotiations with the companies, and particularly with BAC, would not be easy; there were some in the aircraft industry who would prefer to sell all their interests rather than participate in a joint company with a Government holding.

In discussion the following points were made:

(a) If the Cabinet accepted the Committee's recommendation to seek a negotiated agreement, the decision on the size of the Government's shareholding would turn mainly on what could be agreed with the companies. It would none the less be desirable to have a preliminary indication of the Cabinet's view of what the aim should be. It was suggested that no decision should be taken on this issue until the size, shape, location and management of the reorganised industry had been settled. Whatever arrangements were made, it was important that the Government should be able to determine the major decisions on these factors. This might be thought to require at least a majority shareholding. On the other hand there might be a danger that 100 per cent public ownership would weaken the competitiveness of the new company in international markets, and would create difficult pressures upon the Government in view of the need for the industry to contract. A 70 or 80 per cent shareholding would enable existing private interests to withdraw most of their money from the industry, and leave them with too small a stake in the new concern. These considerations might indicate the desirability of a 51 per cent holding, but this might be the most difficult of all to negotiate. It might well be possible to meet the Government's objectives in terms of influence on the policy of the company with a minority holding of, say, 30 to 40 per cent, provided that the majority shareholding was not concentrated in a few hands but was widely spread.

(b) In the tactical handling of the negotiations the major consideration would be to ensure that the management of the new company was in the right hands. Past experience suggested that it
would be important that the HS management rather than the BAC management should be in charge of the new company; this would indicate the need to ensure that the terms of the merger and of Government participation were acceptable to HS. It might be easier to handle BAC if negotiations were not pressed forward with too great urgency, in view of their financial position and prospects; on the other hand undue delay, after the period of uncertainty that had already elapsed, could lead to a further deterioration of morale in the industry and damage its prospects of ultimate viability on the basis of the Plowden Committee’s recommendations. In any event, there should be no delay in the further discussions which would be needed to establish Ministerial agreement on the detailed points that remained to be settled.

(c) It would be helpful if, in his speech on the Plowden Committee’s recommendations, the Minister of Aviation could welcome and endorse the proposals for international co-operation, in the first place between the United Kingdom and Europe and subsequently between the combined European interests and United States industry, and the proposal for a conference of European aviation Ministers. On the other hand it might be advisable at this stage not to endorse the recommendation that the most sophisticated types of aircraft should be acquired from the United States; this might appear prematurely to rule out the possibility that aircraft of this type could be designed and built by a combined Anglo-European effort.

(d) Further consideration would need to be given to the immediate problem of the future of Shorts, and in particular to what could be said about the prospects for the Belfast aircraft.

The Prime Minister, summing up the discussion, said that the Cabinet in general endorsed the line proposed in the memorandum by the First Secretary of State on immediate Government action in the light of the Plowden Committee’s recommendations on the aircraft industry. There should be further discussions between the Ministers concerned on the points that would arise in subsequent negotiation with BAC and HS. The Cabinet agreed that the Minister of Aviation should make a statement on the lines proposed, including the specific references to international co-operation suggested in discussion. There should be further discussion between the First Secretary of State, the Secretary of State for Defence and the Minister of Aviation on handling the immediate problems in connection with Shorts.

The Cabinet—

(1) Approved the proposals for Governmental action on the Plowden Report set out in the memorandum by the First Secretary of State (C (66) 14).

(2) Invited the Minister of Aviation to announce in a debate on the aviation industry in the House of Commons early
in February the Government’s attitude to the recommendations of the Plowden Report on the lines indicated by the Prime Minister, including the specific references to international co-operation.

(3) Invited the First Secretary of State to arrange for the Committee of Ministers which had considered the recommendations of the Plowden Report to give further consideration to the issues which would arise in negotiations on the implementation of these decisions.

(4) Invited the First Secretary of State, in consultation with the Secretary of State for Defence and the Minister of Aviation, to give further consideration to problems arising in connection with Shorts.

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The Aircraft Industry

British Aircraft Corporation: Hardship Payments

6. The Cabinet considered a memorandum (C (66) 9) by the Minister of Aviation on a hardship claim by the British Aircraft Corporation (BAC) following the cancellation of the TSR 2.

The Minister of Aviation said that the Government’s decision the previous year to cancel the TSR 2 had robbed BAC of the basic work and profit on which its future plans had been based. It had always been recognised that a heavy hardship claim would be made by the contractors and at the time of cancellation this had been put at the notional figure of £20 million. The effect of cancellation on the work of the Corporation as a whole was such as to affect adversely the sales prospect of the BAC 1-11 and in consequence the Corporation had submitted a claim for financial assistance on a large scale. This included a claim for £8.5 million under the “hardship” provision of the Break Clause of the TSR 2 contracts, a request for a payment of £19.25 million in respect of the cost of the development of BAC 1-11, any payment under this head to be reduced by the amount paid in respect of the TSR 2 Break Clause, and finally a claim for £9.452 million for overheads unrecoverable as a result of the cancellation of the TSR 2. The last claim could be negotiated in accordance with normal contractual practice and it seemed probable that only a much smaller sum would prove to be admissible. The first claim for a “hardship” payment must not be confused with normal cancellation charges: nor could it be considered in isolation from the claim in respect of the cost of development of the BAC 1-11.

The Ministry of Aviation’s Director of Accounting Services had investigated the finances of the Corporation: his report revealed that these were precarious and assessed the sum required to enable BAC to carry on successfully at a minimum of £12 million. While the Government could not contemplate a payment designed primarily to compensate the Corporation for the frustration of their expectation of profit, their survival was nevertheless important, since they were responsible for the United Kingdom share of the Concord airframe development and of the two Anglo-French military aircraft projects.

In the light of these considerations it would be reasonable to make a substantial payment to the Corporation assessed in relation to the development of the BAC 1-11. When the Corporation
developed the first version of the BAC 1-11 they had applied for, and received, the 50 per cent aid which the Government's present policy allowed them to contribute towards promising civil aircraft. When the Corporation, in 1963, decided to proceed with the second version of the aircraft it was open to them to apply for similar assistance and, had they done so, it would probably have been granted. The Corporation had preferred, however, to finance this version themselves, partly in expectation that their profits on the TSR 2 would provide a financial margin against any setbacks. It would therefore be reasonable for the Government now to pay the Corporation a further sum to bring the Government's contribution up to 50 per cent of the agreed costs of the BAC 1-11 project to date and of the estimated forward cost. If these were confirmed as £36 million, the Government's additional payment would be a further £8.25 million.

A total rejection of the Corporation's claim in respect of the TSR 2 would make voluntary negotiations between them and the Government on the basis of the recommendations of the Committee of Inquiry into the Aircraft Industry (the Plowden Committee) impossible and might even result in the production of the BAC 1-11 coming to an end. In any event, action which would seriously prejudice the financial viability of the Corporation would do irreparable damage to the three current Anglo-French co-operative aircraft projects, to our export standing in respect of aircraft generally and to the prospect of co-operation with the Corporation in pursuance of the Plowden Committee's recommendations. In these circumstances, it would be desirable to offer the Corporation a payment of £8.25 million on account of further assistance to the BAC 1-11, on condition that this was regarded as meeting also any "hardship" claim related to the TSR 2, whether under the Break Clause or in respect of overheads not otherwise recoverable. Such a payment would not invalidate the calculations which were before Ministers at the time the TSR 2 was cancelled, nor erode the savings which were then forecast.

The Chancellor of the Exchequer said that the provision which had been made for £20 million for "hardship" payments at the time of the cancellation of the TSR 2 had no basis apart from being the maximum estimate of what might be claimed. BAC had been paid all that was due to them under their contract and no claim in respect of frustrated profits was admissible. Nor had BAC any moral rights in respect of the governmental contribution of 50 per cent towards the cost of developing the second version of the BAC 1-11 which they had failed to claim at the time, since they then expected to make a profit on this version; no claim for assistance had been made since this would have involved an equivalent Government share in the profits. However, in view of the effect of the financial position of BAC on co-operation with the French in the production of aircraft and on our exports of aircraft it would be reasonable to offer BAC a loan of sufficient working capital to meet their requirements, with interest at Bank Rate and repayable from 1967 onwards as BAC...
effected their delivery of the BAC 1-11 to meet the current United States order.

Discussion showed general agreement with the proposal put forward by the Chancellor of the Exchequer.

The Cabinet—

(1) Agreed that the claims submitted by the British Aircraft Corporation for financial assistance should be rejected, save to the extent that any part of these claims proved to be admissible in accordance with normal contractual practice.

(2) Invited the Minister of Aviation, in consultation with the Chancellor of the Exchequer, to negotiate an agreement with the Corporation for the provision by the Government of working capital on the basis proposed by the Chancellor of the Exchequer.

The Chief Secretary, Treasury, said that the report by officials had inevitably been prepared in great haste and he would not wish to be committed to it in detail. Broadly, it showed the means by which the draft estimates had already been reduced by a sum of £1 million and the alternative means by which a further similar reduction could be made. This could be either by the suspension of all work on the Middle East Relay Stations in 1966–67, coupled with the deferment of certain operations and new services by the British Broadcasting Corporation (BBC) and a reduction of £180,000 in provision for the British Information Services (BIS) or, if no further reduction were made in the estimate for the BBC External Services, a reduction of a further £650,000 in the provision for the British Council and the BIS.

The Foreign Secretary said that the increase in the draft estimates had been due to the need to rebuild the Middle East Relay Station, and to make provision for the Montreal Exhibition, the decision on which could not now be reversed, and to rising salary costs outside departmental control. These three aspects involved increased expenditure of £3½ million. In previous discussion it had been agreed to reduce the draft estimates of £32·6 million to £31·6 million. A further cut of £1 million would do serious damage to our work on overseas information, which was closely linked with trade promotion. Indeed, the work of the British Council, which was our chief instrument for promoting a knowledge of English abroad, had to that extent also a direct relation with trade promotion. Furthermore, the British Council was an invaluable instrument for
the propagation of Government information in those countries where our Embassies were prevented from disseminating it. It was therefore important to our work overseas as a whole that provision should be made for expenditure of £31.6 million.

In discussion there was general agreement that no reductions which might prejudice our trade promotion should be made in the provision for overseas information work. It was suggested that it might be practicable to make a smaller reduction than £1 million which would not affect services specifically related to trade promotion. It was, however, the general view that further partial reductions might damage the efficiency of our overseas information work as a whole and that provision in the estimates should therefore be made at the higher total.

The Cabinet—

Agreed that provision should be made in the 1966–67 estimates for expenditure of £31.6 million on overseas information services.

_Cabinet Office, S.W.1,_

_25th January, 1966._
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 27th January, 1966, at 10.30 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. ARTHUR BOTTOMLEY, M.P., Secretary of State for Commonwealth Relations
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. THE EARL OF LONGFORD, Secretary of State for the Colonies
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Overseas Development
The Right Hon. RICHARD CROSSMAN, M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P., Minister of Labour (Items 1 and 2)
The Right Hon. FREDERICK LEE, M.P., Minister of Power

The following were also present:
The Right Hon. KENNETH ROBINSON, M.P., Minister of Health (Items 2-4)
The Right Hon. FREDERICK WILLEY, M.P., Minister of Land and Natural Resources (Items 3 and 4)
The LORD SHACKLETON, Minister of Defence for the Royal Air Force (Item 2)
The Right Hon. FREDERICK MULLEY, M.P., Minister of Aviation (Item 1)
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Item 3)
Mr. GEORGE THOMSON, M.P., Minister of State for Foreign Affairs (Item 1)
The Right Hon. EDWARD SHORT, M.P., Parliamentary Secretary, Treasury

Secretariat:
SIR BURKE TREND
Mr. P. ROGERS
Mr. R. T. ARMSTRONG
1. The Lord President said that on 1st February there would be a debate in the House of Commons on a motion to take note of the Report of the Committee of Inquiry into the Aircraft Industry (Plowden Report). It appeared that the Opposition would not seek to divide the House on a motion in such terms, since it implied that the Government's attitude towards the Report was at this stage purely exploratory. If, however, the Government were to commit themselves to the acceptance of the Report by a motion which welcomed it, an amending motion might then be tabled.

The Minister of Aviation recalled that earlier in the week the Cabinet had agreed (CC (66) 3rd Conclusions, Minute 5), that the Government should accept the Report's basic analysis of the future of the aircraft industry, but that the precise nature and terms of the Government's participation in the industry should be left for negotiation. They had also agreed that he should endorse the proposals for international co-operation: but these did not seem likely to prove contentious. In these circumstances the best course might be for the Government's motion to take note of the Report and for his speech to welcome it in principle without any commitment on its details, although the proposals for international co-operation should be specifically welcomed.

Discussion showed general agreement with this view.

The Cabinet—

(1) Agreed that a motion should be tabled in the House of Commons which would take note of the Report of the Committee of Inquiry into the Aircraft Industry.

(2) Invited the Minister of Aviation in his speech on the motion to welcome only the broad principles of the Report and the proposals for international co-operation, on the lines indicated in the discussion.

2. The First Secretary of State said that discussions since the Cabinet's decision to accept the reports of the National Board for Prices and Incomes (NBPI) on the pay of the Armed Forces and the Higher Civil Service had suggested that an early announcement of the decision might be embarrassing to the Government both in relation to their efforts to promote a settlement of the dispute on railwaymen's pay and in the wider context of the proposed legislation on prices and incomes. On the other hand it was necessary to give full weight to the impact on both the Armed Forces and the Civil Service as a whole of a decision to reject the reports or to accept them only in a modified form. The increases for the Armed Forces could be presented as being the equivalent of an annual rate of increase of just over 6 per cent, and the reasons for giving an increase.

* Previously recorded in a Confidential Annex.
above the norm could be convincingly explained by reference to the period of time to which it was related. Similarly, the increases for the Higher Civil Service could be shown as being well within the norm as a whole; and the exceptional increases for Under-Secretaries could be justified by reference to special factors. None the less the absolute figures of some of the increases could be embarrassing. He had therefore considered further, in consultation with the Chancellor of the Exchequer and the Secretary of State for Defence, whether to invite the Cabinet to reconsider their decision on the acceptance of the report on Higher Civil Service pay. This might have been desirable if it had been reasonably certain that a decision to modify the NBPI's recommendations would be likely to facilitate an acceptable settlement of the railwaymen's dispute and substantially to diminish opposition to the prices and incomes legislation. But there was no assurance that such would be the result. His own view, therefore, was that, on balance, the Cabinet's decision should stand and that it should be announced later in the day. But in view of the potential embarrassment the Cabinet might wish to give the matter further consideration before action was finally put in hand.

The Prime Minister said that, since the Cabinet were not being asked to reconsider the substance of the decision which they had recently taken, the issue now before them related simply to the timing and presentation of that decision.

The Chancellor of the Exchequer said that he had received earlier that morning a formal request from the Secretary-General of the Staff Side of the Civil Service National Whitley Council that the Staff Side should be provided with a copy of the report of the NBPI on Higher Civil Service pay in advance of publication. It would be desirable, therefore, that he should invite representatives of the National Staff Side to a meeting later in the day, at which he could give them copies of the report and inform them of the Government's decision before it was publicly announced. On this basis an announcement should be deferred until 28th January.

In discussion it was suggested that, if an announcement were deferred for a further day, the Government might be exposed to criticism that this arrangement had been made deliberately in order to protect them against embarrassing criticism in that afternoon's economic debate in the House of Commons or for other reasons. It was the general view, however, that consultation with the Staff Side, which would be in conformity with the procedure adopted in relation to other reports by the NBPI, would constitute sufficient justification for a further slight postponement of publication.

The Cabinet—

(1) Invited the Chancellor of the Exchequer to arrange a meeting later in the day with representatives of the Staff Side of the Civil Service National Whitley Council in order to give them advance notice of the Government's decision on the report by the National Board for Prices and Incomes on Higher Civil Service pay.
(2) Invited the First Secretary of State to arrange for the reports by the National Board for Prices and Incomes on Armed Forces pay and Higher Civil Service pay to be published on Friday, 28th January, and for the Government’s decision on these reports to be announced in the House of Commons on the same day.

(3) Invited the Chancellor of the Exchequer to arrange for Ministers to be supplied with appropriate material for the public justification of the Government’s decision.

3. The Cabinet had before them a note by the Secretary of the Cabinet (C (66) 17), to which was attached a report by the Official Committee on Local Government Finance on capital grants for highways improvement and the proposal for a separate grant for education, and a memorandum by the Minister of Housing and Local Government (C (66) 20) on the points outstanding for decision from the Cabinet’s previous discussion of local government finance.

The Minister of Housing and Local Government said that he had reached agreement with the Chancellor of the Exchequer and the Secretary of State for Education that there were no administrative or technical advantages in having a separate education grant, and the Local Authority Associations did not appear to favour a separate grant on any basis which would be viable. The Cabinet might therefore agree that the proposal for a separate grant for education services should not be pursued.

It had originally been proposed to introduce capital grants at a level of 50 per cent for various services, and to reduce from 75 to 50 per cent the maximum level of grants for improvements and construction of highways. It now appeared that, in view of the high cost and very uneven incidence of major road schemes, it was not practicable to reduce the level of highways grants. To keep these at 75 per cent and hold the other capital grants at 50 per cent would involve an increase in Exchequer assistance of £27 million. Such an increase could be avoided by reducing capital grants on other services to 40 per cent, but none of the Ministers concerned considered such a reduction feasible. It might be that the local authorities would not welcome capital grants for other services on the ground that they would be likely to increase Governmental control, in which event he would not pursue the proposal but it would be undesirable for the Government to take the initiative in withdrawing it. However, if the additional money could not be found, then the only alternative to maintaining the grants at the level of 50 per cent was to drop them altogether.

It had been agreed that the Government should give additional assistance amounting to £30 million to local authorities in 1967-68, and that this assistance should be concentrated on the relief of the
domestic ratepayer. This would increase the rate burden of industry; as industry could charge rates as an expense before deduction of tax, every additional £5 million on the rate burden of industry cost the Exchequer about £1 million in loss of revenue. For these reasons it was proposed that the grant to local authorities for relief of the domestic ratepayer should be £25 million. This would be acceptable if an additional £5 million could be provided in respect of the maintenance of highways in county boroughs and inner London. There would, however, be grave objection to the additional highways maintenance grant being found within the £25 million, since that would in effect reduce the amount of grant for relief to the domestic ratepayer to £20 million. Such a reduction of what was already a small sum would be very difficult to justify to the local authorities.

In discussion the following points were made:

(a) Though the decision not to proceed with a separate grant on education would be represented as a failure to honour a pledge which had been made by the Government before they took office, it would make no difference to the amount of money spent on education.

(b) If the level of grants for highways remained at 75 per cent, and capital grants for other services were fixed at 50 per cent, the Government would be subject to constant pressures to raise the level of grants on other services. The difference between the rate of grant for other services and the rate of grant for highways would cause bad feeling among local authorities. Though the additional expenditure would merely be a transfer from local authority to Government spending, it was of the first importance at the present time to keep to a minimum the rise in Government expenditure. Nor was the maintenance of such grants essential, in the view of most Ministers concerned, in order to maintain adequate control by the central government. Not to proceed with the proposals for capital grants for other services would make the negotiations with local authorities more difficult; but the proposals which had now emerged would have considerable attraction, and there was reason to think that many local authorities were not enthusiastic about the proposal for capital grants for other services.

The Chancellor of the Exchequer said that, if the Cabinet decided not to proceed with the proposals for capital grants for other services, he would be content that the extra £5 million for highway maintenance should be treated as additional to, not as part of, the assistance of £25 million net for the relief of domestic ratepayers.

The Prime Minister, summing up the discussion, said that the balance of view in the Cabinet was in favour of abandoning the idea of a separate grant for education, of retaining the 75 per cent grant for improvements and construction of highways and abandoning the proposals for capital grants at 50 per cent for other services. The Cabinet also agreed that there should be a grant of £25 million for the relief of domestic ratepayers and of a further £5 million for highways maintenance by the county borough councils and the Greater London Council. It should be made clear that the Government had endeavoured to find ways of improving the system.
Local Government Reorganisation

of local authority finance within the existing framework, but that it had become apparent that there were serious disadvantages in any interim measure which went beyond the agreed provision for grants for the relief of domestic ratepayers amounting to £30 million in 1967-68, rising by a further £30 million in each of the two following years. The limited success of the Government’s efforts to improve the existing system emphasised the need for a long-term and radical review of the whole system of local authority finance, including the rating system as well as Government grants. The reform of the organisation of local government envisaged in the memorandum to be discussed under the next item of the Cabinet’s agenda would be very relevant in this context.

The Cabinet—

(1) Agreed that the proposal for a separate grant for education services should not be pursued.
(2) Agreed that grants for improvements and construction of highways should remain at levels up to 75 per cent.
(3) Agreed that the proposal for separate capital grants for other local authority services should not be pursued.
(4) Agreed that additional assistance should be given to local authorities in 1967-68 as to £25 million for the relief of domestic ratepayers and as to a further £5 million for highways maintenance by county borough councils and the Greater London Council.
(5) Invited the Minister of Housing and Local Government to proceed in accordance with these decisions in his further negotiations with the representatives of the local authorities.

4. The Cabinet had before them memoranda by the Minister of Housing and Local Government (C (66) 6) and by the Secretary of State for Wales (C (66) 15) on the need for a review of the organisation and functions of local government.

The Minister of Housing and Local Government said that the time had come for a radical enquiry into the functions and organisation of local government in England. The present standing structure was inadequate, in that there was no proper relationship between the size of local authorities and their modern functions, that the historic division between town and country was no longer appropriate and that the system all too often resulted in the subordination of local government services to a conflict over the boundaries between the local authorities. No simple answer was to be found merely by setting up much larger local authorities but a thorough reorganisation, which would lead to the establishment of much larger areas for some of the modern functions of local government.
government, might make it possible then to find a new source or sources of local finance and so either to dispense with or to supplement the rating system and change the present extremely unsatisfactory method of financing local authority services. The suggestion he had made for such a radical review at the annual conference of the Association of Municipal Corporations the previous September had been received with surprising acclaim.

The present procedure for reorganisation, which had been initiated by the Local Government Act, 1958, and involved protracted examination by the Local Government Commission, was insufficiently radical and far too slow. The importance of the issues involved and the need for reorganisation to be worked out by a body of the highest standing made it desirable to appoint a Royal Commission. Such a Commission should be asked to produce a fully worked out scheme. This would admittedly add considerably to the time required for the Commission since the completion of such a task would take two years at least, but procedure in this manner would save much time in the longer run, since the Commission would not then merely produce a statement of principles which would then laboriously, area by area, have to be applied in the face of struggles by the existing local authorities to retain their identities. Scotland and Wales raised separate problems and it would not be appropriate for them to be covered by the Commission.

If this proposal were agreed in principle, the timing would raise a number of difficulties in relation to existing proposals for the reorganisation of certain local authority areas. The main issue was whether the reorganisation of the Manchester and Merseyside conurbations should be completed before the Commission were appointed: this would mean postponing the latter for at least two years. Having regard also to the division of opinion in Lancashire on the form of reorganisation, the right course would be to wind up the Local Government Commission and start the new review forthwith. The Government should, however, carry through to completion those of the Local Government Commission’s proposals which had already been approved or on which decisions could be announced during the next few months.

The Secretary of State for Wales said that, while he agreed that the time had come for a radical reorganisation of local government, it was doubtful whether it was appropriate for this to be done by a Royal Commission. In particular this course would be inappropriate for Wales in that proposals for the reorganisation of the local government structure there were already far advanced and should not be further delayed. Even if, however, the Royal Commission’s terms of reference were limited to England, there would be pressure by the Local Authority Associations, which covered Wales as well as England, for the current proposals to be postponed until the Commission had reported. Apart from this consideration, and bearing in mind the extent of the detailed studies which had been carried out on local government reorganisation in recent years, it might be preferable for the Government themselves to present a
White Paper containing proposals for reorganisation which, after discussion with the local authorities and others concerned, could be incorporated in a Parliamentary Bill.

The Secretary of State for Scotland agreed with the need for reorganisation. Given the difference in the structure of local government and the division of functions between authorities in England and in Scotland, the issue required separate consideration in Scotland, though it would be appropriate for this also to be done by an enquiry at a high level.

Discussion showed full agreement on the need for a radical reorganisation of the local government system. There was some support for the view that, having regard to the extent of previous studies and enquiries and to the danger that the appointment of a Royal Commission might result in unnecessary delay, it would be preferable for the Government to publish at an early date their own detailed proposals, for subsequent consultation and discussion. It was, however, the general view that in England it was necessary to appoint a Royal Commission because of the extent of disturbance of existing authorities which would necessarily be involved and the consequent desirability of prior consultation with them before detailed proposals were published. It was also generally agreed that much importance must be attached to the working out of a fully detailed scheme by the Royal Commission and to the presentation of their report at the earliest possible date; and that Wales and Scotland could best be dealt with on the lines envisaged by the respective Secretaries of State, though it would be necessary for the reorganisation in the three countries to be based on the same principles and for there to be co-ordination of the separate enquiries.

As regards England, the terms of reference of the Royal Commission should be widely drawn and should include the regional aspects of the problem, particularly in the light of the establishment of regional economic planning councils. They should also include the possibility of some further transfer of functions to the central government. There was also general agreement that the appointment of the Royal Commission should not lead to the cessation of work on the rationalisation of services, including specifically any reorganisation of police forces that might prove desirable.

In further discussion the following points were also made:

(a) A radical reorganisation of local government boundaries might call in consequence for a review of the work of the Parliamentary Boundaries Commission at a later date.

(b) The task which would be imposed on the Royal Commission would make heavy demands upon its members, despite the extensive assistance which would be afforded by the appropriate section of the Ministry of Housing and Local Government. It might therefore be necessary to consider whether some remuneration other than the payment of expenses should, contrary to normal practice, be paid to the members.
The Prime Minister, summing up the discussion, said that there was general agreement with the proposals put forward by the Minister of Housing and Local Government. The next step should be to consider the form of a public statement and the terms of reference of the Royal Commission, both of which would involve further consultation with the Ministers concerned. In addition to the Ministers who were more immediately concerned with local authorities, the First Secretary of State should also be consulted in view of the relevance of the enquiry to regional developments. It would also be necessary for there to be co-ordination between the work to be done in England, Scotland and Wales.

The Cabinet—

(1) Agreed that there was need for a radical reorganisation of the system of local government in Great Britain.
(2) Agreed that the reorganisation currently being considered in Wales should continue without interruption.
(3) Agreed that there was need for separate enquiries into the reorganisation in England and in Scotland.
(4) Took note that the Secretary of State for Scotland would consider the appointment of a body of enquiry in respect of Scotland.
(5) Invited the Minister of Housing and Local Government, after consultation with other Ministers concerned, to send to the Prime Minister, for submission to The Queen, proposals for the composition and terms of reference of a Royal Commission on the reorganisation of local government in England.
(6) Subject to Conclusion (5), invited the Minister of Housing and Local Government, in consultation with the Secretaries of State for Scotland and Wales, to consider the terms of a public statement on the Government’s proposals.

Cabinet Office, S.W.1,
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 3rd February, 1966,
at 10.30 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. MICHAEL STEWART, M.P., Secretary of State for Foreign Affairs
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. JAMES GRIFFITHS, M.P., Secretary of State for Wales
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade

The Right Hon. RICHARD CROSSMAN, M.P., Minister of Housing and Local Government (Items 1 and 2)
The Right Hon. DOUGLAS HOUTON, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. FRANK COUSINS, M.P., Minister of Technology
The Right Hon. FREDERICK LEE, M.P., Minister of Power

The Right Hon. HERBERT BOWDEN, M.P., Lord President of the Council
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. ARTHUR BOTTOMLEY, M.P., Secretary of State for Commonwealth Relations
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. THE EARL OF LONGFORD, Secretary of State for the Colonies
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Overseas Development
The Right Hon. Sir FRANK SOKSICE, Q.C., M.P., Lord Privy Seal
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport

The following were also present:
Mr. REGINALD PRENTICE, M.P., Minister of State, Department of Education and Science (Item 4)
The Right Hon. EDWARD SHORT, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir Buru TREND
Mr. P. ROGERS
Mr. R. T. ARMSTRONG

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

The Cabinet considered the position which the Government should adopt in relation to two Private Member's Bills, on Sexual Offences and Abortion respectively, which would come forward for debate in the House of Commons in the near future. They endorsed the recommendation of the Home Affairs Committee that the Government as a whole should adopt an attitude of neutrality in both instances, on the understanding that this need not preclude individual Ministers from expressing, if they so wished, personal sympathy with the objectives of the proposed legislation and that, in the case of the Abortion Bill, it might be appropriate to offer to make available the services of the official draftsman to assist in the preparation of any measure which might appear to be acceptable in principle to the House.

2. The Foreign Secretary informed the Cabinet that the six countries members of the European Economic Community (EEC) had recently met in Luxembourg in an attempt to resolve the differences which had developed between the French Government on the one hand and the Five Governments on the other hand. The outcome had not been wholly satisfactory to either party; but it might be thought that the Five had, on balance, derived greater profit from the encounter. The French Government could claim that they would still retain a virtual veto on the issue of majority voting in the Community; but this would not necessarily confer any practical advantage on them, since it had always been implicit in the working of the Community that the principle of unanimity could not, in practice, coerce any member Government to accept a decision which they judged to be contrary to their major national interests. It was perhaps more significant that the meeting had shown that the French Government were not prepared, in the event, to implement their threat to leave the Community if the outcome was not to their satisfaction; and, to this extent, there were some grounds for hoping that they would be more cautious in adopting tactics of this kind in the future.

The results of the meeting did not suggest that there was likely to be any opportunity in the immediate future for an initiative by ourselves to enter into closer relations with the EEC.

The Foreign Secretary said that, during the recent period in which the United States Government had suspended bombing operations against North Vietnam, we had maintained continuous contact with the Government of North Vietnam and with other Communist Governments, in the hope of establishing conditions in which negotiations to end the hostilities in Vietnam might be started. But there had been no response to our initiatives; and the
latest statement issued by the authorities in North Vietnam, by insisting that negotiations could not begin unless the United States Government were willing unconditionally to cease all forms of attack on North Vietnam and to recognise the Viet Cong as the sole representative of the Vietnamese people, suggested that the attitude of the Government of North Vietnam had not changed. In these circumstances the United States Government had had no alternative but to resume bombing attacks on Vietnam. In a statement which had been issued by the Foreign Office we had indicated that we understood and supported this action. In the circumstances, however, we could have adopted no other attitude; and we should have been subject to even greater embarrassment if we had attempted either to defer any public indication of our attitude or to evade the issue of the extent to which United States policy had our general endorsement. The United States Government had now referred the issue to the Security Council; and we should therefore take this further opportunity to renew our efforts to promote a settlement in the context of a reconvened Geneva Conference.

In discussion considerable disquiet was expressed about the impact, particularly on the Government's supporters in the House of Commons, of the Foreign Office statement on the resumption of United States bombing of North Vietnam. It was unfortunate that the Cabinet had not been given an opportunity to express a collective view on the wording of this statement, particularly since its apparently uncritical endorsement of United States policy might involve the Government in subsequent embarrassment if it became clear that, so far from promoting an end of the hostilities, the United States action was merely aggravating the tension. On the other hand criticism of this kind could be argued to do less than justice to the efforts which both the United States Government and we ourselves had made to promote negotiations for a peaceful solution of the dispute. It was our own initiative which had originally persuaded the United States Government to institute a short bombing truce over Christmas and to extend it thereafter for a longer period than they had originally envisaged. It had always been implicit in this initiative that if, having responded to our pressure in this respect, they failed to elicit any response from the Government of North Vietnam, they would have no alternative but to resume the bombing attacks, particularly in the light of the increasing number of casualties which their forces were sustaining. It was unreasonable to expect them in these circumstances to accept the unilateral terms which the Government of North Vietnam, in their most recent statement, had stipulated as conditions of negotiation; nor could we ourselves hope to retain our influence in working for the restoration of peace in Vietnam if we sought to press the United States Government beyond the point of concession which they had demonstrated, by the recent truce in the bombing, that they were prepared to contemplate. Both we and they had shown great patience in the face of unduly critical attacks on our policies in relation to Vietnam; it was now for others to show a similar
degree of restraint while we continued our efforts to promote a settlement of the dispute on reasonable and honourable terms. From this point of view, it was satisfactory that a Motion which had now been tabled in the House of Commons, endorsing the Government's policy, had already attracted a very considerable measure of support from the Government's supporters in the House.

3. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(66) 21) on proposals for legislation for improving the efficiency of the docks.

The Chancellor of the Exchequer said that the Committee of Ministers which had been considering this issue had agreed upon proposals for a Bill to be presented jointly by the Minister of Labour and the Minister of Transport. The Bill would have four main features:

(i) It would provide for a system for licensing port employers, so as to enable port authorities to promote a reduction in the number of employers. This was an essential preliminary to full decasualisation and the provision of regular employment for all dock workers. The licensing authorities would be port authorities (not the National Ports Council as recommended by the Devlin Report); employers would have a right of appeal to the Minister against a decision by a port authority, and the National Ports Council would also have the right to make objection to the Minister against a port authority's proposals.

(ii) The Bill would place responsibility for the provision of welfare amenities on employers who owned their own dock facilities and, in other cases, on port authorities.

(iii) Harbour authorities would be given more powers to promote port efficiency, including powers to acquire land and facilities and also to enable them to operate inland depots in order to reduce congestion at ports.

(iv) The Minister of Transport would be given power to direct the National Ports Council to submit particular schemes of reorganisation, and powers to settle the lines of the investment programmes of independent harbour authorities.

A study of the implications of even more substantial changes in the ownership and reorganisation of the docks was in hand but the Committee believed that the action he had outlined was necessary whatever further measures might be required at a later date.

In discussion the Cabinet were informed that the study in question was now expected to be completed within the next few weeks. Some of the provisions in the proposed Bill might prove to be inappropriate if the Government were contemplating the
(introduction of more far-reaching changes in the docks at an early date and since the timetable for the study of such changes had been accelerated, it might be preferable not to take decisions on the legislation now proposed, despite its urgency, until it could be considered in the wider context.

The Cabinet—

Agreed to resume consideration of C (66) 21 at a later meeting.

4. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C (66) 22) on proposals for modifying the arrangements for slowing down the rate of expenditure on capital projects and on stores and equipment in the public sector.

The Chancellor of the Exchequer said that the measures announced in July 1965 had included arrangements for the deferment for six months of all capital expenditure projects other than those in certain exempted classes (notably housing and school building). This was a continuous “rolling forward” by six months until further notice of all projects affected. While it was essential to retain the benefit of these savings, the time that had elapsed made it no longer possible to continue to operate in terms of deferred projects. The continuation of these arrangements would therefore be in terms of new expenditure limits: departments would work out the expenditure which would have arisen in 1966-67 on projects deferred in the first six months of the operation of the scheme, and would deduct that sum from the planned capital expenditure limit for the year. The resulting sum would be their new limit on capital expenditure for 1966-67, and they would be able to re-programme investment within that limit. This principle had been applied in preparing the 1966-67 Estimates and the methods of its application had been agreed with the Ministers concerned. He proposed to make a statement in the House of Commons on this matter, on the lines of the draft attached to his memorandum.

In discussion the following points were made:

(a) The particular form of the arrangements proposed would have a serious impact upon the Home Office capital expenditure programme, particularly in respect of the police: if there were no adjustment, they would be unable to start any new operational projects. Any modification to take account of this point would not prejudice the programme of other Ministers.

(b) The Foreign Office and the Ministry of Public Building and Works would discuss with the Treasury the programme for capital expenditure on buildings for the Diplomatic Service in 1967-68 and subsequent years.

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(c) It would be convenient if the Chancellor of the Exchequer could make his proposed statement not later than 8th February.

(d) It would be helpful to add to the second paragraph of the draft statement an indication that the deferment had contributed not only to the improvement in the balance of payments but also to reducing the load on the building industry which had restricted new housing.

(e) The intention to modify the form of control on capital expenditure rather than to relax it might not be sufficiently clear from the third paragraph of the draft statement, and particularly from the penultimate sentence.

(f) The position of the classes of capital expenditure exempted from the six months' deferment should be made clear.

(g) It was suggested that the fourth paragraph of the draft statement should be modified to make it clear that special consideration would be given for local authority projects in development areas. In view of the wide extension of the development areas, however, this could amount to a substantial relaxation, and the balance of opinion was that it would be preferable not to amend the statement on these lines. This aspect would nevertheless require further consideration thereafter.

The Cabinet—

(1) Approved the proposals by the Chancellor of the Exchequer for modifying the arrangements for slowing down the rate of expenditure on capital projects and on stores and equipment in the public sector.

(2) Invited the Chancellor of the Exchequer to amend the draft statement annexed to his memorandum to take account of the points made in discussion and to circulate a revised version to the Public Expenditure Committee.

(3) Subject to Conclusion (2), agreed that the Chancellor of the Exchequer should make an early statement on his proposals in the House of Commons.

(4) Invited the Chancellor of the Exchequer and the Home Secretary to consider how these arrangements should be applied to capital expenditure on Home Office Votes.

5. The Minister of Power said that the Gas Council and the British Petroleum Company (BP) were now ready to conclude an agreement on the supply of gas from the North Sea. The Gas Council had for some time been concerned about the supply and price of naphtha, on which most of their new processes depended, and had therefore been investigating the possibility of easing their position by the additional use of natural gas from abroad. He had warned them that, when there were possibilities of United Kingdom
supplies, it would be difficult to justify any further imports, which had to be undertaken on the basis of long-term commitments over some 15–20 years. BP had put forward proposals for a very rapid exploitation of their North Sea drillings. This they believed to be in the national interest though it involved certain risks. They had originally sought a price from the Gas Council of 6d. a therm, while the Council for their part had offered 4d. plus an additional contribution of a ¼d. a therm for a limited period towards the installation of a larger marine pipe than BP regarded as commercially justifiable at the outset. Agreement had been reached between them on a price of 5d. a therm, on a temporary basis and without any contribution by the Gas Council to the cost of the marine pipe. This price was valid only up to an average delivery of 100 million cubic feet a day and for a period of three years from the date of commencement of a guaranteed supply or from 1st July, 1967, whichever was the earlier. Above the stipulated quantity in the first three years and for all supplies thereafter, the price would be for re-negotiation. BP would from the outset and at their own risk provide a marine pipe capable of carrying 200 million cubic feet a day and the Gas Council would make at least equivalent provision on land. The price which had been agreed was substantially below the price of 6½d. a therm in the contract for the supply of gas from Algeria, was lower than the estimated price of 5 ½d. for imported methane gas from Nigeria and was competitive with the estimated price of Dutch gas having regard to the lower quality of the latter which contained some 15 per cent nitrogen.

There was no question of fixing now a price for North Sea gas in general. With the discovery of larger quantities and some experience of costs we could reasonably look for a significant reduction below 5d. a therm. The longer-term issues involved would be the subject of interdepartmental examination; meanwhile, it would be made clear that the price which had been fixed was a limited and temporary arrangement without prejudice to the longer term. Subject to the approval of the Cabinet, he proposed to make an oral statement to this effect in the House of Commons on Friday, 4th February.

In discussion anxiety was expressed that the agreement which had been reached should in no way prejudice the prospect of a substantially lower price for North Sea Gas in the longer term. In particular it was suggested that, if the cost of production were later shown to permit a substantially lower price for the total supply from BP, it might be desirable to re-negotiate the price for the initial quantity of 100 million cubic feet a day in the first three years. It was, however, pointed out that, if quantities substantially beyond 100 million cubic feet a day became available, it would be possible to fix a much lower price for these which would give a reasonable rate when averaged over the whole production. It was moreover reasonable that at the outset an agreement should be made in the terms proposed, having regard to the initial risks and the desirability of encouraging the earliest possible exploitation of
the North Sea gas supplies; and it would be made clear that there was no question of the initial agreement prejudicing the negotiation of the price for later contracts, whether with BP or with other companies which had concessions in the North Sea.

The Cabinet—

Agreed that the Minister of Power should make a statement on the agreement between the Gas Council and the British Petroleum Company for the supply of gas from the North Sea in the terms which he proposed.

6. The Home Secretary said that, although the Official Committee on Emergencies had considered the measures which would be required should the railway strike which was threatened for 14th February take place, he had so far postponed any meeting of the Ministerial Committee on Emergencies with a view to action being initiated, since these measures involved consultation with outside organisations. Such consultations would inevitably become known and might therefore adversely affect the efforts which were being made to avoid a strike. The initiation of these precautions could, however, no longer be postponed if they were to be completed by the time the strike was due to take place; he therefore proposed to hold a meeting of the Ministerial Committee that afternoon and to proceed thereafter with the necessary consultations if the Committee so agreed.

In discussion there was general agreement that it would be imprudent to delay further the initiation of the necessary precautionary measures unless there were developments during the course of the day which offered a substantially more hopeful prospect that the strike would be avoided.

The Cabinet—

Took note of the Home Secretary’s statement.

Cabinet Office, S.W.1,
3rd February, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 8th February, 1966, at 10.30 a.m.

Present:

The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. George Brown, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. Lord Gardiner, Lord Chancellor
The Right Hon. Michael Stewart, M.P., Secretary of State for Foreign Affairs
The Right Hon. Arthur Bottomley, M.P., Secretary of State for Commonwealth Relations
The Right Hon. William Ross, M.P., Secretary of State for Scotland
The Right Hon. The Earl of Longford, Secretary of State for the Colonies
The Right Hon. Anthony Greenwood, M.P., Minister of Overseas Development
The Right Hon. Sir Frank Soskice, Q.C., M.P., Lord Privy Seal
The Right Hon. R. J. Gunter, M.P., Minister of Labour
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food

The following were also present:

The Right Hon. Anthony Wedgwood Benn, M.P., Postmaster-General (Item 3)
The Right Hon. Edward Short, M.P., Parliamentary Secretary, Treasury

The Right Hon. Herbert Bowden, M.P., Lord President of the Council
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. James Griffiths, M.P., Secretary of State for Wales
The Right Hon. Douglas Jay, M.P., President of the Board of Trade
The Right Hon. Anthony Crookland, M.P., Secretary of State for Education and Sciences
The Right Hon. Douglas Houghton, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. Frank Cousins, M.P., Minister of Technology
The Right Hon. Barbara Castle, M.P., Minister of Transport

Secretariat:

Sir Burke Trend
Mr. P. Rogers
Mr. J. H. Locke
Mr. L. Errington

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1. The Cabinet considered a memorandum by the Chancellor of the Duchy of Lancaster (C (66) 28) reporting a difference of view in the Ministerial Committee on the Farm Price Review.

The Chancellor of the Duchy said that the line to be taken by the Government in the Farm Price Review had to be considered against the background of the decision to seek a selective expansion of agricultural production as part of the National Economic Plan, as well as of the policy on prices and incomes. The differences of opinion in the Farm Price Review Committee centred on two issues. The first was how much the guarantees should be increased for beef and milk. The second was over the total increase in the guarantees.

The main emphasis in the National Economic Plan had been on an expansion of beef production. However, the greater part of any expansion in beef supplies must come from an expansion in the dairy herd to produce additional beef calves. This could only be assured by an increase in the price of milk. The Agricultural Ministers were alone in arguing for an increase of 1d. a gallon in the price of milk: other Ministers were not prepared to go beyond 1d. a gallon. As regards beef, there was a broad measure of agreement on the desirable increases in the guarantees, although the Agricultural Ministers favoured a slightly higher guaranteed price for fat cattle than did other Ministers.

There was a wider margin of disagreement on the total increase in the guarantees. The Chief Secretary, Treasury, had argued that the total increase should not be more than £13 1/2 million, the Agricultural Ministers that an increase of £30 million would not be unreasonable. His own view was that an increase of £20 million would be about right. This would lead to an increase of about 5 per cent in farm incomes but, although this would be above the norm of the prices and incomes policy, it had to be remembered that there had been a substantial fall in farm incomes in 1965. Moreover, farm incomes had to cover the return on capital investment in agriculture which was increasing year by year, as well as remuneration for the farmers’ work. An increase in the guarantees of £20 million could not be expected to satisfy the National Farmers’ Unions, particularly since the President of the English National Farmers’ Union was likely this year to be unyielding in negotiation. Indeed, an imposed settlement at this figure could well create an explosive situation since farmers were now expecting a substantial increase in the guarantees in the light of the policy of expansion set out in the Plan. If the Cabinet agreed to a limit of £20 million for an increase in the guarantees, the opening proposals by the Agricultural Ministers should be at a lower figure—perhaps £15 million. The details of the proposals could be settled by the Farm Price Review Committee.

The Minister of Agriculture said that the Government were committed to a selective expansion in home agriculture in order to enable British farmers to secure an increased share of the growing home market, and so achieve a saving of up to £200 million by 1970.
in foodstuffs which would otherwise have to be imported. Farmers were naturally expecting the Review to be framed in the light of this commitment. It was necessary to secure their co-operation if the policy of expansion were to succeed. Farm incomes had fallen substantially in 1965: moreover, the cost of Exchequer support was declining. In these circumstances it would be reasonable to make an opening offer of £15 million and to seek an agreed settlement at this year’s Review if this could be achieved with an increase in the guarantees of between £20 million and £30 million. If, however, an agreed settlement were not considered important, an imposed settlement of around £20 million could be defended. But the advantages of securing an agreed settlement would be substantial and it would be desirable therefore to leave room to manoeuvre in the negotiations. The small increase in the cost to the Exchequer would be more than counterbalanced by the saving in imports.

The Chief Secretary, Treasury, said that British agriculture was in fact prosperous and the reduction in farm incomes in 1965 had been due entirely to unfavourable weather conditions. Had the year been normal, there would have been an increase in farm incomes in 1965 had been due entirely to unfavourable weather conditions. Had the year been normal, there would have been an increase in farm incomes of 3½ per cent and output had increased by 10 per cent in the past two years. An increase in the guarantees of £13½ million would be defensible: within this figure it was possible to make increases in the guarantees for beef and milk which all the members of the Farm Price Review Committee except the Agricultural Ministers considered reasonable. Such a settlement would be about as favourable to farmers as the average of the last seven Reviews; it would be likely to lead to an increase in farm incomes of slightly more than 3½ per cent and would thus be consistent with the incomes norm; and it would be substantially more generous to the farmers than the 1965 Review. An increase above £15 million, at which level farmers would benefit from half their increase in productivity, would represent a more favourable review than would ensue from the policy of the previous Administration and would not be defensible.

In discussion it was recognised that the expectations of the farmers had been raised by the publication of the National Economic Plan and that some increase on a figure that would otherwise accord with the intentions of the Agriculture Act, 1947, might therefore be necessary to achieve their co-operation in the policy of selective agricultural expansion and to secure the necessary level of investment. In these circumstances there was general agreement that an increase in the guarantees of £20 million would be reasonable. It was however also necessary to have regard to the interests of our main overseas suppliers and in particular of Australia and New Zealand and any increase above a settlement of £20 million would be embarrassing in that regard.

As regards the price of milk, it was recognised that an increase which led to an expansion in production would result in an additional production of butter which would create serious difficulties with our
main suppliers, particularly New Zealand and Denmark. The difference between an increase of 1d. a gallon and an increase of 1½d. a gallon would however simply be an increase in the retail price of 3d. a pint for four months or for six months; and this difference was not sufficiently great to justify a breakdown on that account in the discussions with the Farmers' Unions. It was also suggested that seasonal variations in the retail price of milk were undesirable and that it would be preferable to maintain a steady price throughout the year. On the other hand, it was argued that a reduction in the retail price during the summer helped to stimulate consumption at the time of maximum production. It was also pointed out that, although the increase in the price paid to farmers was passed on to consumers, a significant additional cost fell on the Exchequer because of the resultant increase in the subsidy for school and welfare milk.

The Prime Minister, summing up the discussion, said that the general view of the Cabinet was that a settlement not exceeding £20 million would be acceptable, but that there should be no increase above that figure in order to obtain the agreement of the Farmers’ Unions. The opening proposals to be put to the Farmers’ Unions and the final proposals within this limit should be settled by the Farm Price Review Committee. The Chancellor of the Duchy of Lancaster and the Minister of Agriculture would of course be free to report back to Cabinet if the reactions of the Farmers’ Unions were such as in their view to make a reconsideration of this decision desirable but the Cabinet were not disposed to envisage any increase in the limit they had determined. The Farm Price Review Committee should also consider in the light of the Cabinet’s discussion the question of milk prices, including the advantages and disadvantages of seasonal variations in retail prices and the effect on the cost-of-living index and on the Exchequer of the possible changes.

The Cabinet—

(1) Agreed that a maximum increase of £20 million in the guarantees should be accorded in the Farm Price Review.

(2) Invited the Chancellor of the Duchy of Lancaster to arrange for the Ministerial Committee on the Farm Price Review:

(i) to consider the opening proposals to be put to the Farmers’ Unions and the details of the final proposals accordingly;

(ii) to consider further the question of milk prices in the light of the Prime Minister’s summing up of their discussion.

—

2. The Cabinet considered memoranda by the Minister of Technology (C (66) 24) and by the Secretary of State for Scotland (C (66) 26) on the siting of the prototype fast reactor (PFR).

The Minister of Technology said that it had been agreed that a PFR should be constructed at a capital cost of about £29 million. The
choice of the site lay between Dounreay in Caithness and Winfrith in Dorset, since the Atomic Energy Authority (AEA) could not contemplate the development of a third reactor research and development establishment in addition to those at the two sites in question.

A substantial part had now been achieved of the AEA's major task in the civil field of developing nuclear power and henceforth there would be a gradual decline in the scale of effort and expenditure on the development of power reactor systems. The future programme could most efficiently and economically be organised at one major reactor development establishment, rather than at two. Dounreay was concerned almost entirely with fast reactor development and had only one research reactor in addition to the experimental fast reactor. Winfrith, on the other hand, was involved in the development of all four of the AEA's reactor systems and in addition had five other small experimental research reactors.

The present number of employees at Dounreay was 2,300 and if the PFR were to be built there the establishment's work would still begin to decline after 1971, when this came into operation. The major work on fast reactor development would be completed within about five years thereafter and the programme of work that could be foreseen after, say, 1976 would not amount to more than about half the present level, when employment would be confined to the operation of the PFR as an electricity generating station, together with certain connected development activities. If the PFR were not built at Dounreay, the establishment would close about 1974.

The capital cost of construction at Dounreay, together with the necessary high-voltage transmission lines, would be about £30 million or about £3 million more than at Winfrith, but after taking account of the need to construct the latter lines in future years the net additional capital cost would be about £0-7 million at 1970 values. Operating costs would not differ significantly: there would, however, be a 2 per cent greater transmission loss over the long lines from Dounreay and the 1970 value of this loss would be about £0-6 million. The staffing of professional grades at Dounreay had always been difficult and would inevitably remain so and account must be taken of the annual cost of maintaining two reactor development establishments instead of one. This could be assessed in money terms at about £1½ million a year during the period while research and development was being carried out at both establishments. The net estimated saving by siting the PFR at Winfrith rather than Dounreay was therefore of the order of £8 million at 1970 values. There were the additional considerations that the siting of the PFR at Dounreay might discourage oversea visitors and might lead potential oversea customers to conclude that fast reactors could not safely be brought near to populated areas. On the other hand, it must be accepted that many benefits had flowed to Caithness from the setting up of Dounreay and, unless suitable arrangements were made, its running down and eventual closure would create a serious problem for the area. Nevertheless, it must not be supposed that the establishment of the PFR at Dounreay would solve the area's
problems, since the existing establishment had not so far proved to be a point of economic growth and there was no reason to expect that the PFR would do so. The balance of these factors indicated that Winfrith should be chosen as the site.

The Secretary of State for Scotland said that a decision in existing circumstances to site the PFR at Winfrith would have the most damaging consequences for the existing community. The population of Thurso in recent years had increased from some 4,000 to over 9,000 of whom only 2,000 were directly employed at Dounreay. In order to maintain employment in the area at its present level, some 1,100 additional jobs would in any event have to be provided by 1976 but if the PFR were not sited here, this number would be more than doubled. The theoretical cost of providing them would be very high, of the order of £2 million, but in practice it was most improbable that the task would be achieved. Capital expenditure of £7 million had been incurred in developing at Dounreay housing and education facilities of a high order and these would be wasted if a decision were taken by the Government which would involve its early closing down. Such a decision would be contrary to the Government's policy of regional development and would have serious social and economic consequences in the area itself.

In discussion it was suggested that it would not accord with the Government's economic policy to seek to develop an artificial centre at Dounreay which in any event would be bound to reduce to half its present size in a few years' time. The majority of those employed at Dounreay would as employees of AEA find no difficulty in obtaining employment with the Authority elsewhere in the United Kingdom. In these circumstances, the additional capital and operating costs involved in siting the PFR at Dounreay should be a decisive argument in favour of Winfrith. The general view was, however, that these considerations were outweighed by the importance of maintaining as far as possible the community which had already been built up at Dounreay. It was also relevant that, whereas the level of unemployment at Thurso was high, Winfrith on the other hand was in an area of extreme shortage of labour. The additional cost of establishing the PFR at Dounreay was comparable with that of the differential investment grants to private industry in the development regions. Such investment grants were not available for the nationalised industries, partly because their siting could be controlled by the Government as a matter of policy. On these considerations it would therefore be contrary to the Government's policy for the regional development of industry and would cause serious damage to confidence in the Government's determination to pursue this policy in relation to Scotland if the PFR were sited at Winfrith.

The Prime Minister, summing up the discussion, said that the Cabinet were on balance agreed that the PFR should be sited at Dounreay. This decision should be announced by the Minister of Technology at the earliest possible date.
The Cabinet—
(1) Agreed that the prototype fast reactor should be sited at Dounreay.
(2) Invited the Minister of Technology to make an early announcement of this decision.

3. The Cabinet had before them a memorandum by the Lord President of the Council (C (66) 27) on the functions, organisation and finance of a University of the Air and a fourth television network and a note by the Lord President of the Council (C (66) 25) to which was attached a draft White Paper on the University of the Air by the Joint Parliamentary Under-Secretary of State, Department of Education and Science.

The Lord President said that the Ministerial Committee on Broadcasting had based their consideration of a University of the Air on reports by an Advisory Committee convened by the Joint Parliamentary Under-Secretary of State for Education and Science, and by an Official Committee. The Advisory Committee, which had reported on the educational functions of the University, had concluded that it would be essential for University programmes to be broadcast during peak evening hours; it was this consideration that necessitated the establishment of a fourth television network, since peak hour viewing for the University programmes could not be provided by the existing television services on the scale required.

A fourth television network would have to transmit on Ultra High Frequency (UHF) and on 625 lines. This would provide a limited initial coverage which would, however, grow over some 10 years. Reliable estimates of the possible size of the viewing audience and the number of students were not available since nothing comparable to the University of the Air had yet been attempted, but the Broadcasting Authorities estimated that the programmes envisaged might attract total viewing audiences of up to 100,000, and that there might be 10,000 students who would take diplomas and perhaps a further 1,000 who would proceed to degrees. These Authorities had some doubts about the size of audiences during peak hours because of the competition offered by programmes of entertainment, since most households had only one set. This difficulty might however be overcome by providing community viewing centres.

Provisional estimates of the cost of the fourth network and the University, based on figures provided by the British Broadcasting Corporation (BBC) and the Independent Television Authority (ITA), indicated that the capital cost might be some £42 million spread over 10 years, of which the amount attributable to the University would be some £14½ million. The annual operating cost of the network and the University might be about £33 million, of which the annual cost of the University would be £6 million to £7 million. The majority of the Ministerial Committee had concluded that it would undermine
the status of the University if it were made dependent on advertising revenue. Except to the extent that finance could be provided by endowments and such sources as registration fees and sale of books, the cost of the University would thus have to be borne by the Exchequer. The size of the sums involved raised a difficult problem of finance, since there was no provision for the University within the existing public expenditure allocations. There was the further difficulty that the ITA had expressed doubts about the commercial viability of a fourth network even without the University of the Air and the consequential loss of peak-hour transmissions, and had drawn attention to the risk of financial failure which might throw the whole cost of the network and the University on to the Exchequer.

The Ministerial Committee had also concluded that, despite some practical advantages in giving ITA control of the new network, it would be preferable to set up a new corporation which would itself sell advertising time and purchase programmes from the programme companies. The main issue for decision was, however, whether the implications of the University and the fourth network for public expenditure should be accepted and priority given to the University project over other competing demands for additional resources, or whether, because of the implications for public expenditure and the other uncertainties in the project, a pilot scheme should first be introduced, using spare hours on existing services.

The Joint Parliamentary Under-Secretary of State, Department of Education and Science (Miss Lee) said that the Advisory Committee had been drawn from a wide range of educational interests and had been unanimous in their conclusions, in particular on the potential educational value of the University of the Air and the stimulus which it would give to adult education and the development of television for educational purposes. Peak-hour transmission was, however, essential and the University would not be academically viable without the establishment of a fourth network to provide this service: it should be possible within four years to provide a service which covered about 35 million people in all the main industrial centres, with 20 main stations. As regards the capital cost, only about £17 million represented an extra demand on resources. The University could expect a substantial income of its own from the sale of courses overseas, from the sale of books and from endowments. But no part of its cost should be met by reducing existing educational services, nor could its demand for broadcasting facilities be met by reducing the number of lower level educational broadcasts on existing services, the need for which would be intensified by the University.

Apart from its degree courses, the University would greatly encourage and assist the development of adult education generally, and technological education in particular, and would make an important contribution to exports and overseas development. Any financial difficulties would be eased by the fact that it would take some years to cover the country as a whole, although a start might be made in two years, perhaps preferably outside London.
In discussion there was general agreement on the potential educational value of the University, both in providing for the substantial numbers seeking a University education in future years, who could not be accommodated in existing universities under the current programme of expansion, and in stimulating adult education generally. There was also general agreement that any new television network should be used mainly for educational purposes. Concern was, however, expressed at the demand which the fourth television network and the University of the Air would make upon resources and at the cost which might be involved. The latter could only be borne by the Exchequer if as a result of a re-examination of educational priorities other educational services were reduced, unless the total of public expenditure were to exceed the limits that had been determined by the Cabinet. On this view it was suggested that it might be preferable to give further consideration to a pilot experiment which would use spare hours on existing television services, or to achieve economies either by accepting a coverage of less than the total population or by a reduction of the demand on peak hours. It was, however, argued that the advice given by the commercial television interests was not necessarily impartial and that once a decision had been announced to establish a fourth network they might be more favourably inclined to participation, particularly if the use of colour were confined to the 625-line standard.

The Prime Minister, summing up the discussion, said that there was general agreement on the great potential value for education of a University of the Air. The cost of the present proposals was, however, a matter for concern, since it was necessary to avoid the imposition of an additional burden on the Exchequer. Nor should the University itself be dependent on finance from advertising. There was, however, reason to question the validity of the views offered by commercial television interests on this issue. Furthermore, the project would be a pioneer one of wide international interest and it might be possible to secure financial support from international foundations. He would arrange for the cost of the University and the commercial viability of a fourth network to be further examined in the light of these considerations. Meanwhile, further consideration should be given in the light of the discussion to the need for peak-hour transmission and to the possibility of using spare hours on BBC 2 which might be acceptable to those sections of the population primarily concerned, thus avoiding the cost of a fourth network. The possibility of a regional experiment should also be considered. It would be desirable to publish a White Paper at an early date, but this should, in the circumstances, be confined to the educational aspects of the University and should omit references to finance and to the fourth network pending the further consideration to be given to those aspects. The White Paper on Broadcasting Policy to be issued by the Postmaster-General should not be delayed in consequence of these further enquiries: it should state that a decision on the fourth network had been deferred, but should not ascribe this delay to the consideration being given to the University.

SECRET
The Cabinet—

(1) Approved in principle the educational functions and content of a University of the Air proposed in the Annex to C (66) 25.

(2) Took note that the Prime Minister would arrange for further consideration to be given to the financing of a University of the Air and to the commercial viability of a fourth television network.

(3) Invited the Secretary of State for Education and Science:

(i) to submit to the Prime Minister the revised draft of a White Paper on the lines indicated in discussion;

(ii) to give further consideration to the need for peak-hour transmission, to the possibility of using spare hours on BBC 2 and to the desirability of a regional experiment in the use of the University of the Air, on the lines indicated by the Prime Minister in his summing up of their discussion.

_Cabinet Office, S.W.1,
8th February, 1966._
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 10th February, 1966, at 11 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. MICHAEL STEWART, M.P., Secretary of State for Foreign Affairs
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. JAMES GRIFFITHS, M.P., Secretary of State for Wales
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Overseas Development
The Right Hon. RICHARD CROSSMAN, M.P., Minister of Housing and Local Government
The Right Hon. DOUGLAS HOUGHTON, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. FRANK COUSINS, M.P., Minister of Technology

The following were also present:
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Postmaster-General (Item 3)
The Right Hon. SIR ELWYN JONES, Q.C., M.P., Attorney-General (Items 2 and 3)
Mr. MERLYN REES, M.P., Parliamentary Under-Secretary of State for Defence for the Army (Item 3)

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Miss J. J. NUNN

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

2. The Cabinet considered memoranda by the Lord President of the Council (C (66) 29) and the Lord Chancellor (C (66) 30) on leasehold reform.

The Lord President recalled that the Cabinet had considered in December proposals for leasehold reform submitted by the Ministerial Committee on Legislation on Rent, Land Commission and Leasehold Enfranchisement and had thought them to be too confiscatory in their effect. They had asked the Committee to submit alternative proposals, bearing in mind the desirability of producing a "fair price" less than the current market value of the freeholder's interest, of giving security to leaseholders who did not wish to enfranchise, and of so framing the scheme that it could be applied to public authorities. The Committee had considered various possibilities, but had been unable to reach complete agreement. The majority of the Committee proposed a scheme which differed in several respects from that originally submitted. It was now proposed that a leaseholder qualified to benefit under the scheme should be one who held at a ground rent the lease of a house originally granted for more than 21 years and had occupied the house as a residence for at least five years. Qualified leaseholders would be entitled to an extension of the lease for 50 years at a ground rent which, after the expiry of the original lease, would be the modern ground rent and would be subject to review after 25 years, and to enfranchise at the value of the freeholder's interest as depreciated by the extension of the lease. In other words, the freeholder would be entitled to site value as part of the value of the land and buildings, subject to the lease and its extension and disregarding the value of the buildings on reversion. Where the Land Commission determined that there was development value in the site, the leaseholder would pay in addition to the site value the development value as modified by the unexpired period of the lease. The freeholder would have the right during the original lease to resist either enfranchisement or extension on the ground that he wanted the property for occupation by himself or his family and would suffer greater hardship than the leaseholder if he could not recover possession; and during the extension he would have the right, on cause shown, to obtain possession compulsorily for redevelopment by buying out the leaseholder's interest in the extended lease. The scheme should apply to leases held from public authorities subject to modifications designed to ensure that the leaseholders did not acquire development rights and could be debarred from enfranchising where a public authority had purchased the land for early development. These proposals could be defended on the principle that in social equity the bricks and mortar belonged to the leaseholder and the land to the freeholder. The site value formula would give the freeholder neither more nor less than the value of his
interest in the land for existing use; and the price would be less than
the market value of the freeholder’s interest under the existing law,
except where the reversion was too far distant to affect market value
when the enfranchisement price would be same as the value of the
freeholder’s existing interest. It was proposed that the scheme should
be outlined in a White Paper which would be published in time to be
debated in the House of Commons towards the end of February.

The Lord Chancellor said that he was unable to accept the
proposals of the majority of the Ministerial Committee because in
the majority of cases they would produce results more confiscatory
than the original proposals. He accepted that, where the leaseholder
or his forebears had built the house, it was inequitable that the house
should revert to the freeholder at the end of the lease; but both
freehold and leasehold interests in property might change hands
several times during the lifetime of a lease; the reversion might be
bought by a person who wished to occupy the house on retirement,
and the last few years of the lease might be acquired by a purchaser,
not interested in lengthy occupation, for a small sum which did not
reflect the value of the bricks and mortar. The proposals
recommended by the majority of the Ministerial Committee would
enable a leaseholder who bought a short-term to acquire for a small
sum a property which he could immediately sell with vacant
possession at a substantial profit to which he had no moral claim.
This situation could be prevented by the provision, included in the
proposals originally submitted to the Cabinet, that leaseholders who
bought leases when they had less than 21 years to run should not be
entitled to an extension of the lease but should enfranchise at full
market value; and this was the solution to the problem which the
Law Officers would prefer. An alternative, which avoided drawing
an arbitrary line between those who would benefit fully from the
legislation and those who would not, would be to relate the price of
enfranchisement to the leaseholder’s merits by requiring him to pay
the value which the freeholder’s interest would have at the date of
enfranchisement, if it were subject to a lease which still had as long
to run as the period originally acquired by the leaseholder or his
forebears. The leaseholder would then pay in up-to-date money
terms the additional amount which he would have had to pay when
he bought his lease if he had instead bought the freehold, and this
was the result which ought in equity to be achieved. Failing this, it
would be possible to reduce the uncovenanted benefits given to the
purchaser of a short term of a lease by reducing from 50 years to
21 years the proposed entitlement to an extension of the lease. This
would not, however, substantially reduce the uncovenanted benefits
which such a leaseholder could obtain by enfranchisement.

He was also unable to agree that the freeholder should be denied
the right to resist enfranchisement during the remainder of the
existing lease on the ground that he wished to redevelop the
property. This would in effect put an end to future planned
redevelopment of leasehold property by private landlords and would
be inconsistent with the public interest. The freeholder who could
show a settled intention to develop should be able to resist
enfranchisement or an extension of the lease, subject to payment of compensation equal to the leaseholder's interest as enhanced by the proposed legislation.

The Attorney-General said that it was important that proposals which involved the compulsory transfer of property from one private individual to another should rest on a clear basis of principle which could be justified in public discussion. The principle underlying the policy of enfranchisement was that the leaseholder had paid for the value of the bricks and mortar. Where the lease had been acquired with 21 years to run the leaseholder would in fact pay about half the bricks and mortar value (and from this point of view a period of 30 years might be more appropriate); but where he acquired much less than 21 years he would in effect have brought merely the right to occupy the house for a period without any expectation that it would become his, and he was not entitled on the basis of the fundamental principle to the same benefits as the leaseholder who had acquired the lease with a long period to run. It would be defensible, however, to give the leaseholder who acquired a lease with less than 21 years to run the right, as had originally been proposed, to enfranchise compulsorily at full market value, and this would confer a considerable benefit upon him because it would enable him to acquire the property at substantially less than its value with vacant possession.

In discussion there was general agreement that the site value formula for enfranchisement proposed by the majority of the Ministerial Committee was acceptable, and that the only question at issue was whether all holders of leases originally granted for more than 21 years who had occupied the property as a residence for five years should be entitled to enfranchise on these terms, or only those who had purchased their leases while they still had more than 21 years to run. It was argued that, while the first alternative had the merit of simplicity, simplicity should not be pursued at the expense of equity, and in equity it was right that a distinction should be drawn between those who had paid for the whole, or at least the greater part, of the value of the bricks and mortar and those who had purchased the fag-end of a lease for sums well below that value. There was reason to think that in recent years the public had become increasingly aware of this distinction and would accept the application of different terms for enfranchisement to the different categories of leaseholder. In any event, the Government were pledged to provide for enfranchisement on "fair terms" and they were under no obligation to go beyond their pledge and to satisfy expectations of profit among leaseholders who, having bought a short term of a lease, had no moral claim to benefit from proposals designed to do justice to the leaseholder who had acquired or inherited a long term. On the other hand, it was argued that, in view of the frequency with which leasehold interests changed hands and of the fact that owing to the housing shortage of the past 25 years many people had been able to obtain accommodation only by buying leases, to confine the
In further discussion it was suggested that it might be possible to reduce the number of leaseholders who would be given undeserved benefits, either by increasing the qualifying period of residence to seven years or by reducing from 21 years to 12 years the period which must have been purchased in order to qualify for the full benefits of the scheme. The first proposal would, however, be difficult to justify in the light of the fact that property interests changed hands on an average once in seven years; and to reduce to 12 years the period which the leaseholder must have acquired would defeat the object which it was sought to achieve of fixing the period at 21 years, since 21 years was the shortest period at which it could be said that the leaseholder had acquired a substantial portion of the value of the bricks and mortar. It would consequently not be possible to defend a 12-year period on any basis of principle. Since, however, adoption of the 21-year period would exclude a considerable number of leaseholders from the benefits which the Government’s policy was designed to confer, it seemed better to adopt the proposals of the majority of the Ministerial Committee and to confine the qualifications for enjoying these benefits to possession of a lease originally granted for 21 years and five years residential occupation of the property.

The Prime Minister, summing up the discussion, said that, on balance, the Cabinet favoured the acceptance of the recommendations of the majority of the Ministerial Committee as set out in C (66) 29, subject to further consideration, on the basis of alternative passages in the draft White Paper, of the rights of the freeholder to resist enfranchisement on the ground that he wished to redevelop the property. It was agreed that the scheme set out in C (66) 29 should be applied to leasehold property owned by public authorities, subject to the modifications proposed.

The Cabinet—

(1) Approved the proposals for leasehold reform set out in C (66) 29, subject to further consideration of the right of the freeholder to resist enfranchisement on the ground that he wished to redevelop the property.

(2) Invited the Minister of Land and Natural Resources to submit a draft White Paper on Leasehold Reform for consideration at an early meeting.
3. The Cabinet had before them a note by the Secretary of the Cabinet (C (66) 31) to which was attached a copy of a minute from the Home Secretary to the Prime Minister on the emergency measures to be taken should the threatened rail strike materialise.

The First Secretary of State said that he, the Minister of Labour and the Minister of Transport had that morning held a meeting with a negotiating committee representing the railway unions. He had explained that the Government were prepared to accept that concessions should be made in respect of certain improvements in fringe benefits, relating to improved leave entitlements, the date of introduction of a 40-hour working week and pension arrangements and also to accept that the date of the 3½ per cent pay increase should be brought forward from 1st October, which was the date recommended by the National Board for Prices and Incomes, to 1st September. He had also made it clear that the Government were not prepared to accept that any further concessions should be made. It appeared that the unions, other than the National Union of Railwaymen (NUR), would be prepared to accept a settlement on this basis, but the negotiating representatives of the NUR had confined themselves to a statement that they would discuss the matter further with the Union Executive. The outcome was uncertain.

The Home Secretary said that the Ministerial Committee on Emergencies had met the previous afternoon under his chairmanship to review the preparations being made to maintain essential supplies and services should the strike materialise. A number of detailed arrangements had been approved, together with the draft of the Emergency Regulations, which were for practical purposes identical with those used in 1960. There were, however, two major issues on which a decision was required. The first was whether the Emergency Regulations should be made and laid before Parliament on Saturday, 12th February, or on Monday, 14th February. If made on the latter day they would not be in force until the following day, but this would not have serious practical disadvantages and on balance the Committee recommended that the Regulations should be laid on Monday, 14th February. A number of announcements would, however, have to be issued before then, to give detailed guidance to the public, if they were to be effective by the Monday and the Committee therefore considered it important that there should be an early statement of the Government’s plans as a whole which should include, or cover, all the necessary departmental statements. This should be made at the latest by the following morning and preferably by that evening.

In discussion there was general agreement that the statement proposed by the Home Secretary should be made that evening.

The Prime Minister said that the subsequent detailed handling of the dispute should be further considered by the Ministers most immediately concerned, who should also consider the text of the Government statement to be issued from 10 Downing Street.
balance of advantage probably lay in making the Emergency Regulations on the Monday, but this also would be considered by the group of Ministers concerned. The issues involved would be brought before the Cabinet again if necessary.

The Cabinet—

Took note that the Prime Minister would arrange for the Ministers immediately concerned to discuss further the handling of the dispute and the text of a statement to be made that evening on the preparations being made to maintain essential supplies and services.

Cabinet Office, S.W.1;

10th February, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Monday, 14th February, 1966, at 10.30 a.m.

Present:
The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. George Brown, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. Lord Gardiner, Lord Chancellor
The Right Hon. Michael Stewart, M.P., Secretary of State for Foreign Affairs
The Right Hon. Arthur Bottomley, M.P., Secretary of State for Commonwealth Relations
The Right Hon. William Ross, M.P., Secretary of State for Scotland
The Right Hon. The Earl of Longford, Secretary of State for the Colonies
The Right Hon. Anthony Greenwood, M.P., Minister of Overseas Development
The Right Hon. Richard Crossman, M.P., Minister of Housing and Local Government
The Right Hon. Douglas Houghton, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. Frank Cousins, M.P., Minister of Technology
The Right Hon. Frederick Lee, M.P., Minister of Power
The Right Hon. Herbert Bowden, M.P., Lord President of the Council
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. James Griffiths, M.P., Secretary of State for Wales
The Right Hon. Douglas Jay, M.P., President of the Board of Trade
The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science
The Right Hon. Sir Frank Soskice, Q.C., M.P., Lord Privy Seal
The Right Hon. R. J. Gutter, M.P., Minister of Labour
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Barbara Castle, M.P., Minister of Transport

Also present:
The Right Hon. Frederick Mulley, M.P., Minister of Aviation

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. D. S. Laskey
SECRET

DEFENCE REVIEW:
The Cabinet considered a memorandum by the Secretary of State for Defence (C (66) 33), to which was appended the draft of a Statement on the Defence Estimates, 1966: Part I.

The Secretary of State for Defence said that he had set three targets for the review of our defence expenditure. The first was to reduce the burden on resources by some 16 per cent as compared with the plans of the previous Administration; the second to reduce the burden on foreign exchange; and the third to reduce the excessive strain upon our military resources. £1,200 million over a 10-year period had already been saved by the decisions which the Government had taken on the aircraft programme. Defence expenditure in the following year would be just below the ceiling of £2,000 million at 1964 prices, but because of certain expenditure had inevitably been deferred while decisions were being taken on the Defence Review, there would be a slight increase thereafter until the target figure was met in 1969–70. The economies which had so far been achieved had been on equipment and without any diminution of our military capability, i.e., solely by getting better value for money. There still remained, however, a gap of £100 million between the target figure and the expenditure which would be incurred on existing plans in 1969–70 and this gap could only be closed by reducing commitments. The Defence Review had achieved certain major reductions, primarily in the Mediterranean and the Middle East, in relation to Malta, Cyprus, Libya and Aden. A small increase of facilities was necessary in the Persian Gulf in order to compensate for the loss of Aden. In the Far East we planned a substantial reduction of our forces as soon as confrontation came to an end. The Ministers in charge of the oversea Departments did not believe that it would be politically possible for us to stay in Singapore for any considerable period thereafter and if no alternative facilities were provided in Australia it would no longer be practicable for us to station substantial forces in the Far East. This would result in substantial savings in foreign exchange and resources.

The total reductions which would result from these proposals still left a gap of some £50 million between the target and the estimate in 1969–70. If this could be reduced to £25 million, the target could then be achieved by a number of minor savings. It should, however, be borne in mind that the existing estimate included provision of £50 million for contingencies. Such provision was not normally made in estimates, but it would be prudent to include it in the present instance. The necessary savings of £50 million might be achieved in a number of ways; by failure, owing to difficulties in recruitment, to maintain the carriers in service for as long as was proposed; by the further reduction of commitments which was likely to occur, whether in the Far East through the ending of confrontation and our withdrawal from Singapore, in the Middle East through the ending of the Kuwait commitment as a result of the actions of the present Kuwaiti Government, or by the reduction of
our forces in Germany if our requirements for offsetting foreign exchange were not met; or finally by cutting out the PI 127.

As regards foreign exchange the proposals provided for a cut of £75 million (from £350 million to £275 million a year) in the total which was involved on the plans as they stood a year ago. This latter figure, which would amount to about 6 per cent of our total imports, did not, moreover, take into account the very substantial offsets which should be achieved through our agreements with the United States and Federal German Governments. The proposals also provided for a reduction in the present overstrain of the Services.

The largest reductions in our forces would be effected in respect of the Royal Navy, primarily through the carriers being phased out by 1975 at the latest. The Royal Air Force would remain about the same size as at present, but it should be borne in mind that it would have to take over certain of the tasks which at present were performed by the Royal Navy and that very large savings had already been achieved. The Army would be reduced from some 195,000 men, including the Gurkhas, to 176,000 men, including the disbandment of the Gurkhas. In considering the equipment of the forces it was important to recognise that the carriers and the F-111A were in no sense alternatives. All the Chiefs of Staff and all the Service Boards agreed that the F-111A was essential to enable the forces to carry out the tasks which would be laid upon them over the next decade. The Chief of the Naval Staff and the Admiralty Board were alone in believing that the maintenance of the carriers was necessary for this task.

The Foreign Secretary said that we had two major aims. The first was to be in a position to defend the United Kingdom and our freedom. The Atlantic Alliance was of primary importance in this regard and it would be important that we should not disrupt it by decisions relating to the stationing of our forces in Europe. The steps which were envisaged were, however, acceptable from this point of view and the United States Government were fully aware of what we proposed. The second aim was to play in an unstable world a proper part, commensurate with our resources, in the preservation of world peace. The large cut envisaged in our commitments in the Mediterranean and the Middle East would involve certain risks which could nevertheless be accepted, but further cuts at the present stage would be impracticable, though the Kuwait commitment might well wither away over the next few years. It would, however, be imprudent for us to abandon it unilaterally. The course of events in the Far East was difficult to foresee. The cost of our forces in this area was very high and the relationship between our interests and our defence expenditure was much less favourable than in the Middle East. Such expenditure was inevitable as long as confrontation continued, but it was hoped that this might, at least tacitly, be abandoned before long. We had made it clear to our allies that thereafter we believed that it was unlikely that we should be able to remain in Singapore for any considerable period.
In considering the appropriate balance between what the United Kingdom could afford and what part she should play in world affairs neither aspect could be regarded as overriding. Our capacity to carry out certain commitments was inevitably limited by the strain on our resources, but to cut our commitments beyond a certain point might have consequences for world stability which would cause even greater damage to our economic position.

The Chancellor of the Exchequer said that the target of £2,000 million at 1964 prices for defence expenditure in 1969–70 had been taken as a starting point for the review of governmental expenditure as a whole by the Public Expenditure Committee. The excess of £50 million which was at present estimated would inevitably affect other programmes of expenditure and it would be imprudent to seek to meet this point by making no allowance for contingencies. He accepted the view put forward by the Secretary of State for Defence on the desirability of our maintaining a military presence in the Far East, but the question was whether we were at present proposing to play too large a part in relation to our resources. There might also be further scope for economies in the Middle East, particularly in relation to the building up of our facilities at Sharjah and the level of forces which it was proposed to retain in Cyprus.

The excess of expenditure over the target might also be cut by not continuing the P-1127. This expenditure was not justified on military grounds on a balance of priorities in relation to other defence expenditure and the cost involved was high in relation to the political and industrial advantages. Alternatively, the money could be found by a further reduction in commitments and there was in any event cause for concern at the wide range of commitments which it was still proposed to retain, since these might at any time involve the escalation of our military tasks. It might be that in the event the target of £2,000 million could be met by the withering away of certain commitments in the Middle East and Far East but the plan as it stood did not contain a guarantee that we should succeed in achieving it.

The Prime Minister said that in comparing future expenditure by the Home Departments and by the Ministry of Defence it must be borne in mind that our plans provided for the expansion of civil expenditure at the rate of 4½ per cent a year, whereas defence expenditure had to be heavily cut, with all the implications which this involved for our position overseas. In considering the excess of £50 million it was questionable whether the present allowance for contingencies might not be excessive, having regard to the extent to which work on research and development, which was the main cause of the escalation in expenditure, had already been cut by the change in our aircraft programme. In considering the future of the P-1127 the Cabinet would wish to have in mind not only the implications for our military capacity but also those for the future of the United Kingdom aircraft industry if this aircraft were abandoned. It would in any event be necessary to review the future of this aircraft.
following October in the light of the progress then made and it would be desirable at that time to consider what prospect there was for sales to foreign countries.

More broadly, in considering the burden of defence on our resources, due regard must be had to the importance of our maintenance of a world role in relation to the willingness of overseas countries to support sterling. No specific connection had ever been made by overseas Governments between these two aspects, but we could not expect that if we cut our overseas commitments more drastically other countries would necessarily be so readily prepared to assist us in other respects. A further factor of major importance in considering our role East of Suez was that it was primarily in this area that the real danger of a world war now lay and in our own interests we must be prepared to play a part in seeking to maintain stability.

The following main points were made in discussion:

(a) Defence expenditure represented a little over 7 per cent of our Gross National Product; by 1969-70 it would be about 6 per cent. A comparable figure for the United States was at present 8·7 per cent and this might well rise while the war in Vietnam lasted. For France the figure was 6·5 per cent and was likely to go up owing to the cost of the French nuclear deterrent. The German figure was about 5 per cent and this would strengthen our position in negotiating the offset of our foreign exchange costs. It was difficult to attribute defence expenditure as a whole to the different theatres, owing to the impossibility of allocating precisely expenditure in the United Kingdom, but in 1969-70 defence expenditure overseas could be roughly divided between NATO (50 per cent), Indo/Pacific (40 per cent) and Mediterranean/Middle East (10 per cent).

(b) Paragraph 22 of the White Paper would be strengthened to make clear that our ground forces in Germany would only be maintained at about their existing level provided that some means could be found of meeting the foreign exchange cost. At present our forces in Germany formed, in effect, part of the Strategic Reserve on which we needed to draw in order to meet emergencies outside Europe; if we brought forces back to the United Kingdom, we should save some foreign exchange but would incur heavy capital costs for accommodation. If, however, we could reduce our commitments outside Europe, a reduction in the size of the Army might be possible and we should then be able to withdraw some forces from Germany if we wished to do so. An arms control agreement in Europe might also make possible a general reduction in the level of NATO forces.

(c) It was suggested in discussion of paragraph 28 that it would be unwise to publish our intention to reduce our forces in Malta; this could affect the result of the Maltese elections to be held this year and would make more difficult the negotiations to which we were committed by the Defence Agreement. It was, however, the

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general view that the White Paper should not be less specific than was now proposed about the decision to reduce our defence establishment in Malta.

(d) The decision to leave Aden when South Arabia became independent represented a major reduction in commitments and paragraph 29 would be expanded to bring this out more clearly. The question was, however, raised whether we need maintain our commitment to CENTO and a military presence in the Persian Gulf. It was pointed out that future developments might relieve us of the CENTO commitment, but if we now took the initiative in abrogating it this might well cause the Shah of Iran to change his pro-Western alignment. In the Persian Gulf we intended to reduce the commitment to Kuwait and it seemed likely that the Kuwait Government would either wish to end the Defence Agreement or would increase their support for our opponents in the area so that the Agreement could no longer be maintained. It would, however, be disadvantageous for us to initiate its termination. Termination would enable us to make substantial savings in expenditure on the Gulf: a total and abrupt withdrawal from the area would, however, leave a vacuum which might lead to war between Iraq, Iran and Saudi Arabia, with a consequent grave disruption of the oil supplies for the West. Our aim must be to phase out our withdrawal slowly in order to leave behind a stable situation. Moreover, without the existence of such bases in the Middle East as Aden or Masirah intervention in Africa, such as the recent despatch of RAF aircraft to Zambia, would be more difficult, if not impossible.

(e) It was suggested that once confrontation was over there would be no justification for maintaining large military forces in the Far East, since this was an area in which we had little direct concern; the White Paper indeed implied that we should welcome conditions which made it impossible for us to remain in Singapore and Malaysia since this would enable us to make large savings. It was, however, pointed out that the Indo/Pacific was the area of greatest uncertainty and the risk of a major war starting there was far higher than it now was in Europe. It was impossible to say how the situation in Vietnam or confrontation would develop. We hoped that confrontation would end and that it would be possible to build up a block of neutral States in South-East Asia. If, however, we announced now our intention to leave Malaysia and Singapore when confrontation ended, there was a risk that others, including the People’s Republic of China, might try to take over our position and this could lead to a complete breakdown of stability which our continued presence could prevent. If, however, as we thought likely, political developments in Malaysia and Singapore after the end of confrontation made it impossible for us to remain there, we could only establish forces in Australia to the extent that facilities were available. It was clear that within the next three years facilities could not be constructed for more than about half the forces which we had planned to keep in the Far East, and the Australian Government were opposed to the stationing of substantial United
Kingdom ground forces in Australia. They would probably welcome United Kingdom air forces and might be able to make facilities available for some naval forces. It seemed probable therefore that, if we had to leave Malaysia and Singapore in a few years' time, the level of our forces in the Far East would then be substantially lower than was now envisaged, with consequent savings in foreign exchange and perhaps in total budgetary cost.

(f) It was suggested that paragraph 12 of the White Paper should make clear not only the Government's intention to internationalise our nuclear strategic forces but also to undertake no further development of nuclear weapons. It was confirmed that no development or expenditure was currently being undertaken on the next generation of nuclear weapons; and the resources devoted to the military nuclear programme were now very small. It was agreed that this paragraph of the White Paper should be further considered in the light of the discussion.

(g) The military reductions which we intended to make would have economic consequences in a number of countries, such as Malta and Singapore. These were being studied, but it was clear that no further economic aid would be available within the present total allocation. If further aid were to be given, this could only be done by offsetting to some extent the savings in defence expenditure.

(h) The force structure proposed by the Secretary of State for Defence would not meet the figure of £2,000 million at 1964 prices unless further economies were made and even at the level of £2,000 million defence expenditure in 1969–70 would impose an undue strain on our resources. On the other hand there seemed a reasonable prospect that further economies could be made and that some of our commitments, particularly in the Middle East and the Far East, could be further reduced without our having to take the initiative in abrogating them. If, however, decisions were taken now involving major changes in regard to commitments or equipment, this would reopen the assumptions on which the proposed force structure had been based. If the force structure were, however, accepted, this should be on the understanding that a sustained effort would be required to achieve further economies and to this end defence expenditure should be subject to close annual review.

(i) Certain other amendments in the draft White Paper were agreed.

The Prime Minister, summing up the discussion, said that the Cabinet would wish to continue their consideration of the draft White Paper at a further meeting later that day. Meanwhile Ministers should send any drafting amendments to the Secretary of State for Defence and he would consider with the latter whether amendments could suitably be made to the White Paper in regard to our military nuclear programme. It was also agreed that a sustained effort would be required if the ceiling of £2,000 million at 1964 prices in 1969–70 were to be achieved and that to this end defence expenditure year by year should be subject to close scrutiny.
The Cabinet—

(1) Agreed to resume their consideration of the draft White Paper later that day.

(2) Took note that the Prime Minister would consider with the Secretary of State for Defence the passage in the draft White Paper dealing with our military nuclear programme.

(3) Agreed that, in order to achieve the ceiling of £2,000 million at 1964 prices in 1969–70, defence expenditure should be subject to close annual review.

_Cabinet Office, S.W.1,
14th February, 1966._
CONCLUSIONS of a Meeting of the Cabinet held in the Prime Minister’s Room, House of Commons, S.W.1, on Monday, 14th February, 1966, at 6 p.m.

Present:
The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. George Brown, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. Lord Gardiner, Lord Chancellor
The Right Hon. Michael Stewart, M.P., Secretary of State for Foreign Affairs
The Right Hon. Arthur Bottomley, M.P., Secretary of State for Commonwealth Relations
The Right Hon. William Ross, M.P., Secretary of State for Scotland
The Right Hon. Douglas Jay, M.P., President of the Board of Trade
The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science
The Right Hon. Sir Frank Soskice, Q.C., M.P., Lord Privy Seal
The Right Hon. R. J. Gunter, M.P., Minister of Labour
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Herbert Bowden, M.P., Lord President of the Council
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. James Griffiths, M.P., Secretary of State for Wales
The Right Hon. Anthony Greenwood, M.P., Minister of Overseas Development
The Right Hon. Richard Crossman, M.P., Minister of Housing and Local Government
The Right Hon. Douglas Houghton, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. Frank Cousins, M.P., Minister of Technology
The Right Hon. Barbara Castle, M.P., Minister of Transport

Also present:
The Right Hon. Frederick Mulley, M.P., Minister of Aviation

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. D. S. Laskey
The Cabinet resumed their discussion of the Statement on the Defence Estimates 1966: Part I (C (66) 33). They also had before them memoranda by the Secretary of State for Defence on the Future Forces Structure (C (66) 34) and on the F-111A Option (C (66) 35).

Carrier Force

The Secretary of State for Defence said that the question of the length of time for which the carrier force should be maintained did not affect the decision on the F-111A since the Admiralty Board and the Chief of the Naval Staff agreed that in any event this aircraft was essential.

Carriers could not be regarded as a cost-effective part of our forces. They were only relevant in the Far East; in the Atlantic they were too vulnerable and in the Mediterranean and the Middle East air cover could be provided from land bases. The Royal Navy could not in any event man more than four carriers and we could not afford more than three. Over a 10-year period the cost of the force could be £1,400 million, including the carriers themselves and their aircraft, but excluding the escorting vessels which were required for other purposes as well as the protection of the carriers. With a force of three carriers one would be permanently East of Suez and another normally available at up to 15 days' notice. One of the three carriers would, however, be the Hermes which was equipped with only 12 fighter and 7 strike aircraft and one year in three this would be the carrier stationed East of Suez. The resultant capability of the carrier force did not justify the expenditure involved. The only operations for which carriers would be essential were the landing or withdrawal of troops in the face of sophisticated opposition outside the range of land-based aircraft. Our proposals on commitments did not however call for the retention of this capability in the 1970s. For air strikes against land targets carrier-borne aircraft were much less effective than land-based aircraft and in terms of cost were two-and-a-half times as expensive. An important part of the carrier role was the protection of ships at sea. It was accepted that up to a range of 300 miles this task could be adequately fulfilled by land-based aircraft. The Royal Air Force claimed that it could be done up to a range of 700 miles and to resolve the difference between these two figures would require further study. The real question however was whether we should need to protect shipping against heavy enemy attack at a range of 300 miles or more from land bases. He and the Chiefs of Staff, other than the Chief of the Naval Staff, considered that this was unlikely in the 1970s, though the task could arise so long as confrontation lasted. He had therefore concluded that the new carrier, the CVAO-1, should not be built but that we should seek to maintain the existing carrier force until 1975, although difficulties of recruiting for the Fleet Air Arm might mean that carriers would have to phase out by about 1972.

* Previously recorded as a Confidential Annex.
The Admiralty Board had recently put forward new proposals designed to provide for the construction of the CVAO-1 while keeping total costs of the Royal Navy at about the level of his own proposal. There had been a difference of view about the figures but it was now accepted that the extra cost of the Admiralty Board's proposal would be much higher than they had originally estimated. Capital expenditure on the CVAO-1 over the next three years would be £30 million and in 1969–70 the extra cost of the new plan seemed likely to be £20 million rather than £9 million. From 1973 to 1975 the additional expenditure would be about £100 million, so that over the 10-year period the new plan put forward by the Admiralty Board was likely to cost £150 million more than his own proposal. There would also be no additional capability until 1973 when the CVAO-1 would come into service; there would be additional capability after 1973 but this would be the period when we should hope to have reduced our commitments in the Far East. The Admiralty Board's proposal would be logical if it were intended to build further new carriers, the CVAO-2 and 0-3, but this would involve very heavy additional expenditure which we could not contemplate. The plan envisaged carriers phasing out in 1980, but at this date the CVAO-1 would only have been in service for six to seven years and its cost would not be justified for so short a period of service. Under his plan the Royal Navy would still have a major role to play and would obtain a number of new ships and new weapons to replace part of the carrier capability. An additional 36 Phantoms for the Royal Air Force for the maritime role would also be required. The total cost of reproviding the capability of the carrier force would be about £600 million over 10 years as compared with the cost of £1,400 million of the carrier force.

In discussion it was suggested that carriers gave a degree of mobility which was not afforded by land bases and that they were less vulnerable than fixed bases, not only in military terms, but also because they were not subject to the political limitations which tended to affect our use of land bases. It was however pointed out that, while carriers and land bases were equally vulnerable to nuclear attack, land bases could withstand a much heavier attack with conventional weapons than a carrier. Moreover, it was likely that carriers would become more vulnerable as new weapons were developed, particularly if a potential enemy acquired nuclear-powered submarines. Although carriers were not subject to the political limitations of land bases, this did not in fact increase the range of options open to us since any military operations would require the use of land bases and could not be conducted solely by carriers. Moreover, we intended in the 1970s, with longer range aircraft, to concentrate on land bases in Australia or on uninhabited islands in the Indian Ocean, which would be less subject to political limitations.

The Prime Minister, summing up this part of the discussion, said that the decision about the carrier force did not involve a choice between carrier-borne aircraft and the F-111A since all the Defence Ministers and the Chiefs of Staff agreed that the F-111A would be
required, even if the carrier force were maintained. Although there was some difference of opinion about the figures it was clear that the plan proposed by the Admiralty Board would make it impossible to attain the figure for defence expenditure of £2,000 million at 1964 prices in 1969-70. Carriers would give a valuable bonus to our defence capability, but the maintenance of the carrier force, including the construction of the CVAO-1, could not be justified unless we were prepared to increase defence expenditure substantially above the level of £2,000 million. There was general agreement that this could not be accepted and that the CVAO-1 should not be constructed. The Cabinet approved the proposal by the Secretary of State for Defence for maintaining the existing carrier force, if possible until 1975.

The Cabinet—

(1) Approved the proposals of the Secretary of State for Defence in respect of the carrier force.

The Secretary of State for Defence said that the importance of air reconnaissance in peace-time had been demonstrated in Cuba and Cyprus and it was even more essential in war. For strategic reconnaissance, long range, a high ceiling and supersonic speed were essential and there was no alternative to the F-111A in this role. Requirements for air strike depended on the type of opposition likely to be encountered, but against the weapons to be faced in the 1970s a strike aircraft must be able to operate at low level, with terrain-following equipment and a highly developed navigational and attack system. There was also a great advantage if the aircraft could operate from bases outside the range of enemy attack. As regards timing, the Canberras must be phased out by 1970. In the second half of the 1970s we hoped that the Anglo-French Variable Geometry (VG) aircraft would come into service. The Royal Air Force would rely on this for the strike, reconnaissance and other roles and the project was intended to be the cornerstone of our policy for collaboration in aircraft production in Europe on which the future of our aircraft industry would depend. The question was how to bridge the gap between 1970 and 1975. The solution he proposed was to purchase 50 F-111As (as compared with 110 envisaged in the previous year and the 150 TSR-2s planned by the previous Administration); these would be supplemented by the transfer of the V-bombers to the tactical role until they were replaced by the VG aircraft. Of the possible alternatives to the F-111A the Spey/Mirage would be at least two years late. Even on the basis of the price now quoted by the British Aircraft Corporation it would cost more than the F-111A and a large part of the cost would be in foreign exchange. It was doubtful whether it could be suitably adapted from its present role of a high-level bomber in a temperate climate to a low-level bomber in the tropics and in any event it would have a shorter range than the F-111A and could only operate from long concrete runways.
A developed Buccaneer was a more serious contender and the cost would be only slightly higher than that of the F-111A. It could not however be ready in time and there was no guarantee about the date of delivery. It would also be wasteful to develop the Buccaneer unless we were to buy the full number of aircraft we required for the strike role and this would conflict both industrially and financially with the Anglo-French VG project.

As a result of his negotiations with the United States Government an agreement had been initialled, ad referendum, on the terms for a purchase of 50 F-111As. The United States Government would provide credit to cover the cost of all our aircraft purchases from the United States at an interest rate of 4½ per cent, which he understood was acceptable to the Chancellor of the Exchequer. The unit price for the first 10 aircraft would be £2.1 million; for the subsequent 40 there would be an average price which contained a contingency allowance of £340,000 per aircraft. He expected within the next day or two to obtain a fixed price for the aircraft in the United States configuration and a fixed price for the additions of United Kingdom equipment to meet our requirements. This would give a ceiling price for the whole purchase of 50 aircraft and a figure per aircraft of about £2.5 million, which he would hope to be able to publish. By comparison the cost of 50 TSR-2s would have been £9 million each. We should also get guaranteed delivery dates of 12 aircraft by the end of 1968 and of all 50 by January 1970. The F-111A had encountered certain problems in the course of development but the difficulties experienced with the engine were now being overcome. There was a new problem of drag, but this was no more serious than the one encountered and rectified in the B-58 bomber. Even if a drag of 6 per cent remained, the aircraft would fully meet our requirements. As regards performance we should be covered by the contract which the United States Air Force had concluded with the manufacturers, by which the latter were obliged to make good at their own expense any defects occurring during the first 12 months after delivery.

He had also been concerned to offset the dollar cost of the proposed F-111A purchase, which would amount over the full 12-year period, including support and spares, to $725 million. The United States Government had agreed to target figures for direct purchases of military stores and equipment from the United Kingdom and for co-operative arms sales to third countries, including the recent sale to Saudi Arabia (worth £200 million in foreign exchange to the United Kingdom), which together equalled the total dollar cost of $725 million. The United States Government had also accepted that the agreement should be subject to annual review and that the two Governments would consult if the target figures were not being met. The United States Government had agreed that their reciprocal purchases from the United Kingdom should include general defence stores as well as military equipment and, more important, they would waive in favour of the United Kingdom the preferences imposed by the "Buy American" Act and the special preference of 50 per cent imposed because of United
States foreign exchange difficulties. United Kingdom industry would thus be able, for the first time, to compete on equal terms with United States industry for United States defence contracts; this offered a real opportunity for longer term sales which would be of considerable importance to our economy. As soon as the option for the F-111A was taken up the United States Government would invite tenders for the construction of naval auxiliaries in the United Kingdom to a value of $50 million. We could count on obtaining foreign exchange receipts from the United States reciprocal purchases and co-operative sales to third countries in advance of our dollar payments for the F-111A.

If we did not buy the F-111A we should have to purchase some other aircraft and whether this was the Spey/Mirage or a developed Buccaneer the total cost would certainly be higher. There would also be substantial extra expense in 1969-70 and this would conflict with the even spread of expenditure over the period, which was important for the defence programme.

Finally, it had been suggested that the French Government would react badly to a purchase of F-111As. He had however received a letter from the French Minister of Defence which referred to certain “preoccupations” about the United Kingdom purchase of F-111As but went on to suggest Anglo-French discussions in March or April about co-operative aircraft projects. We should be giving the French Government a full explanation of our decisions before publication of the White Paper and it did not now seem likely that any serious difficulty would arise over continued Anglo-French co-operation.

In discussion the Cabinet first considered the relation of a decision to purchase the F-111A to the maintenance by the United Kingdom of a military role East of Suez. The decision which the Cabinet had taken that morning to maintain such a role necessitated the provision of the appropriate equipment for the Armed Forces and it was generally recognised that, for the reasons which had been developed by the Secretary of State for Defence, the F-111A was essential to that role. It was however suggested that, since we envisaged the ending of confrontation, and a subsequent and consequential withdrawal from Singapore leading to the diminution or disappearance of our role in the Indo-Pacific thereafter, by 1970 and since the F-111A would not come fully into service until that date, it was unnecessary to acquire these aircraft: but the general view was that even after a withdrawal from Singapore it would still be desirable for the United Kingdom to maintain a military presence in the Far East, because of our Commonwealth interests and our concern for world-wide stability and because the maintenance of such a presence might prove to be a necessary counterpart to the continuance of a United States military role in Europe. Moreover, even if events should so develop that it was neither necessary nor possible to maintain such a role, the bringing into service of 36 front-line F-111As would not of itself determine our policy or
necessitate our continuance in this area. Nor was the F-111A necessary solely for our military requirements in the Indo-Pacific. Quite apart from its possible role in Europe, regard must be had to military commitments which might arise elsewhere, whether in relation to a possible conflict between India and China, or in Africa or as part of our contribution to United Nations peace-keeping forces. It was vital to our interests that we should not be wholly dependent on our allies for reconnaissance in such events; and the use of satellites for reconnaissance in the 1970s would not be sufficiently developed to cover the whole range of vital reconnaissance requirements and would in any event be dependent on the provision of facilities by the United States.

The reduction of our commitments which was envisaged as part of the Defence Review was a further step in the process of United Kingdom withdrawal from extensive world-wide commitments after the Second World War. This process would continue further but, if our withdrawal were carried out too rapidly, grave damage might result to world stability and to our interests and there would be a serious risk that we should be in no position to play a role appropriate to our standing and interests. It was pointed out that the maintenance of the military forces necessary for this purpose would pre-empt resources which might otherwise be used for the provision of aid to developing countries and that the Government’s plans in this field would therefore inevitably be severely restricted; but it was the general view that this consequence must, if necessary, be accepted.

In further discussion it was pointed out that the Buccaneer II was a highly effective subsonic low-level strike aircraft but that its performance and range, even in a further developed version, would be inadequate as a substitute for the F-111A, particularly in the reconnaissance role. Moreover, it would not be advantageous to the United Kingdom aircraft industry to concentrate on the further development of an aircraft which was now at the end of its potential development, rather than on the next generation of aircraft such as the P-1127 and the Anglo-French VG aircraft. It was to these that United Kingdom industry should look for its work on military aircraft in the 1970s.

The Cabinet then resumed their consideration of the Statement on the Defence Estimates, 1966: Part I and considered Section 3, including a revised version of paragraphs 39–40 circulated by the Secretary of State for Defence, dealing with the equipment of the forces, in the light of their previous discussion of the carriers and the F-111A. A number of drafting amendments were agreed and the following points were made—

(a) It was essential that the offset agreement in respect of United States purchases of United Kingdom military equipment and in respect of co-operative sales to third countries should be fully implemented, since otherwise we should be unable to meet the requirements for dollar expenditure on United States equipment in the 1970s which would result from the decisions which had been taken during the preceding 12 months. While it would not be practicable for the United States Government to give any further
commitments in this regard, we should make it clear to them that, if the offset operations were not successful in providing virtually the whole of the foreign exchange involved in buying the F-111A, we should be forced, from our paramount need to conserve foreign exchange, to make corresponding reductions in our oversea defence expenditure, with all that this involved in terms of our commitments. While it would not be appropriate to declare this view publicly, whether in the Defence White Paper or otherwise, having regard to the damage which it would cause to our relations with other countries and to the maintenance of our commitments and obligations, the United States Government should be left in no doubt about the restrictions which would inevitably be imposed upon us by our balance of payments situation. In considering our future course of action we should however recognise that our commitments depended on our own interests and our relations with other States. We should neither make ourselves dependent on the decisions of the United States Government in carrying out those commitments nor should our statement to them be so framed as to suggest by implication that, provided our requirements in foreign exchange were met, we should necessarily then maintain commitments in the future at the level now envisaged, unless this were consonant with our interests.

(b) The maintenance of the P-1127 was important for United Kingdom industrial reasons and at this stage we should plan on the assumption that it would be developed. The Cabinet must however reserve the right to take a different decision should either technical developments or the escalation of costs make it desirable to do so and for this reason the draft of paragraph 45 of the Statement should be amended by omitting the sentence “This decision is now confirmed” and by amending the previous sentence to read “As announced at the time, we plan to use instead a combination of United States Phantoms and the United Kingdom VTOL P-1127”. Since production orders would in the ordinary course shortly have to be placed, the Ministers primarily concerned should meet in the very near future to consider further action.

The Prime Minister, summing up the discussion, said that the Cabinet approved the proposals of the Secretary of State for Defence for the Future Forces Structure. They were however concerned at the risk that this decision might endanger the attainment of the target for defence expenditure of £2,000 million at 1964 prices in 1969-70 and their approval was contingent on the maintenance of continuous pressure to achieve that target, including the annual scrutiny of commitments and expenditure on which they had agreed at their previous meeting earlier that day.

The Cabinet—

(2) Approved the proposal to make an agreement with the United States Government for the purchase of 50 F-111As on the terms proposed by the Secretary of State for Defence, provided that it was made clear to the United States Government that if the offset operations
were not successful in meeting virtually the whole of the cost in foreign exchange, the United Kingdom Government would be forced through their paramount need to conserve foreign exchange to make corresponding reductions in oversea defence expenditure, with all that this involved in terms of oversea commitments.

(3) Approved the remaining proposals of the Secretary of State for Defence in respect of the Future Forces Structure.


(5) Invited the Secretary of State for Defence to circulate revised copies of the draft Statement to the Prime Minister, First Secretary of State, Chancellor of the Exchequer, Foreign Secretary, Commonwealth Secretary, Colonial Secretary and Minister of Aviation.

(6) Invited the Foreign Secretary and the Commonwealth Secretary, in consultation with the Secretary of State for Defence, to arrange, respectively, for the foreign and Commonwealth Governments concerned to be informed, as appropriate, of the decisions which affected them, in advance of the publication of the Defence White Paper.

(7) Took note that the Prime Minister would arrange to discuss further with the Ministers primarily concerned the continuing programme for the P-1127.

Cabinet Office, S.W.1.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 15th February, 1966, at 11 a.m.

Present:
The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. Herbert Bowden, M.P., Lord President of the Council
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. The Earl of Longford, Secretary of State for the Colonies
The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science
The Right Hon. Sir Frank Soskice, Q.C., M.P., Lord Privy Seal
The Right Hon. R. J. Gunter, M.P., Minister of Labour
The Right Hon. Frederick Lee, M.P., Minister of Power

The Right Hon. Lord Gardiner, M.P., Lord Chancellor
The Right Hon. Michael Stewart, M.P., Secretary of State for Foreign Affairs
The Right Hon. Arthur Bottomley, M.P., Secretary of State for Commonwealth Relations
The Right Hon. James Griffiths, M.P., Secretary of State for Wales
The Right Hon. Anthony Greenwood, M.P., Minister of Overseas Development
The Right Hon. Richard Crossman, M.P., Minister of Housing and Local Government
The Right Hon. Douglas Houghton, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. Frank Cousins, M.P., Minister of Technology
The Right Hon. Barbara Castle, M.P., Minister of Transport

The following were also present:
The Right Hon. Anthony Wedgwood Benn, M.P., Postmaster-General
Mr. George Darling, M.P., Minister of State, Board of Trade
The Right Hon. Edward Short, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir Burke Trend
Mr. L. Errington
SECRET

BROADCASTING AND TELEVISION

Broadcasting: Draft White Paper

Subject

BROADCASTING AND TELEVISION

Broadcasting: Draft White Paper
The Cabinet considered a memorandum by the Postmaster-General (C (66) 32), to which was attached a draft White Paper on Broadcasting.

*The Postmaster-General* said that the White Paper was the outcome of a policy review undertaken by the Ministerial Committee on Broadcasting. As previously agreed by the Cabinet, it left open the question of the fourth network and the University of the Air. The most difficult issue related to the financing of the British Broadcasting Corporation (BBC), and in particular the proposal that advertising should be included in the Light Programme. When the Government had come into office they had found that the BBC were faced with a very serious financial problem as the result of their various commitments, under decisions of the previous Administration, to undertake a major expansion of their services. At that time the BBC were faced with a cumulative deficit of £125 million by 1969 and had asked for an increase in the licence fee to £6. Pending the outcome of the policy review which they instituted forthwith the Government had agreed to an increase to £5 from August 1965; but, if no further action were taken, the BBC would exhaust their borrowing powers by the end of 1967–68. In these circumstances the Corporation were now asking for an increase in the licence fee to £6 10s., to take effect in August.

The Ministerial Committee had considered that there were only three sources from which additional revenue for the BBC could be drawn—the Exchequer, the licence fee and advertising. They had dismissed the possibility of Exchequer finance; and they had rejected any early increase in the licence fee. They had therefore concluded that the Corporation should be offered the opportunity to sell advertising time on the Light Programme (since the Licence and Agreement gave the Government no power to compel the BBC to accept advertising). This might produce £7 million a year after two or three years and would not, therefore, solve the BBC’s problems. But, together with the other measures proposed, it should defer the need for an increase in the licence fee to 1967–68 or later. The Light Programme was in any event addressed primarily to the popular audience; and the proposal to introduce advertising into it should not therefore have the adverse effects on programme standards or on the independence of the BBC which the Corporation professed to apprehend. It was an additional advantage of including advertising in the Light Programme that it would help to deprive the “pirate” radio stations of their main source of revenue.

In discussion it was suggested that the essential problem which faced the Government was the problem of financing a service, whose costs were increasing steadily as a result both of increasing prices and of the expansion to which it was committed, from a flat-rate licence fee which was regressive in its nature and had lost its original buoyancy now that the ownership of television sets was widely spread. If no other source of finance were provided for the BBC, the licence fee would have to be increased by an average of about
10s. a year in the future. Moreover, although a reduction of BBC expenditure might be enforced by insistence on greater administrative economy and improvements in efficiency, it was unlikely that this reduction would materially affect the financial problem. Indeed, the recent investigations of the Official Committee on Broadcasting had only confirmed the findings of previous independent inquiries that the Corporation operated efficiently and economically by comparison with, e.g., the Independent Television Authority (ITA) and German broadcasting authorities. Any attempt to impose a limit on expenditure would therefore merely compel the Corporation either to curtail their programmes generally or to abandon the BBC-2 service. But these economies would be harmful to the development of public service broadcasting, would lead to a further and undesirable extension of commercial broadcasting and would evoke an unfavourable public reaction.

In further discussion it was suggested that the licence fee was still relatively low in relation to the cost of the services provided by the BBC; that there was still scope and justification for increases in the fee at suitable intervals; and that, since the licence system of finance guaranteed the standard and independence of public service broadcasting, it should remain the principal source of BBC finance. On the other hand, increases in the licence fee were generally unpopular with the public, particularly in the light of the apparently free services provided by the ITA; and they bore hardly on pensioners and low wage earners. It was therefore necessary to seek a supplementary and more buoyant source of finance in order to avoid too frequent increases in the licence fee and to enable the proper development of public service broadcasting to proceed.

In the light of these conflicting considerations the proposal to include advertising in the Corporation's Light Programme could be argued to entail the risk that, even if confined to that programme initially, it would constitute a precedent and would open the door to the extension of advertising to the Corporation's other services when the time next came to consider an increase in the licence fee. Moreover, the amount of revenue obtainable from advertising was uncertain and was in any case insufficient to solve the BBC's financial problem, even if the proposal were acceptable to the Corporation in principle, as seemed unlikely. On the other hand, no other source of additional finance for the BBC was available; and in the light of the responsible attitude which the independent television companies had displayed despite their dependence on revenue from advertising, there were grounds for believing that public opinion would not react unfavourably to the inclusion of advertising in the BBC's Light Programme. In the long term it would make possible an acceptable pattern of increases in the licence fee at intervals which might perhaps comprise several years at a time; and it would thus help to ensure that the licence system would remain the basic source of finance for the BBC. Moreover, the Corporation's objections of principle might be reduced if they were reminded that this was only one of the measures for reinforcing their finances which the Government proposed and that it would be
supplemented by the additional licence fee for colour television and by the proposed measures to reduce evasion of payment of the licence fee and to increase the Corporation's revenue by the sale of technical services and programmes to the proposed local community stations.

The Prime Minister, summing up the discussion, said that there was general agreement that an Exchequer subvention should be dismissed as a supplementary source of finance for the BBC and that an early increase in the licence fee was open to considerable objection. It was also agreed in principle that the licence fee ought to remain as the principal source of the Corporation's finance but that, in order to avoid too frequent increases in the fee, some further source of revenue was necessary and there seemed, for this purpose, to be no alternative to the inclusion of advertising in the Light Programme. But in view of a letter which he had recently received from the Vice-Chairman of the BBC, expressing very forcibly the opposition of the Governors to the inclusion of advertising in the Corporation's programmes, it would be appropriate that, together with the Lord President of the Council and the Postmaster-General, he should arrange to meet the Vice-Chairman and the Director-General of the Corporation in order to discuss the whole problem with them and to ensure that the BBC were fully aware of the considerations which the Government had to take into account. In the light of the outcome of this discussion it would be necessary for the Cabinet to give further consideration to the issues raised in C (66) 32.

The Cabinet—

(1) Took note that the Prime Minister, together with the Lord President of the Council and the Postmaster-General, would discuss with representatives of the British Broadcasting Corporation the financial problems of the Corporation and the proposal to introduce advertising on the Light Programme.

(2) Agreed to resume their discussion of C (66) 32 at a subsequent meeting.

Cabinet Office, S.W.1,
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 17th February, 1966,
at 10.30 a.m.

Present:
The Right Hon. HAROLD WILSON, M P, Prime Minister
The Right Hon. GEORGE BROWN, M P, First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. ARTHUR BOTTOMLEY, M P, Secretary of State for Commonwealth Relations
The Right Hon. WILLIAM ROSS, M P, Secretary of State for Scotland
The Right Hon. THE EARL OF LONGFORD, Secretary of State for the Colonies
The Right Hon. ANTHONY CROSSLAND, M P, Secretary of State for Education and Science
The Right Hon. SIR FRANK SOSKICE, Q C, M P, Lord Privy Seal
The Right Hon. R. J. GUNTER, M P, Minister of Labour
The Right Hon. FRED PEART, M P, Minister of Agriculture, Fisheries and Food
The Right Hon. HERBERT BOWDEN, M P, Lord President of the Council
The Right Hon. JAMES CALLAGHAN, M P, Chancellor of the Exchequer
The Right Hon. ROY JENKINS, M P, Secretary of State for the Home Department
The Right Hon. JAMES GRIFFITHS, M P, Secretary of State for Wales
The Right Hon. ANTHONY GREENWOOD, M P, Minister of Overseas Development
The Right Hon. RICHARD CROSSMAN, M P, Minister of Housing and Local Government
The Right Hon. DOUGLAS HOUGHTON, M P, Chancellor of the Duchy of Lancaster
The Right Hon. FRANK COUSINS, M P, Minister of Technology
The Right Hon. FREDERICK LEE, M P, Minister of Power
The Right Hon. BARBARA CASTLE, M P, Minister of Transport (Items 3 and 4)

The following were also present:
The Right Hon. ANTHONY WEDGWOOD BENN, M P, Postmaster-General (Item 4)
Mr. GEORGE THOMSON, M P, Minister of State for Foreign Affairs (Items 1 and 2)
The Right Hon. SIR ELWYN JONES, Q C, M P, Attorney-General (Item 5)
The Right Hon. EDWARD SHORT, M P, Parliamentary Secretary, Treasury
The Right Hon. FREDERICK WILLEY, M P, Minister of Land and Natural Resources (Item 3)
Mr. GEORGE DARLING, M P, Minister of State, Board of Trade (Item 4)
Sir DINGLE FOOT, Q C, M P, Solicitor-General (Item 3)
Mr. NIALL MACDERMOT, Q C, M P, Financial Secretary, Treasury (Item 3)
Secretariat:

Sir Burke Trend
Mr. P. Rogers
Miss J. J. Nunn
Mr. L. Errington

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Parliament

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

Rhodesia

(Previous Reference: CC (66) 3rd Conclusions, Minute 3)

2. The Prime Minister said that there had recently been indications that the embargo on oil supplies to Rhodesia was being evaded by the organisation of supplies by road over the Beit Bridge from South Africa. These did not as yet amount to a substantial flow of oil, but the indications were nevertheless disturbing, in relation both to the prospective improvement of Rhodesia's supplies and to the political reactions of African countries. A thorough investigation, through all possible sources of information, was being carried out to ascertain the precise extent of the flow. We were also in touch with the South African Government and would endeavour to persuade them to take the necessary measures to reduce oil exports to Rhodesia via South Africa to the level of the very limited quantities which had passed before the illegal declaration of independence. So far, the policy of Dr. Verwoerd, the Prime Minister of South Africa, and of his Government in maintaining a strict attitude of neutrality towards the dispute had in fact been helpful to us. We must, however, recognise that the strong pressure of opinion among the South African electorate which was sympathetic to the illegal régime coupled with the fact that a general election was due to be held in South Africa in March and that the opposing United Party had declared themselves in favour of providing assistance to Rhodesia would make the position of the South African Government in this matter extremely delicate and limit the extent to which they would feel able to take specific measures to meet our representations. Nevertheless, we should make clear to them the strong probability that, if such action were not taken, there would be a Resolution in the United Nations using the language of Chapter VII of the United Nations Charter, which would call for an oil embargo on the whole of Southern Africa. It would be unwise for the United Kingdom Government to take the initiative in raising this aspect publicly, but it might well be that one of the moderate African leaders, such as President Kenyatta of Kenya, would do so.

The Commonwealth Secretary said that pressure had already been brought to bear upon us by African Governments to close this gap in the oil embargo. A meeting of the Organisation of African Unity was due to be held at the end of the month and, unless we could by then demonstrate that the gap had been substantially closed, the meeting might develop in a way which would seriously embarrass us. He had arranged to hold a meeting of the Commonwealth Sanctions Committee the following week in an effort to anticipate some of the criticisms.

The Cabinet—

Took note of the statements by the Prime Minister and the Commonwealth Secretary.
3. The Cabinet considered a note by the Minister of Land and Natural Resources (C (66) 36) to which was appended a draft White Paper on Leasehold Reform in England and Wales.

In discussion it was suggested that it would be possible to publish the White Paper either in the form of the draft appended to C (66) 36, which was designed to give a lively and attractive summary of the main principles of the Government’s proposals for the benefit of the general public, or in the form of a less colourful document, which would be confined to a detailed description of the proposals themselves and would be addressed mainly to the professional reader. There would be some advantage in publishing a lively statement, provided that it did not simplify to the point of inaccuracy, and, subject to careful examination from this point of view, the present draft would serve this purpose. It would be desirable, however, to make available to the Press a statement, preferably with illustrative examples, which would set out the proposals in terms which would be easier for the public to understand, and such a statement was in preparation. It was agreed that, after the discussion of basic points of principle arising on the draft, the text should be further considered in detail by the Ministers primarily concerned. It was desirable that the White Paper should, if possible, be published on the following day.

In discussion of the text of the White Paper a number of drafting amendments were proposed and the following main points were made:

(a) Paragraph 1 should be expanded in order to set out more clearly the moral justification for leasehold reform. It was inaccurate to say that the effect of the Landlord and Tenant Act, 1954, in depreciating drastically the value of the landlord’s interest had been unexpected. It had been predicted and intentional and the measure now proposed was therefore not wholly novel but represented a further development in line with that policy.

(b) In paragraph 2 and elsewhere in the draft it would not be wholly appropriate to describe the solution proposed by the Government simply as “just”. It must be recognised that any possible solution would inevitably give rise to a number of anomalies and that it would hence be preferable to present the measure proposed as the only practicable solution.

(c) In discussion of paragraph 12 it was suggested that the definition of the assessment of site value was obscure to the layman. It was, however, agreed that it must be in terms which would convey the Government’s intention precisely to professional valuers and the Cabinet were informed that the definition proposed was based on professional advice.

(d) In discussion of paragraph 16 (d) the point was made that any reference to Crown Estates and Royal Duchies should be agreed before publication with The Queen’s advisers in respect of these bodies.
The Cabinet then discussed in relation to paragraph 17 the issue of principle on which alternative versions were put forward in the draft White Paper.

The Lord Chancellor said that the leasehold system was an important method of providing relatively cheap houses for sale. The Bill would, for reasons of equity, impose restraints on the current operation of the system. It would be undesirable that in addition the Bill should prevent the development of property by private freeholders on the expiry of current leases since this would gravely hamper the development of large estates, on the basis of which much of the housing in London and elsewhere had been built and hence effectively put an end to the leasehold system, with further consequential increases in the price of houses for sale.

The Minister of Land and Natural Resources said that the inclusion of a provision on the lines proposed by the Lord Chancellor would effectively stultify the basic purpose of the Bill in that it would enable the large development companies to evade the provision for leasehold enfranchisement.

In discussion it was the general view that, despite the difficulties which might be caused to desirable large-scale development of leasehold property, it was nevertheless unacceptable to include a provision which might so seriously damage the main purpose of the Government's proposals.

The Prime Minister, summing up the discussion, said that there was general agreement with the view of the Minister of Land and Natural Resources that during the existing lease the landlord should have the right to resist either enfranchisement or an extension of the lease only if he wanted the house on its expiry for occupation by himself or his family and if his hardship would be greater than the leaseholder's if this intention were frustrated, and that this provision should not be extended to cases where the landlord intended on the expiry of the lease to redevelop the property. The draft of the White Paper should now be further considered by the Ministers primarily concerned in the light of the Cabinet's discussion and should be published as soon as possible thereafter.

The Cabinet—

(1) Agreed that the landlord should not have the right during the existing term of the lease to resist either enfranchisement or the extension of the lease on the ground that he intended after its expiry to redevelop the property.

(2) Invited the Lord President of the Council, in consultation with the Lord Chancellor, the Minister of Land and Natural Resources and the Financial Secretary, Treasury, to revise the draft of the White Paper in the light of their discussion.
(3) Agreed that, subject to Conclusion (2), the draft White Paper on Leasehold Reform should be published as soon as possible.

4. The Cabinet resumed their consideration of a memorandum by the Postmaster-General (C (66) 32) to which was attached a draft White Paper on Broadcasting.

The Prime Minister said that, together with the Lord President of the Council and the Postmaster-General, he had discussed with the Vice-Chairman of the Governors and the Director-General of the British Broadcasting Corporation (BBC), the Corporation's financial problems and the proposal to authorise advertising on the Light Programme. He had made it clear that the Government had dismissed the possibility of direct Exchequer subvention, and that, while they did not rule out an increase of the licence fee in due course to cover perhaps half of the BBC's increase in expenditure, they could not accept that the licence should automatically be raised to cover the whole of the BBC's deficit. He had also made it clear that no increase in the licence could be accepted until the Government were assured that every other source of cash saving or of revenue had been explored. Specific possibilities which he had put to the BBC included more intensive measures to reduce licence evasion, investigation of the BBC by the Treasury Organisation and Methods Department, realisation of capital assets such as the Langham Place building, acceptance of advertising on the Light Programme, sale of agency services and programmes to local community stations, payment by the University of the Air for transmission of its programmes on BBC-2, and acceptance of a ceiling on their expenditure. The BBC were very ready to co-operate in measures to reduce evasion and had reacted favourably to the suggestion of a Treasury Organisation and Methods investigation and to the possible use of BBC-2 by the University of the Air. They had undertaken to send him as soon as possible their considered views on these and the other possibilities discussed. They had, however, reaffirmed their total opposition to advertising on the Light Programme since they feared that, once the principle had been admitted, it would be difficult to resist its extension to their other services.

Pending the receipt of the BBC's detailed views, he suggested that further consideration of their financing should be deferred. The Cabinet should, however, consider the need for an early White Paper in the light of the other proposals contained in the Postmaster-General's draft.

The Postmaster-General said that, because of the firm undertakings given to review broadcasting policy, it was desirable to publish a White Paper as soon as possible. In particular, manufacturers were anxious that an early decision should be taken on colour television. It was also desirable to offer through the Light Programme and local community stations some alternative to the type of service at present provided by the pirate radio stations. By
a combination of the possibilities which had emerged from the discussions in the Cabinet and with the BBC, a solution to the BBC's financial problems could be devised and presented together with his other proposals.

In discussion it was pointed out that the proposal to introduce colour television would lead to a substantial increase in the demand on resources and in the import of colour television sets which were not yet manufactured in the United Kingdom. It was also suggested that, although the Postmaster-General's Television Advisory Committee had made a strong recommendation in favour of the PAL colour system, it was possible that the National Electronic Research Council, who were currently studying the problem, might recommend some different system. A decision now to adopt the present system might prove to be premature and might therefore put manufacturers and exporters at a disadvantage in future. On the other hand, it was suggested that it would help United Kingdom manufacturers to develop their industrial capacity, and so assist our exports prospects, if an early decision were reached on the system to be adopted. Any such decision would be subject to revision in the light of the meeting of the International Radio Consultative Committee to be held in June, but there were advantages in announcing a decision in advance of that meeting in the hope that other countries would be influenced to favour the same system.

The Prime Minister, summing up the discussion, said that conclusions on the financing of the BBC and on the White Paper must await the BBC's detailed views. In the meantime, the Postmaster-General should amend the draft in the light of the present discussion and of the discussion with the BBC and circulate the revised draft for further consideration by the Cabinet.

The Cabinet—

(1) Took note of the Prime Minister's statement on his discussions with the BBC.

(2) Invited the Postmaster-General, in the light of their discussion, to submit a revised White Paper for consideration at a later meeting.

Cabinet Office, S.W.1.

17th February, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Tuesday, 22nd February, 1966,
at 10 a.m.

Present:
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary of State for Economic Affairs (in the Chair)
The Right Hon. HERBERT BOWDEN, M.P., Lord President of the Council
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. JAMES GRIFFITHS, M.P., Secretary of State for Wales
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science
The Right Hon. SIR FRANK SOSKICE, Q.C., M.P., Lord Privy Seal
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. LORD GARDINER, M.P., Lord Chancellor
The Right Hon. MICHAEL STEWART, M.P., Secretary of State for Foreign Affairs
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Overseas Development
The Right Hon. RICHARD CROSSMAN, M.P., Minister of Housing and Local Government
The Right Hon. DOUGLAS HOUGHTON, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. FREDERICK LEE, M.P., Minister of Power
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. KENNETH ROBINSON, M.P., Minister of Health
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury
The Right Hon. EDWARD SHORT, M.P., Parliamentary Secretary, Treasury

Secretariat:
Mr. P. ROGERS
Mr. J. H. LOCKE
Subject
LOCAL GOVERNMENT FINANCE
Draft White Paper
The Cabinet considered a memorandum by the Minister of Housing and Local Government (C (66) 37) to which was attached a draft White Paper on Local Government Finance.

The Minister of Housing and Local Government said that the substance of the White Paper followed decisions taken by the Cabinet in September 1965 (CC (65) 48th Conclusions, Minute 1) and in January 1966 (CC (66) 2nd Conclusions, Minute 2 and 4th Conclusions, Minute 3). Its main purpose was to set these decisions in perspective: the proposals were presented not as a long-term solution but as a temporary measure designed to make rates as tolerable as possible until such time as a reform of the structure of local government enabled major changes to be made in the structure of local government finance. It was important that the White Paper should not commit the Government to abandon entirely the system of rates as a source of local government finance since it might in the event be necessary to retain it, though in a much improved form. Certain amendments to the text were desirable in order to emphasise that the criticism of rates applied only to their present form. Equally, however, the White Paper should not commit the Government to retaining the system if developments over the years made possible its replacement by other sources of revenue such as a local income tax. For the next few years all that was possible was to establish a new method of assessing the proportion of local expenditure met by Exchequer grants and to meet a steadily rising proportion of this expenditure year by year. In addition he proposed to include provision for the rating of empty property. Although this might in practice yield only about £5 million a year in additional revenue, it would remove what was widely regarded as an unfair aspect of the rating system.

In discussion it was suggested that it would be preferable not to publish a White Paper at the present stage, but for a statement to be made on the immediate changes which the Government proposed, since on the one hand the present proposals fell substantially short of the far-reaching changes in the system which had been indicated in the Labour Party Manifesto and on the other hand it would be imprudent to make such severe criticisms of the rating system without any certainty that an alternative method could be found of raising the large sums which were required for local government expenditure. Rates still formed a lesser burden in relation to the gross national product or to personal incomes than in 1938 and there did not appear to be any alternative to maintaining the rating system in some form as the major source of revenue of local authorities. Furthermore, the early publication of the White Paper might be embarrassing in relation to current discussions with the local authorities, both in England and Wales, and also in Scotland. A White Paper on the rating system in Scotland would also be necessary if one were published in respect of England and Wales.

On the other hand, it was pointed out that the rate of increase of the cost of services administered by local authorities was now so
great that an annual increase in the rates of the order of 10 per cent was necessary. Given the lack of buoyancy in the rating system, such a rate of increase would soon cease to be tolerable and it was therefore essential to find means both of making the system less regressive and of supplementing it as a local source of revenue. The Government had created expectations of a major change in the system of local government finance and it was necessary to explain why it was not at present practicable to proceed with any major change while at the same time showing that the Government recognised the disadvantages of the present system. It was therefore on balance desirable to issue the White Paper, but the criticism of the rating system in paragraphs 5–7 should be amended to avoid any impression that the Government envisaged the possibility of eventually abolishing the rating system altogether.

The First Secretary of State, summing up this part of the discussion, said that the general view of the Cabinet was in favour of publishing the White Paper. The doubts which had been raised affected primarily paragraphs 5–7 of the present draft, which should be redrafted in the light of the discussion. The redraft should leave open the possibility of a complete recasting of the rating system and of finding additional sources of local government finance to supplement the rates. A White Paper would also be necessary, in parallel with that proposed, to deal with the changes in the rating system in Scotland. Time would not permit the draft of such a paper to be circulated to the Cabinet and the text should therefore be agreed by the Secretary of State for Scotland with the Ministers primarily concerned.

In further consideration of the draft White Paper a number of drafting amendments were agreed and the following main points were made:

(a) The reference to the review of local government in paragraph 9 should include a suitable reference to Wales.

(b) The reference to the rating of empty property should be in general terms since agreement had not yet been reached on details.

(c) In paragraphs 19 and 20 the effect on the individual ratepayer of the Government's proposal should be brought out as clearly as possible.

(d) A paragraph should be included describing the proposed changes in the highways grant, even though this might draw attention to the absence of changes in connection with other specific grants such as education.

The First Secretary of State, summing up the discussion, said that the White Paper should now be redrafted by the Minister of Housing, in consultation with the Ministers concerned, in the light of the Cabinet's discussion. Any further drafting points which Ministers might wish to make should be sent direct to the Minister of Housing. The White Papers in respect of England and Wales, on the one hand, and in respect of Scotland on the other, should be published on Friday, 25th February.
The Cabinet—

(1) Invited the Minister of Housing and Local Government, in consultation with the Chancellor of the Exchequer and the Minister of Transport, to amend the White Paper in the light of their discussion and, in consultation with the Lord President of the Council, to publish it on Friday, 25th February.

(2) Invited the Secretary of State for Scotland to arrange for the simultaneous publication of a similar White Paper on Local Government Finance in Scotland.

Cabinet Office, S.W.1,
22nd February, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 24th February, 1966, at 10.30 a.m.

Present:
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary of State for Economic Affairs (in the Chair)
The Right Hon. HERBERT BOWDEN, M.P., Lord President of the Council
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. JAMES GRIFFITHS, M.P., Secretary of State for Wales
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Overseas Development
The Right Hon. Sir FRANK SOSKICE, Q.C., M.P., Lord Privy Seal
The Right Hon. R. J. GUNTER, M.P., Minister of Labour (Items 1-4)
The Right Hon. FREDERICK LEE, M.P., Minister of Power

The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. MICHAEL STEWART, M.P., Secretary of State for Foreign Affairs
The Right Hon. ARTHUR BOTTOMLEY, M.P., Secretary of State for Commonwealth Relations
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. THE EARL OF LONGFORD, Secretary of State for the Colonies
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science (Items 1-4)
The Right Hon. DOUGLAS HOUGHTON, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport (Item 5)
The following were also present:
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Postmaster-General (Item 5)
The Right Hon. FREDERICK WILLEY, M.P., Minister of Land and Natural Resources (Item 3)
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Items 4 and 5)
The Right Hon. EDWARD SHORT, M.P., Parliamentary Secretary, Treasury

Secretariat:
Mr. P. ROGERS
Miss J. J. NUNN
Mr. J. H. LOCKE

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

2. The Foreign Secretary said that the Minister of State for Foreign Affairs (Lord Chalfont) had had discussions with the North Vietnamese Chargé d’Affaires in Moscow in a further attempt to find a means of negotiation on the conflict in Vietnam. It appeared so far that the North Vietnamese authorities had gone no further than a reaffirmation of their intransigent public announcements on this subject and it would be necessary to await the return of the Prime Minister from Moscow before the outcome could be fully assessed.

President Sukarno had reorganised his Government by reducing, though not excluding, the participation of the Army. There had been some sharp reactions and the outcome was as yet uncertain, but for the time being the President’s position had been strengthened. His determination to continue confrontation might well be greater than that of the army, but in any event the principal factor in weakening confrontation was the level of internal unrest in Indonesia.

The Army had taken over control of the Government in a coup d’état. It appeared that this move was based primarily on internal dissensions and that it was unlikely that it would seriously alter Syria’s external relations.

The South African Government had adopted a neutral position in relation to the embargo on trade with Rhodesia but recently a serious gap had developed in the oil embargo through the transit of oil over the Beit Bridge; and it was now clear that the South African Government were not prepared to take specific measures to prevent South African citizens breaking the embargo. The Prime Minister had seen the South African Ambassador on the previous Saturday and had made clear to him the serious international repercussions which might result.

The Portuguese Government were seeking to maintain relations with both sides in the Rhodesian situation. On the one hand they were co-operating with the Zambian Government by facilitating increased railway traffic for the transit of goods and were willing to co-operate in an airlift to Zambia using Beira airport, provided only civil aircraft were used. At the same time there were reports, though these were as yet unconfirmed, that they were negotiating with the illegal régime in Rhodesia for certain Rhodesian exports, including tobacco, to pass through Beira and that they had given permission
Venezuela
(Previous Reference: CC (66) 2nd Conclusions, Minute 1)

An agreement had been signed as the result of a conference in Geneva which he had attended earlier in the week between Venezuela and British Guiana, which gave a highly satisfactory outcome of the dispute over the boundary between the two countries. It provided for the establishment of a commission composed of representatives of the two countries which would have the task of examining all aspects of their relations and of seeking practical solutions to the controversies which had arisen over the Venezuelan contention that the arbitral award of 1899 about the frontier between British Guiana and Venezuela was null and void. The commission was enjoined to report at six-monthly intervals and, if it had not led to an agreement in settlement of the dispute after four years, there would be recourse to the measures of conciliation provided under Article XXXIII of the United Nations Charter. It was agreed that the Secretary-General of the United Nations should determine which of these means should be used in the first instance, but all would be tried in turn if necessary. All parties to the dispute had agreed not to advance territorial claims while the commission was sitting except in the commission itself. All the Venezuelan political parties had been represented at the Geneva discussions and while this had involved some delay it was now extremely satisfactory that they were all committed to the agreement.

The Cabinet—

(1) Took note of this statement and congratulated the Foreign Secretary on the settlement which had been achieved of the dispute between Venezuela and British Guiana.

The Commonwealth Secretary said that a meeting had been held earlier in the week of the Commonwealth Sanctions Committee at which a full explanation had been given of the steps which the United Kingdom Government were taking in respect of the oil embargo. There had been general agreement among the Commonwealth representatives that we were doing all that was possible in the circumstances.

The Prime Minister of Uganda, Dr. Obote, had carried out a coup d'etat with the aid of one section of the Army and of the Police. He had arrogated to himself some, if not all, of the powers previously exercised by the President and a number of other Ministers had been arrested. The outcome was, however, as yet uncertain.

It had been reported earlier that morning that the Army and Police had taken over the Government, during the absence of President Nkrumah on his visit to North Vietnam and Communist China. The leaders of the coup had announced that the President and all the Ministers were dismissed and that the Convention People's Party was dissolved. It was at present too early to determine whether
The coup had been completely successful, nor was any information yet available about the position of members of the United Kingdom military mission which was providing training for the Ghana armed forces.

The Cabinet—

(2) Took note of the statement by the Commonwealth Secretary.

3. The Cabinet considered a note by the Minister of Land and Natural Resources (C (66) 39), to which was attached the draft of a White Paper on Leisure in the Countryside: England and Wales.

The Minister of Land and Natural Resources said that the draft White Paper, which it was hoped to publish on 28th February, set out proposals which, with the approval of the Home Affairs Committee, he had outlined in a speech to the Countryside 1970 Conference in the previous November and had subsequently discussed with the associations representing local authorities and with organisations interested in the countryside, who were in general agreement with the proposals. The principal features of the proposals were that the National Parks Commission should be reconstructed with wider functions, including that of encouraging local initiative in the provision of facilities for public enjoyment of the countryside generally; that county councils should be empowered to create "country parks" in open country within easy reach of large centres of population; and that local authorities should be empowered to provide picnic places, camping sites and other facilities for the enjoyment of the country and should be given grants both for these purposes and to assist them in improving or preserving woodlands, removing eyesores, and purchasing land to provide access to open country. The White Paper undertook that the Government would seek, through consultation with the relevant authorities and interests, to increase facilities for the use for recreation of inland waterways, lakes and reservoirs and would discuss with coastal planning authorities measures necessary to preserve the coast. A question remaining for consideration was whether the 75 per cent rate of grant, which already applied to work undertaken by local authorities within National Parks and Areas of Outstanding Natural Beauty, should be extended to the new work in the countryside generally which local authorities would, under the proposals in the White Paper, be expected to undertake. He considered that a rate of 75 per cent was appropriate and desirable on the grounds that the new facilities would be used by visitors to the areas in question rather than by local ratepayers, and that local authorities would be reluctant to spend the necessary money and to believe that the Government were serious in their support of the proposed policy if the rate of grant
were lower than that already obtaining in the National Parks. In addition, there would be a risk of embarrassing pressure to include in National Parks contiguous areas in which it was plainly desirable for work to be done.

The Chancellor of the Exchequer said that, before agreeing to the payment of grant at the rate of 75 per cent on the new work which the draft White Paper proposed should be undertaken, the Cabinet should be aware of the risk of stimulating demands for a similar rate of grant for similar types of expenditure, such as that on city parks and village greens, and for the provision of sports facilities in urban areas. Demands of this kind would have to be resisted because the amount of money involved would be considerable. If it were accepted, however, that the 75 per cent grant proposed by the Minister of Land and Natural Resources should not be regarded as a precedent, except in relation to corresponding measures for the preservation of the countryside in Scotland, he would be prepared to accept the proposal, but would prefer that the last sentence of paragraph 14 of the draft White Paper should be amended to read:

“For the future, grant at the rate of 75 per cent on current expenditure and loan charges will be paid both for expenditure on National Parks and for what is proposed in this White Paper for the countryside generally.”

In discussion it was suggested that, if grant at 75 per cent were paid for the work proposed in the White Paper, the Government would be under strong pressure from the Sports Council to pay a similar grant for providing sports facilities, which were no less necessary to health and well-being in overcrowded urban areas than was access to the countryside. On the other hand, it was argued that the provision of facilities in the countryside could be distinguished from provision in towns because expenditure on the former fell upon relatively poor authorities and benefited persons other than their own ratepayers and that, if effective measures for the preservation of the countryside were not taken quickly, the nation would lose an asset which was currently of increasing importance to the tourist industry and would in the future be essential to the health of an increasingly numerous population.

The First Secretary of State, summing up this part of the discussion, said that the Cabinet were on balance agreed that it would be appropriate to pay grant at 75 per cent for the new work which the White Paper proposed that local authorities should undertake, but that this should not be treated as a precedent in relation to other forms of local expenditure.

In discussion of the text of the draft White Paper the following principal points were made:

(a) The drafting of the first seven paragraphs of the White Paper should be examined with a view to removing certain infelicities of style.

(b) Paragraph 4 should be redrafted on the lines already proposed to the Minister of Land by the First Secretary of State.
(c) In paragraph 11 it should be made clear that the Countryside Commission would have the function of advising local authorities, and not only the Government.

(d) Paragraph 34 should be amended to forestall the possible criticism that the Government's policy of restraint on public spending was responsible for the fact that expenditure on sewage schemes was not always adequate.

(e) It would be desirable to mention the importance of tourism, and possibly to refer to the British Travel Association and to the regional travel and tourist associations.

The First Secretary of State, summing up this part of the discussion, said that it would be convenient if Ministers who had any further drafting amendments to suggest would send them to the Minister of Land and Natural Resources during the course of the afternoon. Subject to that and to consideration of the amendments already proposed, the draft of the White Paper was approved.

The Cabinet—

(1) Agreed that grant at the rate of 75 per cent should be paid on current expenditure and loan charges on the new work in the countryside which it was proposed that local authorities should undertake, on the understanding that this would not be treated as a precedent in relation to other local authority expenditure.

(2) Invited the Minister of Land and Natural Resources to consider the amendments proposed in discussion and any further drafting amendments which Ministers might suggest to him.

(3) Subject to (2) above, approved the publication of a White Paper on the Countryside in the form of the draft attached to C (66) 39.

4. The Cabinet considered memoranda by the Secretary of State for Scotland and the Minister of Agriculture, Fisheries and Food (C (66) 38) and by the Chancellor of the Exchequer (C (66) 41) on an Exchequer contribution to the cost of a statutory scheme of minimum prices for white fish.

The Minister of Agriculture said that the White Fish Authority had proposed a statutory scheme for fixing minimum prices for white fish designed to avoid the damage done to the fishing industry by very low prices in periods of glut. The Ministerial Committee on Economic Development had agreed that the Government should
accept the scheme in principle, but had asked for further study to be made of its international implications. It had now been agreed by Departments that the Danish and Norwegian Governments should be consulted in advance of any public announcement. He was confident, however, that any international difficulties could be overcome. The principle of minimum price schemes for fish had been accepted by the Fisheries Committee of the Organisation for Economic Co-operation and Development (OECD). Sweden already operated such a scheme, while Norway and Denmark imposed a complete ban on landings of fish by foreign trawlers.

The remaining point at issue was whether the Government should contribute to the cost of the scheme. In his view it could not be brought into force without an Exchequer contribution in the early years since the various sections of the industry could not judge in advance how far they would individually benefit from it. If the scheme were not introduced, there would inevitably be demands for additional direct Government assistance to help those sections of the industry which would suffer from the resultant instability in fish prices. Over £1\(\frac{1}{2}\) million had been earmarked for special subsidies to help particular cases of hardship in the industry. Only a small part was at present used but in the absence of a statutory scheme the whole of this money might well be required. Moreover, lack of stability would lead to a further decline in the United Kingdom fishing industry which would in turn lead to an increase in imports of fish. For these reasons a modest Exchequer contribution of half the cost, up to a limit of £1\(\frac{1}{2}\) million a year, would be fully justified.

The Secretary of State for Scotland said that an Exchequer contribution was essential. In the absence of a satisfactory minimum price scheme there would be chaos in the fishing industry which would hurt most those running the small inshore fishing fleet: this would undoubtedly lead to demands for additional direct Exchequer subsidies and in the interests of regional developments in Scotland it was important to maintain the latter fleets.

The Chief Secretary, Treasury, said that, although the Ministerial Committee on Economic Development had agreed to the introduction of a statutory minimum price scheme, there still remained considerable doubts about its merits. Moreover, it would be premature to reach any decision while the existing voluntary scheme was still under consideration by the Restrictive Practices Court and before any international consultations had been undertaken. Even if a statutory scheme were accepted, Exchequer assistance to its cost would not be justified. The case for introducing the scheme was basically that it would be of benefit to the fishing industry: if this was so the industry should be prepared to meet the cost. If they were not prepared to do so, it was clear that they were not convinced that the scheme was worth while and there would be no prospect of persuading them to meet the full cost at a later date; nor were there any grounds for believing that existing expenditure on direct subsidies to the fishing industry would be reduced by giving an Exchequer contribution to this scheme.
In discussion the general view was that an Exchequer contribution to the scheme was not, on balance, justified. Some concern was expressed that the Restrictive Practices Court might declare the present voluntary minimum price scheme to be contrary to the public interest at a time when the Government were agreeing to the introduction of a statutory scheme. It was suggested, however, that, if the Government decided to proceed with the statutory scheme, the Restrictive Practices Court should be so informed and they might well then not proceed with their consideration of the voluntary scheme. It was also suggested that the assistance at present being given to the fishing industry was not necessarily designed in the best way to help it adapt itself to the size and structure which would be appropriate in the future. The Report of the Fleck Committee into the future of the fishing industry had been unsatisfactory and there might be a case for a further enquiry. Concern was also expressed at the possible international repercussions, including those in the European Free Trade Association.

The First Secretary of State, summing up the discussion, said that while the Cabinet were not opposed to the promotion of a statutory scheme of minimum prices for white fish the general view was against making an Exchequer contribution to its cost. The Minister of Agriculture and the Secretary of State for Scotland should make it clear to the White Fish Authority and the fishing industry that the Government were prepared to introduce a statutory scheme put forward with the agreement of the industry with the aim of increasing stability of prices, provided that the scheme met any legitimate objections raised by overseas suppliers, particularly Denmark and Norway.

The Cabinet—
Agreed that a statutory minimum price scheme for white fish could be accepted, subject to the appropriate prior international discussions, but that no Exchequer contribution to its cost should be made.

5. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C (66) 60) on the decimalisation of the currency.

The Chancellor of the Exchequer said that the previous Administration had decided in principle that the currency should be decimalised and had appointed the Halsbury Committee to advise how and when this might be done. The Committee had reported in September 1963 but no action had yet been taken. In the meantime virtually the whole of the Commonwealth had adopted decimal currencies. Moreover the Government had decided in principle that the metric system of weights and measures should be adopted in the United Kingdom. The Confederation of British Industries had

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SECRET
recently urged that an early decision should be taken on the date and form of the introduction of a decimal currency and stated that their members were almost unanimous in desiring this change to take effect in some three to five years.

The main case for a change was that calculations, both mental and mechanical, would be easier and cheaper under a decimal system. The teaching of arithmetic in schools would also be greatly simplified. On the other hand, a substantial cost was involved, though it might be less than the original estimate since many machines had since been introduced which could be changed to the decimal system without much cost. The cost would in any event be more than offset by savings, even though these could not be precisely evaluated and the change would assist the general modernisation of the economy: it would therefore be right to make it soon.

As regards the details, he proposed that the basic unit should be the £ rather than a new unit corresponding to 10s.; that the date of change should be February 1971; that a Decimal Currency Board should be set up to make arrangements for the change; and that the Government should not accept responsibility for meeting the costs of the change except in cases of hardship.

In discussion there was general agreement that a change to decimal currency should be made and that an early announcement would be desirable. There was also general agreement that the date of introduction should be February 1971 since this would give greater opportunity for the change to be made with a minimum of dislocation and expense.

As regards the choice of basic unit it was pointed out that the transport undertakings had been strongly in favour of a new 10s. unit. It was also pointed out that there would be certain advantages in adopting £5 or £2 as the basic unit; but the Halsbury Committee had reported in strong terms, after very full examination, that a system involving three units which would be needed with so large a basic unit would be much less satisfactory than one with only two units. Attention was called to the difficulties which would arise in the case of telephone coin boxes, gas and electricity meters and parking meters if the new coins differed in size from the existing ones. It would however be for the Decimal Currency Board to consider practical problems of this kind.

In further discussion it was pointed out that it would be necessary to give consideration at a suitable stage to the position of Ireland.

The First Secretary of State, summing up the discussion, said that the general view of the Cabinet was in favour of announcing at an early date that the Government had decided that the currency should be decimalised in February 1971 with the £ as the basic unit. They also agreed that a Decimal Currency Board should be set up to make the necessary practical arrangements. As regards compensation for the costs of the change, the Government should not accept responsibility but it could be indicated that consideration would be given to any cases of special hardship.
The Cabinet—

(1) Agreed that

(i) the currency should be decimalised in February 1971 with the £ as the basic unit;

(ii) an early announcement of this decision should be made;

(iii) a Decimal Currency Board should be set up to make arrangements for the change;

(iv) the Government should not provide compensation for the costs involved but should be prepared to consider assistance in cases of hardship.

(2) Invited the Chancellor of the Exchequer to arrange for an early announcement of the Government's decision.

Cabinet Office, S.W.1,
24th February, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Monday, 28th February, 1966, at 11 a.m.

Present:
The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. George Brown, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. Lord Gardiner, Lord Chancellor
The Right Hon. Michael Stewart, M.P., Secretary of State for Foreign Affairs
The Right Hon. Arthur Bottomley, M.P., Secretary of State for Commonwealth Relations
The Right Hon. William Ross, M.P., Secretary of State for Scotland
The Right Hon. The Earl of Longford, Secretary of State for the Colonies
The Right Hon. Anthony Greenwood, M.P., Minister of Overseas Development
The Right Hon. Sir Frank Soskice, Q.C., M.P., Lord Privy Seal
The Right Hon. R. J. Gunter, M.P., Minister of Labour
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Herbert Bowden, M.P., Lord President of the Council
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. James Griffiths, M.P., Secretary of State for Wales
The Right Hon. Douglas Jay, M.P., President of the Board of Trade
The Right Hon. Richard Crossman, M.P., Minister of Housing and Local Government
The Right Hon. Douglas Houghton, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. Frank Cousins, M.P., Minister of Technology
The Right Hon. Frederick Lee, M.P., Minister of Power
The Right Hon. Barbara Castle, M.P., Minister of Transport

Also present:
The Right Hon. Edward Short, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir Burke Trend
Mr. P. Rogers
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1. The Prime Minister informed the Cabinet that he had asked Her Majesty The Queen to proclaim the Dissolution of Parliament and that Her Majesty had been graciously pleased to accede to this request. The Dissolution would take place on Thursday, 10th March; a General Election would be held on Thursday, 31st March; the new Parliament would be summoned on Monday, 18th April (when the first business would be the election of the Speaker and the swearing-in of Members) and would be opened on Thursday, 21st April. A statement to this effect would be made at 5.30 p.m. that evening.

In reaching his decision to seek a Dissolution he had been influenced primarily by the fact that, having held office for nearly 18 months and taken initiatives, whether by legislation or otherwise, in fulfilment of practically all the pledges contained in the Labour Party Manifesto at the General Election of 1964, the Government had now reached the point at which, if they were to continue to govern effectively at home and to speak with authority abroad, they needed a broader Parliamentary base than was provided by their present small majority. Moreover, public opinion was now expecting a General Election in the near future; and, if it were deferred until later in the year, the period of electioneering would be prolonged and it would become increasingly difficult in these circumstances to maintain international confidence in our policies, particularly in relation to sterling. It was for these reasons that he had concluded that this would be an appropriate moment for the Government to seek a renewal of their mandate from the electorate.

Ministers would shortly be advised of certain arrangements to be made in connection with the conduct of public business during the campaign. They would remain fully responsible for the work of their Departments during this period; but, while they should continue to discharge their normal duties, they should observe reasonable discretion in relation to the initiation of any action of a continuing or long-term nature, e.g., the making of new appointments to statutory bodies for which they were answerable. The same principle should apply as regards any further published statements of Government policy, whether in the form of White Papers or otherwise. It would be necessary, however, to publish the White Paper on the Farm Price Review in the normal course.

In discharging public engagements during the period of the Election Ministers should seek to avoid creating any impression that they were using these occasions for Party political purposes; and they should also consider, before undertaking to fulfil any international commitments, whether the nature of the subject matter involved would enable them to speak with the authority proper to a representative of Her Majesty's Government.

Certain issues of policy should now be resolved as rapidly as possible in order that the Government's intentions might be made publicly known. This applied particularly to the proposals for the reorganisation of the docks and the aircraft industry, for the
co-ordination of internal transport and for the more detailed elaboration, so far as necessary, of the Industrial Reorganisation Corporation. The Ministers concerned should give urgent consideration to these questions; and any other issues of policy requiring decision should be submitted to the Cabinet as rapidly as possible.

The Cabinet were then informed of the revised business for the rest of the Session, which would be announced in the House of Commons by the Lord President at 10 p.m. that evening. No new Bills would now be introduced; and Parliament would not be expected to proceed further with the Committee stages of those Bills which had no prospect of being enacted. The Standing Committees concerned would therefore be discharged; but Select Committees would be free to continue their work until the Dissolution, if they so wished.

The Cabinet—
(1) took note, with approval, of the Prime Minister’s statement on the Dissolution of Parliament.
(2) invited the First Secretary of State, as Chairman of the Ministerial Committee on Economic Development, to arrange urgently for further consideration to be given, as necessary, to the Government’s proposals in connection with the reorganisation of the docks and the aircraft industry, the co-ordination of internal transport and the Industrial Reorganisation Corporation.
(3) invited the First Secretary of State to submit, as rapidly as possible, any outstanding issues on prices policy.

The Chancellor of the Exchequer informed the Cabinet that, in the light of the Dissolution of Parliament, it would be necessary for him to make a statement on the economic situation on the following day. An opportunity for this would be afforded by the debate on the economic situation arranged for that day.

In accordance with precedent, details are not recorded in the Cabinet Conclusions.

Cabinet Office, S.W.1,
28th February, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 1st March, 1966, at 10.30 a.m.

Present:

The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. MICHAEL STEWART, M.P., Secretary of State for Foreign Affairs
The Right Hon. ARTHUR BOTTOMLEY, M.P., Secretary of State for Commonwealth Relations
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. RICHARD CROSSMAN, M.P., Minister of Housing and Local Government
The Right Hon. DOUGLAS HOUGHTON, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. FRANK COUSINS, M.P., Minister of Technology
The Right Hon. FREDERICK LEE, M.P., Minister of Power

The following were also present:

The Right Hon. KENNETH ROBINSON, M.P., Minister of Health (Item 3)
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Postmaster-General (Item 2)

The Right Hon. HERBERT BOWDEN, M.P., Lord President of the Council
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. JAMES GRIFFITHS, M.P., Secretary of State for Wales
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Overseas Development
The Right Hon. JAMES GRIFFITHS, M.P., Secretary of State for Wales
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Overseas Development
The Right Hon. FRED PEARSE, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport (Items 2 and 3)

The Right Hon. MARGARET HEBBISON, M.P., Minister of Pensions and National Insurance (Item 3)
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Item 3)

The Right Hon. EDWARD SHORT, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Miss J. J. NUNN
Mr. L. EERRINGTON

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1. The Prime Minister informed the Cabinet that, in accordance with precedent, an Election Business Committee would be appointed to supervise the work of advising Government candidates about the replies which they should return to questionnaires and other enquiries put to them during the campaign. A memorandum defining the composition and functions of this Committee would shortly be circulated. It should be noted that the purpose of the Committee was primarily to provide or verify factual information and that, as regards enquiries from or on behalf of Labour Party candidates, its role in relation to issues of Labour Party policy should be confined to checking guidance provided in the first instance by Party Headquarters.

Instructions would also be issued on the use of official transport and the granting of Press interviews by Ministers during the Election. Broadcasting arrangements would be based on an agreement recently concluded between the political Parties and the broadcasting authorities, whereby proposals for broadcasts by Parliamentary candidates would be channelled through national and regional Party Headquarters.

In view of the many demands on the short amount of Parliamentary time which would now be available it would be desirable to reduce as far as possible the number of Ministerial statements in Parliament which were at present envisaged. On the same basis there should be little scope for the publication of further White Papers. In addition it would be necessary to give urgent consideration to the text of The Queen’s Speech on the Prorogation of Parliament, which would be delivered on the morning of 10th March. The Dissolution would follow later on the same day.

The Cabinet—
(1) Took note of these statements by the Prime Minister.
(2) Invited the Lord President to arrange to review, and to reduce as far as possible, the number of Ministerial statements to be made during the remainder of the present Parliament.
(3) Invited the Lord President to arrange for a draft of The Queen’s Speech on the Prorogation of Parliament to be prepared as a matter of urgency, for consideration by the Cabinet at a meeting in the near future.

2. The Cabinet considered a memorandum by the Postmaster-General (C (66) 42) to which was attached a draft White Paper on Broadcasting.

The Postmaster-General said that the draft of the White Paper had been revised in the light of the Cabinet’s previous discussion and of the Prime Minister’s discussion with the British Broadcasting Corporation (BBC). The draft now before them contained, in addition to his earlier proposals for colour television, extended hours
of broadcasting, local sound radio, a National Broadcasting Commission and more intensive measures against licence evasion, new proposals for financing the BBC and for the establishment of a national music network to replace the BBC's Light Programme. It also proposed that the University of the Air should be established on BBC-2 and that there should be no allocation of the fourth television channel for the time being. It was desirable that an early announcement should be made of the Government's policy on broadcasting, since the present uncertainty was giving rise to damaging speculation; but, in accordance with the views expressed under Item 1, it might be preferable to dispense with a White Paper and to indicate the Government's intentions by means of an early statement in Parliament.

The Prime Minister said that he had now received from the Vice-Chairman of the BBC (Lord Fulton) a statement of the BBC's preliminary views on the suggestions which he had discussed with Lord Fulton and the Director-General of the BBC (Sir Hugh Greene). Briefly, by restricting certain activities which the BBC considered desirable though not essential, and by the strictest economy, the BBC thought that they could maintain their services until 1968 on the revenue produced by the present £5 licence fee, provided that there was legislation on the lines proposed by the Postmaster-General to reduce licence evasion and that steps were taken to prevent the independent programme companies from taking advantage (for example through an extension of hours of broadcasting or additional programme expenditure) of the limitations which economy would impose on the BBC. On this basis the BBC thought that an increase in the licence fee to £6 in 1968 would be sufficient until the mid-1970s. While this statement was encouraging, it raised certain important issues of policy which would need to be further explored with the BBC, and in the meantime it might not be possible to reach conclusions on the proposals in the draft White Paper.

In discussion there was general agreement that the statement of the BBC's views appeared to offer a promising basis for further negotiation, but since the statement represented a considerable change of attitude its implications would need to be fully considered before decisions could be announced. Moreover, some of the proposals in the draft White Paper were not urgent and would not be welcome to the BBC, and their publication at this stage might prejudice negotiation on the main issue of finance. On the other hand, it was possible that the Government would be questioned on particular issues, and, while it might not be appropriate to volunteer a statement, the Postmaster-General should be in a position to deal with any questions which might arise.

In further discussion the following main points were made:

(a) The BBC's statement in response to the Prime Minister's enquiries might, on further examination in the light of discussion with the BBC, enable an early indication to be given that no increase in the licence fee would be needed before 1968.
While it would be desirable to announce an early decision to introduce colour television in order to enable our manufacturers to establish themselves in this market, it was necessary to weigh against this advantage the substantial diversion of resources which would result and the extent to which it might initially be necessary to import components from the United States. Moreover, it was still possible that a more satisfactory system of transmission would be devised; and it was open to doubt whether the BBC's estimate of the cost to them of introducing colour television was correct. Before reaching a decision it was desirable to consider further both the cost to the BBC and the priority which it would be appropriate to give to colour television in relation to other demands on the country's resources.

(c) There appeared to be little public interest in the establishment of local community stations, and the suggestion that they should be financed in part from advertising might be open to objection. It would be desirable to consider further how the local broadcasting authorities were to be composed and in particular what part local authorities were to play in them.

(d) Even if local broadcasting authorities were not established in the near future, there would be some advantage in setting up a National Broadcasting Commission; but this would not be welcome to the BBC and it would be preferable not to announce a decision on it at present.

The Prime Minister, summing up the discussion, said that there was general agreement that the BBC's recent letter, which he would circulate to the Cabinet, seemed to offer a new basis for negotiation on finance, but that it would need to be more fully examined with the BBC before conclusions could be reached. An early announcement might have to be made, however, and the Postmaster-General should therefore prepare, in the light of their discussion and of an examination of the BBC's letter, a draft of what might be said on broadcasting policy either by way of a statement or in answer to questions. Before the Cabinet reached a conclusion on colour television, the technical, financial and economic considerations should be further evaluated, and the First Secretary should arrange, in consultation with the Ministers principally concerned, for a factual memorandum to be prepared. However, the Cabinet considered that it would be preferable to avoid for the time being any announcement on the fourth network or on local community stations.

The Cabinet—

(1) Took note that the Prime Minister would circulate to the Cabinet the BBC's reply to his enquiries.

(2) Invited the Postmaster-General to consider, in the light of their discussion and of the letter from the BBC to the Prime Minister, what might be said on the subject of broadcasting policy, either by way of a statement or in
answer to questions, and to circulate a memorandum for consideration at an early meeting.

(3) Invited the First Secretary of State, in consultation with the President of the Board of Trade, the Minister of Technology and the Postmaster-General, to circulate a memorandum on the technical, financial and economic considerations involved in proceeding with colour television.

(4) Agreed to resume their discussion at a later meeting.

3. The Cabinet had before them a note by the Minister of Pensions and National Insurance (C (66) 44), to which was attached the draft of a White Paper on the Ministry of Social Security.

The Prime Minister said that it might be appropriate to make public the substance of the draft White Paper on the Ministry of Social Security by means of a brief statement in the House of Commons, followed by a Press Conference for which a somewhat fuller explanatory document might be provided.

The Minister of Pensions and National Insurance said that she had hoped that it might be possible to publish a White Paper in this instance because her proposals would not represent a new initiative, but rather the development of a theme which had already been introduced in a party political broadcast and in a speech by the Chancellor of the Duchy of Lancaster in the Debate on the Welfare State on 23rd February, in which he had promised that a further statement would be made. Some fuller statement of the Government's intentions was necessary to forestall possible criticism that they had failed to deal with the problems which they had originally hoped to solve by the introduction of the income guarantee, but, if a White Paper were thought inappropriate, a statement in the House of Commons would serve this purpose.

In discussion it was agreed that publicity should be given to the substance of the proposed White Paper by means of a statement in the House of Commons followed by a Press Conference.

The Cabinet then considered the content of the proposed statement. The following principal points were made:

(a) At the previous discussion it had been agreed that it would be necessary to associate with the announcement of the changes in national assistance a statement about the consequential proposal to limit the next general increase of benefits. This would not now be appropriate, but it would be the more important that the changes should be announced in general terms which would not allow them to be costed, and it was also necessary to avoid drawing attention to the question whether the non-contributory benefits would be liable to taxation. In certain circumstances a person with substantial disregards who received the new allowance and a high rent allowance might have an income above the taxable level, and this problem
would have to be considered. It would be inequitable that pensioners who had not contributed to their pension should be free of tax, whereas those who had contributed were not, and it was possible that the level of income tax exemption was too low. For the purpose of an immediate statement, however, it was important not to give such detail about the proposed new disregards as to draw attention to the taxation point. The Board of Inland Revenue had also suggested that it might be desirable to avoid calling the new payment a pension, since normally pensions were liable to tax. It was pointed out, on the other hand, that it was desirable in referring to disregards to make it clear that the injustices which at present disturbed public opinion would be removed, in particular the inflexible operation of the upper limit for disregards and the distinction between war savings and other forms of saving. Subject to this, the purpose of the statement should be to indicate that the new form of assistance would be set in a different context from the old rather than to create any expectation that the amounts would be increased, and for this purpose the reference to disregards could be in general terms.

(b) The reference in paragraph 12 of the draft White Paper to the help which old people needed to obtain from the health and welfare services had been deliberately drafted in somewhat vague terms because the means of detecting needs of this kind were under consideration by the Ministerial Committee on the Social Services, and it would not be possible for decisions to be taken in the near future.

(c) References in paragraphs 12 and 13 to cash grants and to parallels with national assistance might suggest that the proposed changes were changes of name rather than of substance. These terms should therefore be avoided and it should be made clear in what way the proposed new Commission would differ from the National Assistance Board. The last sentence of paragraph 13 might with advantage be omitted, or redrafted.

The Prime Minister, summing up the discussion, said that the Minister of Pensions and National Insurance should recast in the light of the discussion the draft White Paper in the form of a statement to be made in the House of Commons. She should consult the Chancellor of the Exchequer on the references to disregards at present in paragraph 12, and submit a new draft to the Cabinet for consideration at their next meeting.

The Cabinet—
Invited the Minister of Pensions and National Insurance to recast the draft White Paper annexed to C (66) 44 on the lines indicated by the Prime Minister in his summing up of their discussion, and to submit a new draft for consideration at their next meeting.

Cabinet Office, S.W.1.
1st March, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 3rd March, 1966, at 10.30 a.m.

Present:
The Right Hon. HAROLD WILSON, M P, Prime Minister
The Right Hon. GEORGE BROWN, M P, First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. MICHAEL STEWART, M P, Secretary of State for Foreign Affairs
The Right Hon. ARTHUR BOTTOMLEY, M P, Secretary of State for Commonwealth Relations (Items 1-5)
The Right Hon. WILLIAM ROSS, M P, Secretary of State for Scotland
The Right Hon. The EARL OF LONGFORD, Secretary of State for the Colonies
The Right Hon. ANTHONY GREENWOOD, M P, Minister of Overseas Development (Items 1-4)
The Right Hon. Sir FRANK SOSKICE, Q C, M P, Lord Privy Seal
The Right Hon. R. J. GUNTER, M P, Minister of Labour (Items 1-5)
The Right Hon. FRED PEART, M P, Minister of Agriculture, Fisheries and Food
The Right Hon. HERBERT BOWDEN, M P, Lord President of the Council
The Right Hon. JAMES CALLAGHAN, M P, Chancellor of the Exchequer
The Right Hon. DENIS HEALEY, M P, Secretary of State for Defence
The Right Hon. ROY JENKINS, M P, Secretary of State for the Home Department
The Right Hon. JAMES GRIFFITHS, M P, Secretary of State for Wales
The Right Hon. DOUGLAS JAY, M P, President of the Board of Trade
The Right Hon. RICHARD CROSSMAN, M P, Minister of Housing and Local Government (Items 3-4)
The Right Hon. DOUGLAS HOUGHTON, M P, Chancellor of the Duchy of Lancaster
The Right Hon. FRANK COUSINS, M P, Minister of Technology
The Right Hon. FREDERICK LEE, M P, Minister of Power
The following were also present:
The Right Hon. KENNETH ROBINSON, M P, Minister of Health (Item 3)
The Right Hon. ANTHONY WEDGWOOD BENN, M P, Postmaster-General (Item 6)
The Right Hon. MARGARET HERBISON, M P, Minister of Pensions and National Insurance (Item 3)
The Right Hon. JOHN DIAMOND, M P, Chief Secretary, Treasury (Items 3-6)
The Right Hon. EDWARD SHORT, M P, Parliamentary Secretary, Treasury
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1. The Cabinet were informed of the business to be taken in the House of Commons in the period up to the Prorogation of Parliament on Thursday, 10th March.

2. The Prime Minister referred to the allegation in the Press that morning that Dr. Nkrumah, the recently deposed President of Ghana, had been denied asylum in the United Kingdom. This statement was without any foundation and a denial should be issued forthwith.

The Cabinet—

Invited the Secretary of State for Commonwealth Relations to issue an official denial of the allegation that Dr. Nkrumah had been denied asylum in the United Kingdom.

3. The Cabinet considered a note by the Minister of Pensions and National Insurance (C (66) 48), to which was appended a draft statement on the Ministry of Social Security.

The Minister of Pensions and National Insurance recalled that the Cabinet had invited her to recast her draft White Paper in the form of a statement to be made in the House of Commons. Her draft concentrated on the procedural and organisational improvements and made only general reference to the changes in the rules for the treatment of resources. These would be explained more fully at a subsequent Press Conference.

In discussion it was suggested that the statement might be substantially shortened, while still preserving the main points. It would also be important, in referring at the Press Conference to the new allowances, not to go beyond what was said in the present draft and in particular to avoid any implication of substantial increases which might raise the question of liability to income tax.

The following points were also made:

(a) It should be made clear in the draft that the new arrangements would not apply exclusively to old people.

(b) The antepenultimate paragraph referred to an independent corporate body which would administer the new benefits, and to a Commission which would guide the new scheme and make individual awards. It should be made clear that this was one and the same body.

(c) Early legislation might not prove possible and the statement should be confined to saying that the Government would introduce legislation on the proposals.

The Prime Minister, summing up the discussion, said that the Minister of Pensions should make an early statement in the House of Commons on the lines of her draft, but this should be substantially shortened and should be amended to take account of the points made in discussion.
The Cabinet—

(1) Invited the Minister of Pensions and National Insurance, in consultation with the Chancellor of the Duchy of Lancaster, to revise the draft statement attached to C (66) 48 in accordance with the Prime Minister's summing up of their discussion.

(2) Subject to Conclusion (1), agreed that the Minister of Pensions and National Insurance, in consultation with the Lord President, should make an early statement on her proposals in the House of Commons.

4. The Cabinet considered a memorandum by the Chancellor of the Duchy of Lancaster (C (66) 49) about the progress of discussions with the Farmers' Unions on the Price Review.

The Chancellor of the Duchy of Lancaster recalled that at their meeting on 8th February the Cabinet had decided that the increase in the guarantees should not exceed £20 million. It had been made clear at the time that there was very little prospect of reaching an agreed settlement with the Farmers' Unions on this basis. This had been fully confirmed in the discussions so far held with them although as yet they had not been given any indication of a settlement of more than £17 million. Their attitude had, however, been more moderate than might have been expected in present circumstances. The Agricultural Ministers believed that there was a reasonable prospect of getting an agreed settlement at about £28 million and considered that the advantages of securing such a settlement were such that it would be desirable to go to this figure in order to reach agreement. Otherwise no new factors had emerged since 8th February. There had always been some arguments of merit to justify a settlement as high as £28 million and there seemed no prospect of reaching an agreement at a significantly lower figure. In particular, raising the offer on milk to an increase of 1½d a gallon, at a cost of £4½ million, would not be sufficient to do so since the Farmers' Unions needed a settlement in which all their members benefited: this implied improving the position on cereals as well as on livestock products. It was a matter of political judgment whether it was on balance worth raising the increase in the guarantees as high as £28 million in order to reach an agreed settlement.

The Minister of Agriculture said that it was essential to gain the confidence of farmers in the selective expansion programme set out in the National Economic Plan. Farm incomes in 1965 had been severely depressed by the weather and confidence was therefore low. Another disagreed Review would endanger the farmers' co-operation in the achievement of the expansion programme and the Government's policy for the reform of farm structure.

The Chief Secretary, Treasury, said that a settlement of £20 million was more than adequate to provide an appropriate base for the achievement by the farming industry of the targets set out in the plan. A settlement of this order would be more generous to
farmers than the 1964 settlement, would leave them with more than half the return from their increased efficiency and would, indeed, be substantially better than the average of the last seven Reviews. In these circumstances there was no argument on merits for a settlement above £20 million. There were many important schemes currently under discussion with other Ministers on which it would be more valuable to spend the additional money now proposed for farm prices.

The First Secretary of State said that a settlement of £20 million would be adequate to enable the farming industry to meet the objectives set out in the plan. The consequences of increases in prices, particularly of milk, to the ordinary consumer should also be taken into account.

In discussion it was urged that it would be desirable to increase the award to £28 million in order to maintain the confidence of the farming industry in the Government's agricultural policy for the following reasons:

(a) The reduction in farm incomes in 1965 would lead farmers to avoid further commitment of their resources unless it was made clear that there would be an adequate return on additional investment in the industry. This was particularly true in the case of small farms and in Wales, where serious damage had been done to farms by flooding.

(b) The expansion programme in the plan would inevitably involve difficulties with overseas suppliers and should therefore not be used as an argument against fixing farm prices at a level which would ensure the fulfilment of the plan.

(c) An expansion of cereals production was essential for the livestock expansion programme if we were not to increase our dependence on imported feedingstuffs. The profitability of cereals had fallen sharply in 1965 and there was a good case for making some improvement.

(d) To increase the guaranteed price for milk by ½d. a gallon instead of 1d. would only involve raising the retail price to 10d. a pint in August rather than October and the cost falling on the Exchequer would be small.

On the other hand it was argued that it would be wrong to increase the award above £20 million for the following reasons:

(e) Any further incentive to expand milk production would lead to a large increase in home butter production which would make it virtually impossible to carry out the obligations we had assumed to our main overseas suppliers of butter. Moreover, any guarantee to compensate farmers for a fall in the price of milk arising from an increase in the proportion sold for manufacturing at low prices would be impossible to defend to our overseas suppliers, particularly New Zealand.

(f) The proposal to increase the profitability of cereals would be likely to upset the minimum price agreements with our overseas suppliers and to lead to difficulties in the Kennedy Round of tariff negotiations.
(g) The targets for agricultural expansion included in the plan had been carefully chosen to avoid conflict with our obligations to overseas suppliers. To raise the award to £28 million would, however, be likely to change the balance of the plan and to lead to international difficulties.

(h) If returns to farmers were raised too high, it would make the achievement of the necessary reform of farm structure more difficult.

(i) To press the arguments put forward by the Agricultural Ministers too far would create difficulties in relation to the Government's policy in other fields, for example, fuel policy and would also imply the need for succeeding Farm Price Reviews to be on the basis of agreement as a condition of fulfilling the plan.

The Prime Minister, summing up the discussion, said that the general view of the Cabinet was that negotiations should be continued with the Farmers' Unions on the basis of a settlement of £20 million. Within this figure the Agricultural Ministers had discretion to vary the schedule of individual commodity prices in the manner most likely to secure agreement. The Ministers concerned should also consider whether it was possible to do anything within the Review which would assist farmers in Wales and elsewhere who had suffered from flooding, provided that the cost of any such assistance was relatively small. He proposed to tell the leader of the Farmers' Unions, Sir Harold Woolley, who had asked to see him, that the Review settlement would have to be decided on the merits of the argument, although the Agricultural Ministers would be free, in the light of their further talks with the Farmers' Unions, to ask the Cabinet the following week to consider any new factor which might emerge.

The Cabinet—

Invited the Agricultural Ministers to continue discussions with the Farmers' Unions on the basis that the increase in the agricultural guarantee should not exceed £20 million.

5. The Cabinet considered a memorandum (C (66) 46) by the First Secretary of State on coal prices.

The First Secretary of State recalled that at their meeting on 7th October, 1965, the Cabinet had agreed that the proposals of the National Coal Board (NCB) for increased prices should be submitted to the National Board for Prices and Incomes (NBPI) as well as to the Consumers' Councils, and that these procedures should be completed in time for any increases of prices to be brought into effect from 1st April, 1966. The NBPI had now recommended that coal prices should be increased to yield additional revenue of £80 million in 1966-67 and that the increase should be varied so as to reflect more closely the costs of production in individual regions. The NCB had proposed increases accordingly which would still leave the Scottish, North Western and South Western (including Wales)

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coalfields in the position of making losses overall. The regional
differential prices now proposed were consistent with the view which
had been taken by the Ministerial Committee on Economic
Development the previous summer when such prices were related
to the need to raise additional revenue of £40 million instead of £80
million. The high cost fields were in the development areas and it
might be argued that an increase in the price of coal there would be
contrary to regional policy. But long term development in these
regions would not be helped by keeping men in exhausted or
unprofitable pits, while a uniform increase would mean that low
cost areas would be subsidising the high cost areas and would result
in a diminution of the market in just those areas where the prospects
of the industry in the longer term were most favourable. The
proposals of the NBPI and the NCB should therefore be accepted.
In view of the comments of the NBPI on the profit margins of coal
distributors a further enquiry should be made into this part of the
industry.

The Minister of Power agreed with the views of the First
Secretary of State. He had received proposals from the Industrial
Coal Consumers' Council for the provision of further assistance by
the Government to the coal industry to avoid increases which would
otherwise have to be made in coal prices. These proposals were:

(i) That about £20 million out of the necessary £80 million
should be met by the Government relieving the NCB of the cost
of redeployment resulting from closures, the burden of rates, certain
costs of training and the obligation to provide £10 million a year
for the difference between depreciation and historic and replacement
costs.

(ii) That the increases in industrial coal should be on a two-tier
system—one quarter to one half of the total being raised by a flat
increase on all coal produced and the remainder by selective
increases; the price increase to be related to the quality of the coal.

(iii) That the Government should examine favourably a
suggestion, mainly prompted by the British Iron and Steel Federation,
that the ban on coal imports should be lifted.

Neither the proposal for increased Government assistance nor
that for lifting the ban on imports of coal was acceptable.

The Secretary of State for Scotland said that, while he agreed
that coal prices should be increased, the regional differentiation which
was now proposed was more unfavourable to Scotland than that
which had been contemplated by the Cabinet in their earlier
discussions. His concern related to the effect of such an increase
not on the programme for the closure of the pits, but on the future
market for coal from those Scottish pits which were profitable, since
at this level of prices the use of coal would be uneconomic in the next
series of electricity generating stations. Furthermore, the distribution
of assistance in the recent capital reconstruction of the industry had
been relatively unfavourable to the Scottish pits.
In discussion it was urged that an increase in prices at the level now proposed, and particularly the sharp regional differentiation in such increases, would have a damaging effect on the industry and would accelerate the closure of pits to such a rate that the effect on employment could not be counterbalanced by the provision of alternative industrial opportunities. Furthermore, voluntary wastage of labour was already at such a level that there might be difficulty in retaining an adequate labour force in the profitable pits. The increase in costs would also harm the Government's policy on incomes and prices. It was, however, the general view of the Cabinet that coal prices must keep in step with costs if a healthy coal industry were to be retained and that the increases now proposed were the necessary counterpart of the substantial Governmental assistance which had already been provided for the NCB. Good progress had been made in the provision of factories in the areas affected by pit closures and there was no reason to expect more than marginal difficulties in meeting the consequences of such closures on employment. It was also the general view that the level of regional differential prices proposed by the NCB was on balance appropriate to the differing regional circumstances of the industry and should therefore be accepted.

The Prime Minister, summing up the discussion, said that on balance the Cabinet accepted the proposals put forward by the NCB. Publicity had already been given to the report of the NBPI and in these circumstances no further announcement by the Government was required. It would, however, be desirable to give suitable publicity to the new industrial development which was taking place in the areas primarily concerned. The Cabinet agreed that there should be an enquiry into the costs of coal distribution on the lines proposed by the NBPI.

The Cabinet—

(1) Approved C (66) 46.

(2) Invited the President of the Board of Trade, in consultation with the First Secretary of State and the Minister of Power, to arrange for suitable publicity to be given to the new industrial developments resulting from the Government's policy in the areas primarily affected by pit closures.

(3) Agreed that the Minister of Power should not accept the proposals put forward by the Industrial Coal Consumers' Council.

(4) Invited the First Secretary of State, in consultation with the Minister of Power, to arrange for the National Board for Prices and Incomes to enquire into the cost of coal distribution.

(5) Invited the Minister of Power to circulate to other members of the Cabinet the detailed schedule of price increases proposed by the National Coal Board.
6. The Prime Minister said that an Opposition Motion on broadcasting policy was to be debated in the House of Commons that day. He had discussed with the Lord President of the Council and the Postmaster-General what indication might be given of the Government’s policy on the basis of the views so far expressed by the Cabinet. Subject to further discussion by the Cabinet, the Postmaster-General’s reply to the debate might open with an account of the financial problem facing the British Broadcasting Corporation (BBC). He might say that the Government had recently received proposals from the Corporation about their finances and would be entering into discussion with them, but the details of the proposals should not be disclosed. It could also be said that there seemed to be every prospect, provided the problem of evasion could be tackled, of holding the licence fee at its present level for two years or more. On measures to reduce evasion, reference should be made to the possibility of ensuring, through the retailers and rental companies, that new sets were licensed, though legislation would be needed. If the question of advertising on the Light Programme were raised, the House should be reminded that any initiative lay with the BBC. The Postmaster-General should invite the views of the House on the manner in which the BBC’s financial problems might be met, but should not suggest that the Government were in any way moving towards acceptance of revenue from advertising on the Light Programme as a solution. He could, however, say that the Government rejected the idea of an Exchequer subsidy.

On local broadcasting, the Government were not prepared to accept local commercial stations, but decisions on the nature of any local broadcasting which might be introduced must wait until satisfactory arrangements had been made for financing the BBC. On a National Broadcasting Commission, it could be said that the Government had an open mind and would wish to consult both the broadcasting authorities and the other political parties before reaching a decision. In connection with the University of the Air, reference could be made to the possibility of using BBC-2, and it could be said that discussions were being conducted with the BBC: any reference to the fourth television channel should be avoided. The Cabinet would, however, wish particularly to consider what might be said in regard to colour television and whether any conclusions could now be reached.

In discussion there was general agreement with the statement outlined by the Prime Minister. It was suggested that the study initiated by the First Secretary of State, in accordance with the conclusions of the previous meeting, on the technical, financial and economic considerations of colour television had yielded sufficient information on which to take a decision. It was pointed out that, although consumer expenditure might be increased by up to £100 million over a period of three or four years, the demand on manpower resources for the manufacture of sets would not be significant; that there might be an increase in exports of some £10 million a year if an early decision were taken and that this would be
prejudiced by delay; and that the cost to the BBC would be relatively small and would quickly be covered by the proposed supplementary licence fee. It was also now clear that no radically different system of reception was likely to be developed in the near future.

The following points were also made—

(a) In referring to the use of BBC-2 for the University of the Air it would be important to avoid any implication that peak hours would be pre-empted for the University.

(b) The case for the supplementary licence fee for colour television should be based on the argument that individuals who could not afford colour sets should not be required to subsidise the new service.

The Prime Minister, summing up the discussion, said that, subject to the points made in discussion, the Postmaster General should be guided by the statement of policy which he had outlined. The Cabinet also agreed that the Postmaster-General should announce that, in accordance with the advice received from his Television Advisory Committee, the Government proposed to introduce colour television using the PAL system, and that it was hoped to introduce a regular service by the end of 1967. This would be subject to the qualification that, if another system found general acceptance at the forthcoming Oslo Conference, the Government would take this into account and, if necessary, reconsider their decision.

The Cabinet—

(1) Invited the Postmaster-General to be guided by the Prime Minister’s statement and summing up of their discussion in the forthcoming debate on broadcasting.

(2) Agreed that the Postmaster-General should announce in the debate the Government’s intention to adopt the PAL system of colour television, subject to the qualification indicated by the Prime Minister.

Cabinet Office, S.W.1.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 16th March, 1966, at 10 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence (Items 1-5)
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. JAMES GRIFFITHS, M.P., Secretary of State for Wales
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. RICHARD CROSSMAN, M.P., Minister of Housing and Local Government (Items 1-5)
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. HERBERT BOWDEN, M.P., Lord President of the Council (Items 1-3, 6 and 7)
The Right Hon. MICHAEL STEWART, M.P., Secretary of State for Foreign Affairs
The Right Hon. ARTHUR BOTTOMLEY, M.P., Secretary of State for Commonwealth Relations
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. THE EARL OF LONGFORD, Secretary of State for the Colonies
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Overseas Development
The Right Hon. DOUGLAS HOUGHTON, M.P., Chancellor of the Duchy of Lancaster (Items 1-3, 6 and 7)
The Right Hon. FRANK COUSINS, M.P., Minister of Technology
The Right Hon. FREDERICK LEE, M.P., Minister of Power
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport

The following were also present:
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Items 1-5)
The Right Hon. EDWARD SHORT, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. J. H. LOCKE

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1. The Cabinet expressed their condolence with the Lord Chancellor on the death of his wife and directed that a message of their sympathy should be sent to him.

2. The Chancellor of the Exchequer said that it was natural that sterling should be subject to some degree of additional strain during an Election campaign. But the pressure on the pound which had been manifested in the last few days had developed very rapidly and on a more significant scale than had been expected. There was now a general expectation in the market that the authorities would respond by the classical means; and the Governor and Court of the Bank of England had accordingly recommended that Bank Rate should be raised by 1 per cent that day.

If this action were not taken, the situation might deteriorate still further. The speculation which was inseparable from an Election would be liable to develop in any event; and after a certain point it might extend into the field of commercial trade. Our financing requirement in the current year was already estimated to be of the order of £350 million; and we could not lightly contemplate the increase in this figure which might result if the speculative movement against sterling were allowed to pass out of control.

It would be possible to deal with this situation by using our reserves of gold and foreign exchange to support the sterling rate; and we might hope that, if the present pressures derived mainly from ordinary pre-Election uncertainty and to some extent from disquiet about the disappointing trade returns for January, our losses would be made good once the Election was over and normal conditions were restored. But we could not count on making good the outflow completely; and the net loss could be substantial. Alternatively, we could have recourse to the International Monetary Fund and to the various technical arrangements which we had made with the Central Banks of other countries for the support of sterling when it was last under pressure in the previous autumn. If so, however, we should merely increase the amount of our foreign indebtedness, which already imposed a heavy burden on our balance of payments.

For these reasons, prudence pointed to an increase of 1 per cent in Bank Rate, which should be coupled with a public statement by the Bank of England that this represented no more than a normal precaution against the uncertainties of the pre-Election period and that sterling remained basically sound.

* Previously recorded in a Confidential Annex.
In discussion considerable doubt was expressed about the wisdom of this course. The following main points were made:

(a) If the present situation had arisen in the ordinary course of events, an increase in Bank Rate might have represented the correct action. In fact, however, the strain on sterling had developed in the middle of an Election campaign; and this fact was very relevant to the decision which now faced the Government. If, in these circumstances, an increase in Bank Rate was misinterpreted by international opinion as indicating that the Government’s decision to appeal to the country had been precipitated by a deterioration in the economic situation which they had hitherto been reluctant to admit, the pressure on the pound might well be aggravated rather than reduced.

(b) In so far as this pressure should be regarded as deriving from doubts about the competence of the Government to safeguard sterling or about the compatibility of certain elements in the Labour Party’s Election Manifesto with the continued stability of the pound, there were some grounds for believing that such doubts might be being deliberately fomented by the Government’s political opponents—the more so since all other current indications of public opinion suggested that the Government would be returned with an increased majority. If, in these circumstances, the Government allowed themselves to be coerced into adopting ill-advised financial measures, they would be seen to be at the mercy of unscrupulous financial pressure and would lose their freedom of political action. It would be disastrous if, as a result, an open clash developed between the Government and the City and the integrity of sterling became a party issue in the electoral campaign. Even if, as must be assumed, the Government’s will prevailed, incalculable damage would be done to sterling; and it would certainly be preferable to contemplate an increase in our international indebtedness than to put at risk the basic standing of our currency.

(c) The Building Societies were known to be contemplating an early increase in their lending rates, although some were less convinced than others of the necessity for such action. But a rise in Bank Rate would be liable to precipitate a decision in favour of an increase in mortgage rates; and since this would be undesirable at the present juncture, the Societies should be informed that any increase in their lending rates would be referred to the National Board for Prices and Incomes.

(d) There could be no certainty that an increase of 1 per cent in Bank Rate would suffice to arrest the pressure on sterling. But it would be very damaging if, having consented to an increase of this order now, the Government were compelled to authorise a second increase in the following week. It would be preferable, both on merits and in terms of insulating sterling from party politics, to refrain from action at the present stage but to be prepared, if necessary, to raise Bank Rate by more than 1 per cent in the latter stages of the electoral campaign.
(e) In the interim, we should have recourse to the international financial facilities which had been mobilised in the autumn of 1965. It would be quixotic not to avail ourselves, in this renewed emergency, of arrangements which at that time we had made considerable efforts to secure, even to the extent of committing ourselves to a policy on prices and incomes which had been a source of potential embarrassment to the Government ever since. We should at least extract a compensating advantage by drawing on those facilities now; and, in so far as our ability to do so depended upon the goodwill of other countries, it was not irrelevant that the French Government had just indicated their intention to adopt measures which might go far towards disrupting the Atlantic Alliance and our other partners in the Alliance should therefore be the more willing to help us for broad political reasons. For the same reasons we should be able to count on a sympathetic response from the United States Administration.

As against these considerations it could be argued that an increase in Bank Rate, made promptly at the outset of the Election campaign, might be effective in arresting at an early stage a deterioration in the situation which might otherwise develop further throughout the campaign. If so, it should be to the Government’s electoral advantage. It could also be presented as a sign of strength rather than weakness, particularly since prime rates were tending to rise throughout the world and an increase in Bank Rate would therefore be seen as a natural and proper reaction to this tendency. Moreover, it would be unwise to place too great reliance on the international facilities which had been put at our disposal in the previous autumn. Their availability depended in the last resort on the relationships between the Governments and the Central Banks in the countries concerned; and we could not assume that Governmental sympathy would necessarily be reflected in willingness by the monetary authorities to support sterling against their better judgment. It was not easy to see how, even in the United States, the President could compel the Federal Reserve Bank to give us more support in the exchange market than they were already providing.

The Prime Minister, summing up the discussion, said that the balance of the argument appeared to incline against an increase in Bank Rate that day; and the Bank of England should be so informed. It was essential, however, that no hint of this discussion should be allowed to become publicly known; and all members of the Government should take care to avoid any statement during the forthcoming electoral campaign which could be interpreted as making sterling an issue in that campaign, unless the tactics of the Opposition Parties made this unavoidable.

The Cabinet—

(1) Agreed that no increase in Bank Rate should be made that day.
(2) Invited the Chancellor of the Exchequer to inform the Governor and Court of the Bank of England accordingly.

(3) Invited the Minister of Housing and Local Government to seek to dissuade the Building Societies from raising their lending rates at the present time and to warn them that any increase of this kind would be made the subject of a reference to the National Board for Prices and Incomes.

3. The Lord President of the Council said that the Future Legislation Committee had agreed the previous day that he should write to all Ministers giving a provisional list of Main Programme Bills for the next Session and a list of those which the Committee at present thought might be held over to form the major part of the Main Programme for 1967-68.

The provisional list, on which a formal submission would be made to the new Cabinet when a draft of the Opening Speech was put before them, was based on the proposal that the first Session of the new Parliament should continue until at least the end of July 1967. This meant that there would be no Queen's Speech, and consequently no Debate on the Address, in the autumn of 1966. Discussion showed general agreement with the Lord President's proposal.

The Cabinet—

Agreed that, if the Government were returned to office at the forthcoming Election, the Session of Parliament which would be opened on 21st April, 1966, should continue at least until the end of July 1967.

4. The Minister of Technology drew the attention of the Cabinet to an article in the Daily Mirror that morning. This referred to the opposition of the Transport and General Workers' Union to the Government's policy on prices and incomes; drew a wholly misleading inference from his meeting with the Executive of the Union earlier that week, the purpose of which had been entirely confined to seeking the Union's concurrence in his continued leave of absence from the post of General Secretary pending the outcome of his candidacy at the forthcoming General Election; and reflected both on his own loyalty to his colleagues in the Government and on the Prime Minister's integrity.
In discussion it was suggested that, while it might be desirable to take legal advice on the possibility of seeking an injunction against the Daily Mirror to prevent a repetition of these malicious allegations, the wisest course would be to ignore the article.

5. The Foreign Secretary said that the President of France, General de Gaulle, had sent messages to the Prime Minister and to the President of the United States regarding the intentions of the French Government in relation to the North Atlantic Treaty and to participation in the North Atlantic Treaty Organisation (NATO). These messages stated that France proposed to terminate her participation in the integrated commands and no longer to place her forces at the disposal of NATO, though she was prepared to have understandings about mutual facilities and co-operation in the case of a conflict. This meant that all French forces would be withdrawn from assignments to, or control by, NATO military commands in peace; that, although France would continue to be represented on the North Atlantic Council, French officers would be withdrawn from NATO military headquarters; and that the latter, including Supreme Headquarters Allied Powers in Europe (SHAPE), would have to withdraw from France. French troops in Germany would also be withdrawn from assignment to NATO, unless the Federal German Government agreed to their remaining under some new arrangement to be negotiated bilaterally. General de Gaulle proposed to notify the remaining members of NATO accordingly the following day or at the beginning of next week. We had suggested to our principal allies that the remaining 14 members of NATO should issue a public declaration of faith in the continuation of the Alliance; that machinery should be set up within it to co-ordinate responses to the French approach and consequent action; and that all should agree not to deal bilaterally with France, except after agreeing their line with the remainder. This course of action had been agreed with the United States Government and endorsed the preceding day by the Defence and Oversea Policy Committee.

This was not the occasion to consider the longer-term effects of the French Government’s decision. These would inevitably be grave and might involve heavy expenditure on the replacement of NATO infrastructure, while there would be a disquieting increase in the relative importance and standing of Germany within the Alliance. There would, however, be certain partial offsetting advantages in that the relative importance and standing of the United Kingdom would also be increased and that this might afford an opportunity for pressing more effectively our views on the reform of the NATO structure and on burden sharing, while it was also possible that some foreign forces might be stationed in the United Kingdom, with advantages to our balance of payments. In
general it would be important that the Government should not, in the upshot, show hostility to France in consequence of General de Gaulle's decision, but they should clearly demonstrate that they were determined to maintain the North Atlantic Alliance.

The Cabinet—

Took note, with approval, of the statement by the Foreign Secretary.

6. The Cabinet considered memoranda by the Minister of Agriculture, Fisheries and Food (C (66) 51 and 53) reporting the progress of discussions with the Farmers' Unions on the Farm Price Review.

The Minister of Agriculture said that the Farmers' Unions had maintained until very late in the discussions a demand for an increase in the guarantees exceeding £50 million. However, at the last moment they had moved from this position and had come down to some £31 million, as reported in C (66) 53. Late the previous evening they had come still lower to £27½ million. It was doubtful whether they would be prepared to reduce their bid significantly below this figure. This was slightly less than the increase which the Agricultural Ministers had recommended to the Cabinet from the beginning as the basis of a reasonable agreed settlement which would maintain the confidence of farmers and secure their support of the targets for agricultural production in the National Economic Plan. Nevertheless, in view of the Cabinet decision on 3rd March, the Farmers' Unions had been given no indication that a settlement at this figure would be acceptable. The Cabinet should however be aware that, if the Government rejected a settlement of £27½ million, strong feelings would be aroused amongst the farming community. The Farmers' Unions had asked for a further meeting with the Prime Minister before a final decision was taken by the Government to impose a settlement of £20 million. The differences between what the Farmers' Unions were seeking and the Government's proposals (set out in Annex II to C (66) 51) were primarily in respect of cereals, pigs and sheep. The Farmers' Unions had also asked for certain long-term assurances, including a guarantee that they would be allowed during the period of the National Economic Plan to retain the income resulting from some two-thirds of their increased efficiency. He had made it clear to the Farmers' Unions that an assurance of this kind could not be given. It would however be desirable to include in the White Paper on the Review a statement that the Government would be willing to discuss with the industry the provision of assurances to provide for greater stability in the level of support.

The Chancellor of the Exchequer said that he was opposed to increasing guarantees by more than £20 million. This was not in any way a harsh settlement. Over the past seven years the average
settlement had been £21 million above the minimum set by the 1957 Agriculture Act; and an increase in the guarantees of £20 million this year would be £26 million over the minimum; this would be likely to increase farm incomes by about 5 per cent. It was generally accepted that there was no case on merits for increasing the guarantees further nor would any major advantages flow from reaching an agreement with the Farmers’ Unions.

In discussion there was general agreement that the guarantees should not be increased by as much as £27½ million in order to reach agreement with the Farmers’ Unions. There was some support for the view that, particularly in view of the repercussions on our overseas suppliers, there should be no increase above £20 million. On the other hand it was argued that it would be worth while raising the Government’s offer slightly if this would achieve a fully agreed settlement, always provided that the further increases in guarantees were restricted to cereals, pigs and sheep. No further increase in the price of milk could be contemplated, particularly in view of the problems this would raise for our overseas suppliers of dairy products. There was general agreement that no specific long-term assurances could be given to the Farmers’ Unions: the precise form of any statement of intent to be included in the White Paper should be agreed with all the Ministers concerned.

The Prime Minister, summing up the discussion, said that on balance the Cabinet agreed that the Agricultural Ministers should be authorised to increase the guarantees up to a maximum of £23 million, provided that a settlement on this basis was fully agreed with the Farmers’ Unions. Any improvement in the Government’s existing offer should be confined to cereals, pigs and sheep. If full agreement within this range were not possible, no increase should be made above the schedule set out in the Annex to C (66) 51. The Agricultural Ministers were authorised to include in the White Paper a paragraph on the lines suggested in paragraph 4 of C (66) 53, provided that no specific commitment was implied and the text was agreed with the Ministers concerned.

The Cabinet—

Invited the Agricultural Ministers to continue discussions with the Farmers’ Unions on the basis of the Prime Minister’s summing up of their discussion.

7. The Cabinet considered a memorandum by the Minister of Labour (C (66) 54) about future policy on the reorganisation of the docks.

The First Secretary of State recalled that the Queen’s Speech on the Opening of the present Session of Parliament had included a statement about legislation on the docks, designed to enable the
Government either to proceed with a limited measure primarily intended to implement the Report of Inquiry into certain matters concerning the Port Transport Industry (the Devlin Report) or with a more radical reorganisation which would involve some form of public ownership of the docks. It had subsequently become clear that the Departments concerned could not put forward proposals for a radical reorganisation without clearer guidance from Ministers on their objectives. It had therefore been decided to arrange through the National Executive of the Labour Party for a Study Group to be appointed on this matter. Its Report had recently been received and recommended the establishment of a strong National Ports Authority and a series of Regional Port Authorities which would be statutory bodies owning the port facilities in their region, would carry out the actual port operations and would be the sole employers of port labour. The general policy recommended in this Report had been endorsed in the Labour Party’s Election Manifesto.

During this time the Minister of Labour had been continuing to make progress in his discussions with those concerned on the Devlin Report. The employers and the unions concerned had agreed privately on a system which would involve a voluntary reduction in the number of port employers of labour, followed by a system of licensing of employers; this would be accompanied by a system of permanent employment of labour which would greatly decrease the amount of casual labour in the docks even though it might not wholly remove it. The next stage in these discussions would be for the Minister of Labour to publish a new draft Dock Labour Scheme.

The Ministerial Committee on Economic Development had considered the Minister of Labour’s proposal for continuing progress on the introduction of the new system of port employment and the majority supported it. There were however certain objections, since this procedure would in practice cause substantial delay to the more fundamental reorganisation. Such a reorganisation would entail the new regional port authorities becoming the sole employers of labour; and it would not be possible to abolish casual labour or make the working of the docks fully efficient without the establishment of such authorities. The licensing of port employers as proposed by the Minister of Labour would establish new vested interests in the ports; and two major reorganisations of the system of port employment could not well be carried out within a period of two to three years. Moreover, there was now no certainty that either the employers or the unions would be prepared to proceed on the basis of the new Dock Labour Scheme proposed in view of the possibilities of radical reorganisation set out in the Labour Party’s Election Manifesto.

On the other hand the Minister of Labour had emphasised that a radical reorganisation could certainly not be introduced for at least a further two years and that it would be wholly wrong to take no action meanwhile to deal with the evils of casual labour in the docks or the inefficiencies of their present working. Moreover,
the Minister considered that the agreement reached after difficult negotiations with the port employers and unions should not be discarded when it could substantially alleviate the present problems.

In discussion it proved the general view that the limited measure of reform based on the Devlin Report should not now be abandoned. To do so would leave the Government open to the charge that they were abandoning a scheme which offered the chance of early improvement in the operation of the docks through practical measures agreed by employers and unions in favour of a radical change in ownership and control adopted for doctrinaire reasons. Nor would the urgency of improving the operation of the ports, particularly in relation to exports, permit the postponement of action until January 1969 which seemed to be the earliest date at which a basic change could be introduced. Moreover, Lord Brown, in his capacity as Chairman of the Modernisation Committee, had expressed doubt whether the radical reorganisation would, in any event, deal with some of the immediate and pressing problems which the short-term scheme was intended to solve. It was recognised that the announcement of the intention of the Government to introduce major changes in the ownership and control of the ports would make the Minister of Labour's task in persuading employers and workers to co-operate in short-term measures more difficult: but every effort should be made to achieve their full support.

The Prime Minister, summing up the discussion, said that on balance the Cabinet took the view that the Minister of Labour should proceed with the publication of the new draft Dock Labour Scheme and with the necessary negotiations. These would have to take place against the background of the Government's intention to introduce in due course a radical reorganisation of port ownership and control.

The Cabinet—

Approved C (66) 54.

Cabinet Office, S.W.1,
10th March, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 7th April, 1966, at 10.30 a.m.

Present:

The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. George Brown, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. Lord Gardiner, Lord Chancellor
The Right Hon. Michael Stewart, M.P., Secretary of State for Foreign Affairs
The Right Hon. Roy Jenkins, M.P., Secretary of State for Home Affairs
The Right Hon. Douglas Houghton, M.P., Minister without Portfolio
The Right Hon. Anthony Greenwood, M.P., Minister of Overseas Development
The Right Hon. Richard Crossman, M.P., Minister of Housing and Local Government
The Right Hon. R. J. Gunter, M.P., Minister of Labour
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Cledwyn Hughes, M.P., Secretary of State for Wales

The Right Hon. Herbert Bowden, M.P., Lord President of the Council
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Arthur Bottomley, M.P., Secretary of State for Commonwealth Relations
The Right Hon. William Ross, M.P., Secretary of State for Scotland
The Right Hon. Douglas Jay, M.P., President of the Board of Trade
The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science
The Right Hon. The Earl of Longford, Lord Privy Seal
The Right Hon. Frank Cousins, M.P., Minister of Technology
The Right Hon. Barbara Castle, M.P., Minister of Transport
The Right Hon. Frederick Lee, M.P., Secretary of State for the Colonies

The Right Hon. Richard Marsh, M.P., Minister of Power

The following were also present:

Mr. Gerald Reynolds, M.P., Minister of Defence for the Army (Items 2-4) The Right Hon. Edward Short, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Miss J. J. Nunn

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1. The Prime Minister welcomed the new members of the Cabinet. He invited the attention of all Ministers to the fact that he had arranged to circulate memoranda on “Questions of Procedure for Ministers” (C (P) (66) 5) and on the “Conduct of Government Business” (C (P) (66) 6), which revised and brought up to date the standard procedures which successive Administrations had followed in these matters. Ministers might wish to refresh their memory of these procedures; and it would be helpful if they would invite the attention of such of their junior colleagues as were newly appointed to the importance of their being strictly observed. Particular regard should be paid to the continuing need to preserve the confidentiality of Government business and to avoid the serious embarrassment which could arise from the premature disclosure of the Government’s discussions and decisions.

2. The Foreign Secretary said that the current disorder in certain parts of South Vietnam arose from the long-standing dislike of the Buddhist sections of the population for the present Government of the country. The Buddhists were divided into two main groups, of which the one with the more extreme opinions was in close touch with the regional separatists in the north. Although the Government had handled the situation better than might have been expected, the disorder would still do serious damage to the social and economic progress of the country and to the conduct of the war with the Viet Cong. It was remarkable that the latter had not taken greater advantage of the situation; and this might be due to the heavy military losses which they had suffered in previous months. It was problematical what form of Government might emerge from the present situation.

The Prime Minister said that the current situation in relation to Rhodesia and the action which the Government might need to take had been closely considered at a series of meetings of the Defence and Oversea Policy Committee; the United Kingdom Special Representative in Central and East Africa (Mr. Malcolm MacDonald) and the Minister of State for Foreign Affairs (Lord Caradon) Resident at the United Nations had returned to the United Kingdom to participate in those discussions. The situation had developed to the point where it was becoming clear that the United Kingdom could not handle it alone and that international action would be required; but no firm decisions had yet been taken on the form of action which we should seek to promote.

The Prime Minister said that this year was the 50th anniversary of the Easter rising in Dublin in 1916 and there was reason to believe that members of the Irish Republican Army (IRA) might seek to create disturbances in Northern Ireland and in Great Britain either during Easter, or during the following week-end. Precautions against violence had been taken by the Home Secretary,
in consultation with those concerned, and in co-operation with the Government of the Republic of Ireland. It was possible that members of the IRA might seek to interrupt public services, e.g., power stations or railways; and the Ministries concerned should therefore arrange for the necessary Departmental staffs to be available at short notice in order to deal with any emergencies which might arise. The Ministers themselves or, if they were abroad, their junior Ministers should arrange to be informed immediately of any incidents of this nature.

The Cabinet—

1. Took note of the statements by the Prime Minister and the Foreign Secretary.

2. Invited the Minister of Power and other Ministers whose responsibilities might be affected by disturbances created by the Irish Republican Army during Easter and the following week-end to arrange for the necessary minimum of Departmental staffs to be available at short notice during these periods.

3. The Cabinet were informed of the programme of business in the first fortnight of the new Parliament. The Budget would be introduced on 3rd May and an announcement to this effect would be made early in the following week.

4. The Cabinet considered a memorandum by the Lord President of the Council (C (66) 56), to which was annexed a draft legislative programme for 1966–67.

The Lord President said that, in drawing up the programme, the Future Legislation Committee had had in mind the desirability of avoiding the pressure of business to which Parliament had been subjected in the previous Sessions. Their proposals would fill the time available, and more Bills could be added to the programme only if some of those at present included were postponed. Since the Government could look forward to a Parliament of the normal length, however, it was not necessary to attempt to pass in the first Session all the important Bills to which they were pledged. There would be advantage in phasing their plans over several Sessions, and the Future Legislation Committee would put forward after Easter proposals for the second and third Sessions with a view to securing an orderly and coherent development of the Government's legislative programme for the Parliament as a whole.

In discussion the following principal points were made:

(a) In view of the pledge to introduce legislation on Leasehold Reform given in The Queen’s Speech on the Opening of the 1965–66 Session of Parliament, and of the importance which the topic had assumed during the General Election, not only in Wales but in some English constituencies, the Leasehold Reform Bill...
ought to be included in the first Session's programme. The Bill would have an element of retrospection, since it would apply to leases which had expired since 8th December, 1964, and it was important to remove as soon as possible the uncertainty which affected transactions in leasehold property. A considerable amount of work remained to be done, but it should be possible to produce a Bill later in the Session and, provided that priority were given to the Land Commission and Local Government Finance Bills, to handle it in the House of Commons, perhaps with the assistance of the Secretary of State for Wales. If time could be made available by the postponement of another Bill, Leasehold Reform should be added to the programme, but it was important that the Government should not again promise legislation and fail to secure it.

(b) The Protection of Consumers (Trade Descriptions) Bill, which had been put into the programme for 1966–67 in preference to the Companies Bill, might be deferred to make way for Leasehold Reform. On the other hand, it was an attractive Bill of interest to all sections of the community, and had made good progress in the House of Lords in the previous Session. It was arguable that both this Bill and the Companies Bill, which had also made progress and would not require much time, should be included in the first Session's programme. It was suggested, however, that the Companies Bill was no longer urgent, that it had been criticised for implementing only the more conservative proposals of a generally conservative Report, and that it would be preferable to introduce a more radical and comprehensive measure in a later Session.

(c) From some points of view there would be advantage in deferring the Iron and Steel Bill to the second Session in order to allow time for the continued growth in the strength of sterling and to avoid vesting day falling at a time when the gilt-edged market might be expected to be weak and the issue of the stock required by the provisions for compensation would be difficult. On the other hand, it might be easier to secure the passage of a major controversial Bill in the first Session of the Parliament, and postponement would involve a risk that if it became necessary to pass the Bill under the Parliament Act procedure it would not be possible to implement it fully during the lifetime of the Parliament. In present circumstances it did not appear necessary or desirable, to engage in further discussion on the form of the proposals with industry, which had not put forward any useful suggestions as a result of the Government's expressed willingness to listen to what they might wish to say. Further consideration should, however, be given by the Ministerial Committee on Iron and Steel Nationalisation to the question whether with an assured majority it would be worth taking the risk of hybridity involved in extending the provisions of the Bill to the British Iron and Steel Federation, and to the timing of the introduction of the Bill within the 1966–67 Session. The provisions for compensation should be reviewed by the Minister's principally concerned.
The Minister of Health had represented that the Miscellaneous Health Services Bill which would enable various improvements to be made in the health and welfare services, should be restored to the main programme from the reserve. In view of pressure on the programme this did not appear to be possible.

If the Overseas Aid Bill, which had also been relegated to the reserve, were included in the main programme, it could incorporate the Asian Development Bank and the Indus Basin Development Bills. It was doubtful, however, whether the amalgamation of the three Bills would in fact save time and whether it would be possible for the Overseas Aid Bill to be passed early enough to avoid separate legislation on the Asian Development Bank. If it could be ready in time, it would be desirable to introduce it.

It was not clear that time could be saved by passing the Overseas Territories Bill in the first Session. Unless some saving could be demonstrated, the Bill should be placed in the reserve list.

Some time might be saved by deferring the Criminal Justice Bill, but deferment would aggravate public anxiety about the increase in crime and it was desirable to pass the Bill in the first Session so that measures to deal with young offenders could be introduced in the second Session.

Further consideration should be given to the possibility of deferring the Bill to establish a Parliamentary Commissioner for Administration. The Bill should for the present be placed in the reserve list.

It might be found necessary in the course of the Session to introduce Bills on Decimal Currency, Hovercraft, and the Local Government Commission. Consideration should be given to the possibility of combining with the latter a short measure to relieve the Government of the obligation to review the establishment of the Inner London Education Authority. It was desirable that the Bill to enable the Government to implement Conventions on Consular Privileges, which could contain provisions enabling future Conventions to be implemented by Order in Council, should have a high place in the reserve list.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that the main programme for the 1966–67 Session should include Bills on Leasehold Reform and Road Safety, subject to the exclusion from the latter of controversial provisions. To make room for these Bills, the Parliamentary Commissioner and Protection of Consumer Bills should be placed in the reserve list. Overseas Aid should be added to the main programme if it would be possible to pass it in time to avoid separate legislation on Asian Development Bank and Indus Basin Development. Overseas Territories should be retained in the main programme only if the Colonial Secretary were able to satisfy the Lord President that it would effect a real saving of time in the current Session. It was noted that other Bills might become necessary: if the Local Government Commission Bill were among them, consideration should be given to the possibility of amalgamating with it the
Education (Inner London) Bill. Subject to these points, and to the consideration of the programme from time to time by the Future Legislation Committee in the light of the progress made, the Cabinet approved the draft legislative programme attached to C (66) 56.

The Cabinet—

(1) Agreed that the Leasehold Reform Bill and an amended Road Safety Bill should be added to the main programme for 1966–67, and that the Parliamentary Commissioner and Protection of Consumer Bills should be placed in the reserve list.

(2) Invited the Lord President—

(i) to consider, in consultation with the Minister of Overseas Development, whether the Overseas Aid Bill could be passed in time to avoid separate legislation on the Asian Development Bank and Indus Basin Development, and, if so, to add the Bill to the main programme;

(ii) to consider, in consultation with the Colonial Secretary, whether the Overseas Territories Bill would effect any saving of time in the 1966–67 Session, and, if not, to place the Bill in the reserve list;

(iii) to arrange for the Future Legislation Committee to keep the programme under review.

(3) Subject to Conclusions (1) and (2), approved the draft legislative programme attached to C (66) 56.

The Cabinet considered a note by the Lord President of the Council (C (66) 57), to which was appended the draft of The Queen’s Speech on the Opening of Parliament.

The Lord President said that the draft had been considered by The Queen’s Speech Committee. Certain changes would now be required in consequence of the decisions reached by the Cabinet on the previous item of their agenda.

In discussion a number of amendments were agreed and the following points were made:

(a) It was suggested that a statement should be included in the Speech of the Government’s policy in respect of the continuation of aid towards the economic and social development of countries overseas. It was, however, the general view that this could best be covered in the course of the Debate on the Address.

(b) Greater stress should be laid on the Government’s intention to take action to promote increased productivity in industry.
(c) Paragraph 16 dealing with the formulation of the Government's policies for the aircraft and shipbuilding industries should be omitted and these issues dealt with in the course of the Debate on the Address.

The Cabinet—

(1) Approved, subject to the amendments agreed in discussion, the draft text of The Queen's Speech appended to C (66) 57.

(2) Took note that the Prime Minister would submit the text, as amended, to The Queen for Her approval.

(3) Invited the Ministers concerned, in preparing for the Debate on the Address, to be guided by the points made in their discussion.

Cabinet Office, S.W.1,
7th April, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1., on Wednesday, 20th April, 1966,
at 10 a.m.

Present:
The Right Hon. HArold Wilson, M P, Prime Minister
The Right Hon. George Brown, M P, First Secretary of State and Secretary
of State for Economic Affairs
The Right Hon. Lord Gardiner, Lord Chancellor
The Right Hon. Denis Healey, M P, Secretary of State for Defence
The Right Hon. Roy Jenkins, M P, Secretary of State for the Home
Department
The Right Hon. Douglas Houghton, M P, Minister without Portfolio
The Right Hon. Anthony Crosland, M P, Secretary of State for Education
and Science
The Right Hon. The Earl of Longford, Lord Privy Seal
The Right Hon. Fred Peart, M P, Minister of Agriculture, Fisheries and
Food
The Right Hon. Cledwyn Hughes, M P, Secretary of State for Wales
The Right Hon. Herbert Bowden, M P, Lord President of the Council
The Right Hon. James Callaghan, M P, Chancellor of the Exchequer
The Right Hon. Arthur Bottomley, M P, Secretary of State for Common­
wealth Relations
The Right Hon. William Ross, M P, Secretary of State for Scotland
The Right Hon. Douglas Jay, M P, President of the Board of Trade
The Right Hon. Richard Crossman, M P, Minister of Housing and Local
Government
The Right Hon. R. J. Gunter, M P, Minister of Labour
The Right Hon. Barbara Castle, M P, Minister of Transport
The Right Hon. Frederick Lee, M P, Secretary of State for the Colonies
The Right Hon. Richard Marsh, M P, Minister of Power

The following were also present:
The Right Hon. George Thomson, M P, Chancellor of the Duchy of
Lancaster (Items 1-3)
The Right Hon. Edward Short, M P, Parliamentary Secretary, Treasury
The Right Hon. John Diamond, M P, Chief Secretary, Treasury (Items 3-5)
Mr. Albert E. Oram, M P, Parliamentar­
ney Secretary, Ministry of Overseas
Development (Item 3)

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Miss J. J. Nunn
Mr. J. H. Locke

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

2. The Prime Minister said that a group of the Ministers primarily concerned had discussed the Rhodesia situation earlier in the week, at a meeting attended by the United Kingdom Special Representative in Central and East Africa (Mr. Malcolm MacDonald) and our Ambassador in South Africa. Our immediate concern was to restrain the South African Government from permitting oil supplies to reach Rhodesia via South Africa on a greater scale than was current before the illegal declaration of independence, since we could not hope for South African co-operation in a complete boycott. In Rhodesia itself it appeared that our economic sanctions might be proving more effective than had been the recent public impression and there were some signs of dissension among the members of the Rhodesia Front Party, but undue expectations should not be built on these indications.

The Cabinet—

Took note of the statement by the Prime Minister.

3. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(66) 60) on the control of Government expenditure overseas.

The Chancellor of the Exchequer said that, partly because of some non-recurring expenditure by the oil companies and the effects of the Rhodesian situation, it was now unlikely that we should achieve our declared aim of bringing our oversea accounts into balance by the end of 1966. In this situation a rigorous scrutiny was necessary of all oversea expenditure by the Government. Over the past decade such expenditure had risen from about £200 million to well over £500 million. By far the greatest increase lay in the net military expenditure overseas; this was due less to an increase in gross expenditure than to a reduction in United States and Canadian military expenditure in the United Kingdom and the ending of United States direct defence aid, but it had also been affected by the unsatisfactory agreements made with the Federal German Government by the previous Administration in respect of the cost of maintaining our forces in Germany. Expenditure on overseas aid had also risen very substantially, as part of a deliberate policy. Expenditure on administrative and diplomatic activities overseas had risen from £25 million to £80 million over this period. The appearance of the total figure for 1966 given in Table 1 of his paper was unduly favourable because "long-term capital" included the loan from the United States to pay for United States military aircraft; but this was of course counterbalanced by the provision that would...
be necessary for repayment in later years. In this situation it was not only essential to take specific steps to secure a reduction in the level of Government overseas expenditure but also to refer to the Government’s intention in this respect in the course of his statement on the Budget. A thorough review should be carried out by officials over the next few months of the possibilities of a reduction in all the items of overseas expenditure, leading up to a discussion by the Public Expenditure Committee and then by the Cabinet in the autumn of 1966. Such a review should not start from the assumption that existing policies and practices must be maintained unaltered. Action should also now be started to implement the decision announced in the Statement on the Defence Estimates 1966: the Defence Review (Cmd. 2901) that our maintenance of forces in Germany was conditional on ways being found of meeting the foreign exchange costs involved. The present arrangements with the Federal German Government covered less than half the foreign exchange cost of about £90 million a year. We should now open negotiations with that Government for the payment by them of a budgetary contribution of £50 million a year; in doing so we should make clear our wish to maintain forces in Germany and that our action arose solely from our difficulties in respect of foreign exchange. We should also begin detailed work on the implications of moving our forces back to the United Kingdom and should allow it to become known that such a study was being undertaken. Reference should be made to such an approach to the Federal German Government in his Budget Speech where it could be set in the context of our economic position.

In discussion there was general agreement on the need for special scrutiny of the Government’s programmes of expenditure involving overseas payments. Anxiety was, however, expressed that such a review might reopen the decision recently taken by the Cabinet on the level of expenditure on the Overseas Aid Programme over the next five years: officials should not be asked to review the policies on which Ministers had already reached agreement. It might therefore be better to set a target for the reduction in overseas expenditure and instruct officials to suggest alternative ways of achieving it, leaving Ministers to decide whether any changes in policy were justified by the need to economise in such expenditure. Particular attention should be paid to the possibility of reducing the net cost to the balance of payments, for example, by a revision rather than a reduction of the Overseas Aid Programme in order inter alia to increase our tied aid. On the other hand, it was argued that to set at the outset a target for the reduction for total overseas expenditure might prejudge the outcome of the review, since the desirability of a reduction of any particular order could only be decided in the light of its implications for our overseas policy and interests.

There was general agreement that negotiations should be started with the Federal German Government for an increased offset to our costs in foreign exchange of maintaining forces in Germany but considerable doubt was expressed whether the procedure proposed
would be most likely to achieve our aims without grave damage to our other interests.

In further discussion the following main points were made:

(a) Calculations of net military expenditure made by the North Atlantic Treaty Organisation (NATO) took account of receipts from private sales of arms overseas and of the costs of maintaining United States and Canadian forces in the United Kingdom, with the result that our net military expenditure overseas was calculated at little more than half the figure included in C (66) 60. It would therefore be preferable to seek to negotiate directly with the Federal German Government on this matter rather than rely solely on multilateral discussion in NATO.

(b) In considering the effects of bringing our forces back from Europe to the United Kingdom full account must be taken of the implications for our economy and in particular of the burden on available land and on the construction industry which would be involved.

(c) It would be unrealistic to expect that the Federal German Government would in practice be prepared to make a direct contribution of this order to the costs of maintaining our forces in Germany.

(d) Any suggestion that we were seriously considering the withdrawal of our forces on the Continent would gravely embarrass our discussions with the other members of NATO on the implications of the decision of the French Government to withdraw from NATO and would need careful consideration in the light of the Government's policy in relation to other European issues.

(e) There would be advantage in setting a date in our negotiations after which we would not be prepared to continue foreign exchange expenditure on the present scale in connection with our forces in Germany since otherwise the negotiations might be interminable.

(f) In considering our other oversea defence commitments, we must maintain the timetable for their reduction which had been agreed in the Defence Review, and must avoid any substantial new commitments, if our oversea expenditure were not to increase still further.

The Prime Minister, summing up the discussion, said that there was general agreement that there should be a detailed and wide-ranging review of Government expenditure overseas, by officials in the first instance and subsequently by Ministers. The terms of reference should be further considered in the light of the discussion by the Chancellor of the Exchequer in consultation with the Ministers concerned, including the Foreign Secretary and the Minister for Overseas Development when they returned to this country from overseas. The terms of any statement about this review which the Chancellor of the Exchequer desired to include in his Budget Statement should also be agreed with the Ministers
concerned. The Defence and Oversea Policy Committee should consider the implications of the Chancellor of the Exchequer’s proposals in respect of German support costs, on the basis of a report from the Official Committee. No public reference should be made at this stage to any studies which were carried out on the implications of bringing our forces back to the United Kingdom.

The Cabinet—

(1) Agreed that a review of Government expenditure overseas should be carried out during 1966.

(2) Invited the Chancellor of the Exchequer to give further consideration in the light of the discussion to the terms of reference for this review, and to the terms of any public reference to it, in consultation with the Foreign Secretary, the Secretary of State for Defence, the Commonwealth Secretary, the Colonial Secretary, the President of the Board of Trade and the Minister for Overseas Development.

(3) Took note that the Prime Minister would arrange for the Committee on Defence and Oversea Policy to give further consideration in the light of the discussion to the manner in which negotiations should be conducted with the Federal German Government on the cost in foreign exchange of our forces in Germany.

4. The Cabinet had before them a note by the Lord President of the Council (C (66) 59) to which was attached a copy of a memorandum which he had circulated to the Ministerial Committee on Parliamentary Procedure about the wider use of Select Committees.

The Lord President said that the Ministerial Committee under his chairmanship had considered a proposal put forward by the Prime Minister that, as an experiment, Select Committees composed of back-bench Members should be set up to investigate matters within the purview of particular Departments, such as the Home Office or the Department of Education and Science, with the object both of providing interesting work for back-bench Members and of implementing proposals which the Labour Party had put forward when in Opposition for enabling Parliament more effectively to scrutinise the work of Departments. The Ministerial Committee were in general in favour of a greater use of Parliamentary committees, which they thought might take one of three forms: a Committee to inquire into such matters relating to the work of a particular Department as might be referred to them by the House; a Committee to inquire into matters referred to them, but not confined to a particular Department; or *ad hoc* Committees to inquire into specified topics. They considered, however, that, before an announcement was made on the form which the experiment should take, it would be desirable that they should examine the constitutional
and practical problems involved, since they foresaw that the greater use of Committees would stimulate a probably irresistible movement towards a series of specialist Committees somewhat on the lines of the Congressional Committees in the United States' system of government, including Committees on foreign affairs and defence. The problems which they thought it desirable to consider included the possible change in the relationship of Ministers to Parliament if a Committee system were added to the existing arrangements for securing the responsibility of Ministers to Parliament; the additional burdens that would be thrown on Ministers and the question whether they should be given compensating relief by other procedural changes; the possibility that Committees would develop into pressure groups for increased expenditure by particular Departments; the question whether an informal procedure which enabled a Minister to discuss problems frankly with a Committee might not be preferable to the formal examination of witnesses whose evidence was subsequently published; and the desirability of arranging for Committees to be served by a secretary drawn from the Department concerned in addition to a Clerk of the House, and possibly by outside experts. There was no doubt that the appointment of new Committees would create further demands on the Parliamentary timetable, since their reports would have to be debated at the expense of the already limited time available for Government legislation. The Ministerial Committee suggested, in the light of these considerations, that in the Debate on the Address the Prime Minister should refer in general terms to the Government's desire to find means of enhancing the influence of Parliament on the formation of policy, but should, if possible, avoid putting forward at this stage any specific proposal. If, however, some such proposal were required, it might take the form of the appointment, experimentally, of a Committee to consider a particular topic, for example the law on abortion. It would be desirable to mention at the same time the reform of the procedure of the House of Commons in order to reduce the pressure to which both Ministers and Private Members were at present subject.

The Prime Minister said that it was essential that in the new Parliament the Government should take the initiative in promoting the modernisation of both procedure and machinery. For this purpose the appointment of ad hoc Committees would not be sufficient, and he preferred an experiment with Committees appointed to examine the affairs of particular Departments. The Select Committee on Procedure might later be asked to consider whether experimental Committees on these lines had proved their value. He doubted whether Committees would in practice become involved in party controversy, or whether it would prove impossible to resist pressure to extend the system into the fields of foreign affairs and defence. There might well be advantage in devising an informal procedure for the new type of Committee, and possibly in placing a Minister in the chair. It seemed undesirable, however, that Committees should make use of outside experts except as witnesses. At the same time as introducing experimental Committees, it would
be desirable to consider further reform of the procedure of the House of Commons in order to avoid the waste and misuse of Parliamentary time, for example by eliminating all-night sittings and by carrying uncompleted Bills over from one Session to another.

In discussion the Home Secretary and the Secretary of State for Education and Science said that they would have no objection to the appointment of Committees specialising in the affairs of their Departments. Such a Committee could provide a useful forum for the explanation of a Minister's policy and help to create informed opinion. In relation to the Home Office, it would be desirable to ensure that the Committee did not embark on controversial and difficult subjects, such as immigration, but, equally, it should not be confined to topics suitable for Private Members' legislation; it might have been useful, for example, to refer to such a Committee the problems dealt with in the White Paper published in the previous Parliament on The Child, The Family and The Young Offender. Possibly periodical discussion between the Minister concerned and the Committee might be a more effective way of directing their work into useful channels than an attempt to prescribe particular topics for consideration.

In further discussion there was general agreement that it would be desirable to make greater use of Committees of backbenchers. It was suggested that the objectives both of occupying Members and of giving Parliament a means of supervising Departments could be served by the Estimates Committee if the selection both of its members and of the topics for its consideration were improved. But the general view was that it would be desirable to experiment with new forms of Committee which might either be appointed to inquire into matters concerning particular Departments, or into such matters as might be referred to them by the House from time to time. It was suggested that backbench Members were unlikely to be content to consider topics which were neither controversial nor central to the problems of government; the new Committees would certainly be concerned with policy and it was not clear how in the long run they could be excluded from the consideration of foreign affairs and defence. While the consideration of controversial topics was not necessarily to be deplored, however, there was reason to hope that new Committees, like the Select Committee on the Nationalised Industries, would be able to deal with subjects in themselves controversial in a manner which would nevertheless result in constructive reports. It might be possible to establish that Committees could not recommend increased expenditure. Their effectiveness could be improved by providing Members with better research facilities.

It was further suggested that the Select Committee on Procedure, which had shown itself to be more interested in providing work for backbench Members than in modernising the procedures of Parliament, was not the best body to consider either the success of experimental Committees or radical reforms of procedure in other
respects, and that both these matters should be considered by the Government through the Ministerial Committee on Parliamentary Procedure. It should be borne in mind that whatever was done in the House of Commons would have implications for the House of Lords.

The Prime Minister, summing up the discussion, said that an experiment in the use of Committees of backbench Members of the House of Commons might be attempted. He would ventilate a project of this kind during the Debate on the Address and would consider the terms of his speech in consultation with the Lord President and with Ministers whose Departments would be affected by any illustrations which he might give of the scope of the proposed Committees. The question of devising an informal procedure for the Committees and other practical points arising from an experiment should be considered urgently by the Ministerial Committee on Parliamentary Procedure, which should also examine in due course its results. The means of modernising the procedure of the House of Commons and of facilitating the discharge of Parliamentary business should also be considered by the Ministerial Committee and subsequently discussed with the Leaders of the Opposition Parties. It would be preferable not to remit these problems to the Select Committee on Procedure.

The Cabinet—

(1) Took note that the Prime Minister would consider, in consultation with the Lord President and other Ministers concerned, the terms in which it would be announced, during the Debate on the Address, that the Government had it in mind to initiate an experiment in the wider use of Committees of backbench Members of the House of Commons.

(2) Invited the Lord President of the Council to arrange for the Ministerial Committee on Parliamentary Procedure to consider the procedure which might be adopted by the proposed new Committees and other practical problems arising from the experiment; to examine the results of the experiment in due course; and to consider means of modernising the procedure of the House of Commons and of facilitating the discharge of its business.

5. The Cabinet considered a memorandum by the President of the Board of Trade (C (66) 61) on the Companies Bill.

The President of the Board of Trade recalled that at their meeting on 7th April the Cabinet had excluded the Companies Bill from the programme of legislation for the 1966–67 Session. It had been suggested in discussion that this Bill was no longer urgent and it had been criticised for implementing the more conservative proposals of a generally conservative report: the general preference had been for introducing a much more ambitious Bill relating to companies in the succeeding Session.
Without the Companies Bill, however, the legislative programme for the first Session could be criticised as containing little which contributed to the aim of making industry more efficient. Nor was the criticism that the Bill was conservative well founded, since its provisions for the greater disclosure of information by companies went substantially beyond the proposals in the Report of the Company Law Committee under the chairmanship of Lord Jenkins (the Jenkins Report); in particular by abolishing all the exemptions hitherto accorded to private companies it was much more radical than that Report. Since the Bill had first been published, further provisions of considerable importance had been added. It was certainly desirable to consider wider issues such as the proper place of the company in the modern economy and whether there were lessons to be learned from recent developments in other countries, but this would inevitably be a lengthy process and could not be completed in time to enable a wider Companies Bill to be introduced the following Session. Unless the present Bill were taken in the current Session, there would be no legislation on the more urgent issues relating to companies for some three years; it would, therefore, be desirable to introduce the Bill in the first Session as soon as the Bill on Industrial Development, relating to investment grants, had been completed. Meanwhile, the consideration of a Bill on companies going wider than the Jenkins Report should continue.

The Prime Minister said that discussion of the important issues raised by the President of the Board of Trade could not be completed in the time available for Cabinet discussion that morning. A further meeting should therefore be held early on the following day to enable a decision to be taken before the Debate on the Address.

The Cabinet—

Agreed to resume their discussion on the following day

Cabinet Office, S.W.1,
20th April, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 21st April, 1966, at 9.30 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, M.P., Lord President of the Council
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M.P., Minister without Portfolio
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science
The Right Hon. The EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRANK COUSINS, M.P., Minister of Technology
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. RICHARD MARSH, M.P., Minister of Power

The Right Hon. HERBERT BOWDEN, M.P., Lord President of the Council
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. ARTHUR BOTTOMLEY, M.P., Secretary of State for Commonwealth Relations
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. RICHARD CROSSMAN, M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. FREDERICK LEE, M.P., Secretary of State for the Colonies

Also present:
The Right Hon. EDWARD SHORT, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Miss J. J. Nunn

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1. The Cabinet discussed the arrangements for the Debate on the Address.

2. The Cabinet resumed their consideration of a memorandum by the President of the Board of Trade (C (66) 61) on the Companies Bill.

The Lord President of the Council recalled that in previous discussion of the legislative programme for 1966-67 (CC (66) 18th Conclusions, Minute 4) the Cabinet had decided to add to the programme Bills on Leasehold Reform and on Road Safety, and had asked him to consider the inclusion of the Overseas Aid and Overseas Territories Bills. It had been agreed that the Consumer Protection (Trade Descriptions) Bill and, if possible, the Parliamentary Commissioner Bill should be deferred, but the Companies Bill could not also be added to the programme without deferring yet another substantial measure. No assistance could be looked for from the device of carrying Bills over from one Session to the other, since this could hardly be introduced in relation to Government legislation alone, and it would be embarrassing to preserve Private Members' Bills, including those introduced in pursuance of Resolutions under the Ten-Minute Rule.

In discussion it was suggested that a Labour Government would be expected to legislate early in the life of the Parliament, not merely to implement the numerous recommendations of the Committee on Company Law (the Jenkins Committee) not dealt with in the existing Companies Bill, but also to deal with fundamental questions touching the function of companies in modern society which that Committee had not considered. In particular, the legal requirement that directors must act solely in the interests of their shareholders was incompatible with modern thinking about the responsibility of companies both to the community and to their own employees, and consideration should be given to amendments of the law which would ensure that these interests were taken into account. In view of the need for extensive consultation with professional bodies, it would hardly be possible to prepare a major Bill on these lines in time for introduction in the second Session of the Parliament, and, in view of the volume of other legislation which it would be necessary to introduce in later Sessions, it was arguable that a major Bill on companies should be deferred for some years. It would then be the more important to introduce in the first Session the Bill which was already available and would in itself make a valuable contribution to the modernisation of company law. There were however other useful Bills in the Reserve List for the present Session whose claims ought also to be considered if Parliamentary time became available, including those on Consular Privileges, and the Miscellaneous Health Services and Dangerous Drugs Bills to which the Minister of Health attached importance.
The Prime Minister, summing up the discussion, said that he would consider whether it would be useful to set up a committee of Ministers to examine the proposals for a comprehensive Companies Bill. If it proved possible to have such a Bill ready for introduction early in the 1967-68 Session, this solution was to be preferred, but, if not, consideration should be given to the introduction of a shorter Bill later in the current Session. In the Debate on the Address he would say that the Companies Bill introduced in the last Parliament had necessarily been limited in scope, that work on the subject was continuing, and that, while the Government could not commit themselves at this stage to legislative proposals beyond those mentioned specifically in The Queen’s Speech, consideration would be given to the introduction of a Companies Bill among others which might be brought forward later in the Session if time should permit.

The Cabinet—

(1) Took note that the Prime Minister would consider the desirability of appointing a committee of Ministers to examine the wider proposals for legislation on company law and of the terms in which he proposed to deal with the matter in the Debate on the Address.

(2) Invited the President of the Board of Trade to proceed as rapidly as possible with the preparation of proposals for comprehensive legislation on company law.

(3) Invited the Lord President of the Council to arrange for the Future Legislation Committee to consider, in the light of progress with legislative business and with work on a comprehensive measure, whether it would be possible and desirable for a shorter Companies Bill to be introduced late in the current Session.

Cabinet Office, S.W.1,  
21st April, 1966
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 28th April, 1966, at 10.30 a.m.

Present:
The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. Herbert Bowden, M.P., Lord President of the Council
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Arthur Bottomley, M.P., Secretary of State for Commonwealth Relations (Items 1 and 2)
The Right Hon. William Ross, M.P., Secretary of State for Scotland
The Right Hon. Douglas Jay, M.P., President of the Board of Trade
The Right Hon. The Earl of Longford, Lord Privy Seal
The Right Hon. Frank Cousins, M.P., Minister of Technology
The Right Hon. Barbara Castle, M.P., Minister of Transport
The Right Hon. Frederick Lee, M.P., Secretary of State for the Colonies

The following were also present:
The Right Hon. Kenneth Robinson, M.P., Minister of Health (Item 4)
Mr. Austen Albu, M.P., Minister of State, Department of Economic Affairs (Items 3 and 4)

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Miss J. J. Nunn
Mr. R. T. Armstrong

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

*2. The Prime Minister said that early in the previous week a message had been received from the Governor of Rhodesia that Mr. Smith, the leader of the illegal régime, wished to hold talks with the United Kingdom Government. At that time his Private Secretary, Mr. Wright, was on his way to South Africa to assist our Ambassador in representations which he was making to the South African Government regarding oil sanctions against Rhodesia. Mr. Wright had been instructed to leave the aircraft at Salisbury for discussions with the Governor before going on to Pretoria. As a result of his report on his talks with the Governor, he was instructed to return to Salisbury on Friday, 22nd April, and the Governor had then arranged a meeting between Mr. Wright, Mr. Hennings, Her Majesty's Government's Representative in Salisbury, and Mr. Smith. A further talk had been held leading to agreed arrangements for informal talks: these were directed only to seeing whether a basis for negotiations genuinely existed. The talks would be without commitment on either side and in view of the obvious need to avoid their being prejudiced by publicity, the utmost secrecy must be observed regarding their course.

It appeared that our sanctions were having a greater effect in Rhodesia than public opinion had recently been inclined to suppose and there had been some increase in unemployment among Europeans and some emigration by them to South Africa. The outcome of our action in stopping further tankers going to Beira with oil for Rhodesia had clearly been a severe shock to the illegal régime, which had also been influenced by the unwillingness of the South African and Portuguese Governments to give them full support in evading our economic and financial sanctions. There was some evidence of a split amongst the members of the régime and it appeared that they now realised that they could not be successful in obtaining a tacit acceptance of the illegal declaration of independence by sufficient countries to enable the country to maintain its economic progress. The most extreme members of the régime might, however, be prepared to accept a much lower standard of economic prosperity as a condition of maintaining their independence and it was possible that they might seek to oust Mr. Smith and his less extreme colleagues. On the other hand the imposition of sanctions had rallied the general body of Europeans, including the moderates who had opposed the illegal declaration of independence, in support of Mr. Smith. No doubt in consequence of this position Mr. Smith was unwilling to agree that it should be publicly known that the initiative for these talks came from him. We had in consequence
accepted that the public announcement of the talks should not reveal this point, though no doubt it would be known in due course: and it was important to our interests that Mr. Smith should not now be repudiated by popular opinion amongst the Europeans. If, however, he were later ousted by the most extreme members of the régime, the situation which would then arise might allow us greater latitude of action.

It would be imprudent at this stage to count on a successful outcome of the talks, which must of course be based on the firm maintenance of the six principles which the United Kingdom Government had laid down as a condition of a settlement in Rhodesia. It was therefore all the more important that our sanctions should be continued, and wherever possible strengthened, in the expectation that they would produce steadily increasing pressure on the illegal régime to accept our conditions.

In discussion, concern was expressed that in the absence of any public statement that the initiative for the talks came from Mr. Smith, there would be widespread misunderstanding, both in the United Kingdom itself and particularly amongst African countries, that the United Kingdom Government had changed their policy. From this point of view it would be preferable to let it be known that the initiative had been taken by Mr. Smith. It would also be desirable to make it clear that the visit to Salisbury the previous month of Mr. Duncan Watson of the Commonwealth Relations Office had been concerned with the position of the Governor and of Her Majesty's Government's Representative in Rhodesia and that Mr. Watson had only been authorised to be the recipient of any approach from Mr. Smith and not to hold talks with him. There was, moreover, some danger that the informal talks which had now been agreed might imperceptibly develop into formal negotiations which would, contrary to the Government's policy, involve a recognition of the illegal régime. It was, however, the general view that despite these admitted dangers, this new development was to be welcomed and represented a success for the policy the Government had pursued. In continuing the informal talks, it would be impracticable to declare publicly at every stage the Government's position on all points in a manner which would avoid misunderstanding by African countries: it was the eventual outcome which mattered and the maintenance of the necessary secrecy would be justified by success, though meanwhile it was clearly of the utmost importance that all practicable steps should be taken to avoid misunderstandings. Arrangements had already been made for Commonwealth Governments to be informed of the position; and particular importance attached to the discussions which would be held with President Kaunda of Zambia by the United Kingdom Special Commissioner in Central and East Africa (Mr. Malcolm MacDonald) on his return from the United Kingdom in the course of the next few days. Consideration was also being given to the possibility of the Commonwealth Secretary visiting some of the most important African capitals for discussions with leading African figures.
The handling of the day-to-day tactics in the forthcoming talks would necessarily be the responsibility of the Ministers most immediately concerned; but any issues of principle would be a matter for discussion in the Cabinet itself. The United Kingdom Government would, of course, maintain the six principles which they had laid down for accepting a settlement in Rhodesia; and there could be no recognition of the illegal régime or of the independence which it claimed. In considering the implications of the six principles it was suggested that it should be borne in mind that these had been laid down before the illegal declaration of independence and that the present situation might enable the Government to ensure greater participation by Africans in the Government of Rhodesia. It was recognised, however, that the dissension between Mr. Nkomo and the Reverend Sithole, the leaders of the rival African parties, would inevitably complicate the question of such participation.

It was also recognised that, while sanctions were imposing a steadily increasing pressure on the illegal régime, a number of the most extreme members of that régime would nevertheless be prepared to accept this rather than surrender their independence. Regard must also be had to the unwelcome strain which sanctions imposed on the United Kingdom economy and particularly on our balance of payments and to the continuing risk of major damage to our position which would be caused if copper supplies from Zambia were cut off or heavily curtailed.

The Prime Minister, summing up the discussion, said that the Ministers immediately concerned would be responsible for the tactical handling of the forthcoming talks but issues of principle would, as necessary, be considered by the Cabinet. In the course of these talks there might be from time to time public misunderstandings of the position of the United Kingdom Government; but the risk of these must be accepted and would be more than justified by a successful outcome. Meanwhile, that success must not be prejudiced by premature disclosures.

The Cabinet—

Took note with approval, of the Prime Minister's statement.

3. The Cabinet had before them memoranda by the Chancellor of the Exchequer (C (66) 66) and the Minister of Pensions and National Insurance (C (66) 65) on the timing of the introduction of the Ministry of Social Security Bill, the level of benefits to be paid under it, and the announcement that the new rates of benefit would be financed partly by limiting the increase in national insurance benefits due to take place in 1967.

The Chancellor of the Exchequer said that under the timetable for the Bill as at present intended its introduction would coincide with the Budget. It would be embarrassing, however, to have to
take account in the Budget of the additional expenditure of £26 million in the current year arising from the Bill, and it was therefore important that it should not be introduced until about the end of May. If its introduction were postponed the other problems discussed in the memoranda before the Cabinet could be left for further inter-Ministerial discussion.

The Lord President said that the proposed timetable was based on the necessity to secure Royal Assent before the Summer Recess. The publication of the Bill could be deferred until 4th May if the Opposition were prepared to agree to the curtailment of the timetable for consideration in Standing Committee, but further postponement would necessitate confining the Whitsun Recess to one week and taking the Committee Stage of the Bill on the floor of the House immediately after Parliament reassembled.

The Minister of Pensions and National Insurance said that it was proposed to bring the new benefits into operation during the last week in November. An interval of 16 weeks was required after Royal Assent to allow for the reassessment of some 2 million existing beneficiaries and the issue to them of order books bearing the new rates, and for the initial assessment of the persons who, it was hoped, would for the first time accept benefit under the new scheme. The programme had been very carefully considered and there did not seem to be any way of reducing the period required for this work.

In discussion it was agreed that it was essential that the new rates should be paid in November, but it was suggested that it would not be improper for the administrative processes to be put in hand in anticipation of the passage of the Bill once it had received a Third Reading in the House of Commons. It would be possible for the Bill to be introduced immediately before Whitsun, to receive Third Reading in the House of Commons before the Summer Recess, and to pass through the House of Lords in the autumn in time to receive Royal Assent by the third week in November. It might be feasible, if it seemed desirable on grounds of propriety, for orders bearing the new rates of benefit to be issued as the old books came up for renewal, but in separate books from those covering the period up to the change in the benefit. It would not be right to spend public money before Royal Assent on advertisements designed to attract new beneficiaries, but it should not be impossible to obtain enough publicity for the scheme through, for example, newspaper and television interviews to ensure that those concerned were made aware that they should come forward. Considerations should be given by the appropriate officers of the Ministry of Pensions and National Insurance and of the Treasury to means of reducing the risk of criticism by the Public Accounts Committee. Political criticism could to some extent be disarmed if the Minister of Pensions and National Insurance announced on Third Reading in the House of Commons that, in order to avoid delay in bringing the benefits approved by the House into payment, the necessary administrative work would be carried on during the Recess.
The Prime Minister, summing up the discussion, said that the Cabinet were agreed on the importance both of bringing the new benefits into payment by the end of November and of avoiding the publication of the Ministry of Social Security Bill at a time when it would be embarrassing to the Chancellor of the Exchequer. They did not in principle, however, see impropriety in the necessary administrative work being undertaken as soon as the Bill had been approved by the House of Commons, provided that no money was paid out in pursuance of the Bill before Royal Assent, either to beneficiaries or in advertising the new scheme. Urgent consideration should therefore be given by the Accounting Officers of the Ministry of Pensions and National Insurance and of the Treasury to the possibility of proceeding with the administrative arrangements as soon as the Bill had received Third Reading in the House of Commons, which could be secured before the Summer Recess, and to any steps which might be necessary to avoid constitutional impropriety. It might be necessary, for example, to obtain a special resolution of the House of Commons. The outcome of this further consideration should be reported to the Cabinet in the following week.

The Cabinet—

(1) Agreed that the introduction of the Ministry of Social Security Bill should be postponed so as not to coincide with that of the Budget.

(2) Invited the Minister of Pensions and National Insurance, in consultation with the Chancellor of the Exchequer, to arrange for the urgent consideration by officials of the possibility of undertaking, during the interval between the Third Reading of the Bill in the House of Commons and the receipt of Royal Assent, the administrative work necessary to bring the new scheme into operation in the last week in November and to report to the Cabinet in the following week on any special steps which were considered necessary.

(3) Invited the Chancellor of the Exchequer to consider further, in consultation with the Minister of Pensions and National Insurance, the questions concerning the level of benefits under the Bill and the statement on cost raised in C (66) 66.

4. The Cabinet considered memoranda by the Secretary of State for Scotland and the Minister of Health (C (66) 62) and by the First Secretary of State and Secretary of State for Economic Affairs and the Chancellor of the Exchequer (C (66) 64) on the remuneration of doctors and dentists in the National Health Service.

The Minister of Health said that the Review Body on Doctors' and Dentists' Remuneration had made recommendations to the Prime Minister on the remuneration of doctors and dentists in the National Health Service.
National Health Service for the two years beginning 1st April, 1966. The total cost of the increases recommended was estimated at about £35 million, of which about £24 million was accounted for by increases to general medical practitioners. The Review Body had emphasised the difficulties of adopting comparability as a basis for settling doctors’ and dentists’ remuneration but had paid considerable attention to the losses of doctors from the junior ranks of the hospital service and from general practice, and to the increase in the workload, particularly of general practitioners.

The recommendations on hospital medical staff and on general dental practitioners could be regarded as broadly acceptable. The recommendations for general medical practitioners, however, involved an increase of some 25 per cent in the estimated collective net income, plus additional payments for aspects of general practice not previously recognised which would raise the average increase in net income to over 30 per cent.

He recognised the difficulty of accepting these recommendations for general medical practitioners in the present economic situation, both because of the implications for incomes policy and because of the cost. In his view, however, there were conclusive reasons for accepting the recommendations in full. They came as the climax of a period of 12 months’ unrest among general practitioners, beginning with the fierce protests at the Review Body’s Fifth Report, the presentation of the Charter for the Family Doctor Service and the sending in of undated notices of resignation, still in existence, from over 80 per cent of family doctors. In that situation the Cabinet had decided that no more money could be paid to the doctors before the completion of the Review Body’s general review early in 1966. The profession had with difficulty been persuaded to limit the scope of direct negotiations with the Government to methods of payment and conditions of service, and to leave levels of payment for consideration by the Review Body. It had only been possible to achieve this by constant reference to the independent position of the Review Body and the weight which any Government must attach to their views. In a letter dated 16th March, 1965, the terms of which had been agreed by the Cabinet, he had told the profession that he could not accept new levels of remuneration except on the recommendation of the Review Body. Against this background any tampering with the Review Body’s recommendations would be regarded by the profession as a breach of faith; it was likely to unite them in opposition to the Government, in circumstances where public sympathy would be on the side of the doctors rather than on the side of the Government. At least there would be a grave deterioration of relations between the Government and the profession, which had lately shown signs of beginning to improve. Any modification of the recommendations carried with it the risk that the great majority of family doctors would leave the National Health Service; the greater the modification, the greater the risk, while a modification insignificant enough not to carry too great a risk of mass resignation would be unlikely to achieve a worthwhile saving of cost or reduction of embarrassment. Doctors who resigned from the National Health
Service would mostly be able to carry on, sometimes perhaps earning more than under the National Health Service, by means of private practice and privately organised insurance schemes which had been developed to an advanced state of readiness. The consequences of mass resignation would be very serious:

(i) The Exchequer would immediately be liable to repay doctors' superannuation contributions and to pay compensation for loss of goodwill to doctors who resigned; these payments could cost from £60 million to £100 million.

(ii) It would cost the Exchequer at least as much as the Review Body's recommendations, and probably more, to bring the doctors back into the National Health Service once they had gone out.

(iii) In the meantime the Government would find themselves forced into reimbursing doctors' fees for private treatment and costs of drugs for less well-off patients, without having any control over the levels of fees charged.

(iv) It would be difficult, if not impossible, to revive general practice in the National Health Service.

Unless the Government were prepared to face the prospect of destroying the National Health Service, the Review Body's recommendations should be accepted in full.

The Chancellor of the Exchequer said that the First Secretary of State and he did not wish to press that the Government should modify the details of the Review Body's recommendations; but to implement forthwith a pay increase of some 30 per cent for general medical practitioners would destroy the Government's chance of persuading trade unionists to believe that the Government were serious in their pursuit of an incomes policy and in their statements about the economic consequences of large increases in remuneration this year; nor could the high cost to the Exchequer of implementing the recommendations be ignored. The First Secretary and he therefore proposed that the recommendations should be accepted as they stood but that the increased payments to medical practitioners should be implemented in two stages, the first from 1st April, 1966, and the second from 1st April, 1967. He believed that in present economic circumstances public opinion would consider that this represented fair and generous treatment of the doctors, who would forfeit their claim to public sympathy if, in these circumstances, they were so undisciplined as to take the extreme action of resigning from the National Health Service.

In discussion it was pointed out that the Cabinet were being asked to take a decision on this question without having reviewed and agreed their general policy on the machinery for dealing with the remuneration of public servants whose pay had hitherto been
determined by independent review at infrequent intervals. It was urgent that this should be done, but meanwhile to override the recommendations of the Review Body would call in question the whole position of other such bodies and of normal arbitration machinery in relation to incomes policy. It had to be remembered that there was a degree of retrospective adjustment involved in the recommendations. The Review Body had made it clear that they had heard evidence from the Department of Economic Affairs on the bearing of incomes policy, and had stated that their recommendations were in their view consistent with the principles of the policy. Whatever the argument for appealing for moderation in the growth of higher incomes, it was difficult to justify a decision not to accept the Review Body’s recommendations after having accepted both those of the Franks Committee on Higher Civil Service pay and the increases for the Armed Forces, especially in view of the potential consequences to the National Health Service.

On the other hand it was argued that acceptance in full would have most serious consequences for the Government’s attempts to establish the principles of incomes policy in the trade union field; and in particular on some of the negotiations now in progress. It would certainly lead the university teachers to demand the appointment of a review body to deal with their remuneration, and it would make the schoolteachers more militant in pursuing the large claims they were preparing.

In further discussion the following points were made:

(a) If a decision were taken to adopt the proposal of the First Secretary of State and the Chancellor of the Exchequer, it might be desirable for the Prime Minister to summon the representatives of the doctors to explain the Government’s position and seek their understanding. On the other hand this might not be advantageous, since the decision would in practice be taken not by the leaders of the profession but by a ballot of doctors and by large representative meetings which would not be amenable to influence of this kind.

(b) It was suggested that a possible course might be to refer the Review Body’s report to the National Board for Prices and Incomes. This would be consistent with what had been done in the case of the Franks Report on Higher Civil Service Pay. This might, however, provoke no less serious consequences than the course proposed by the Chancellor of the Exchequer, unless the Government were to commit themselves in advance (as they had done in no other case) to accept the findings of the Board. This course would in effect take the decision out of the hands of the Government; and in any event it would be mistaken to send the report to the Board unless the Government were prepared to implement the Review Body’s recommendations if the Board approved them.

(c) If the Government were to phase the implementation of the report in the manner proposed by the First Secretary of State and the Chancellor of the Exchequer, it would be inappropriate at the
same time to canvass with the profession the possibility of changing the Review Body’s terms of reference in order to associate them more closely with incomes policy. It would, however, be desirable in any public announcement to emphasise that the Review Body had taken consideration of incomes policy into account in formulating their recommendations.

The Prime Minister, summing up the discussion, said that on balance the view of the Cabinet was that the Government should accept the recommendations of the Review Body on levels of pay for doctors and dentists in the National Health Service but should implement the increased payments to medical practitioners in two stages, one-half from 1st April, 1966, and the other half from 1st April, 1967. It should be emphasised that the Government were accepting the Review Body’s figures for general medical practitioners (as well as for hospital medical staff and general dental practitioners) but considered that, in the light of overriding economic considerations, the increases for medical practitioners should be paid in two stages. While he would himself convey the Government’s decision to Lord Kindersley (the Chairman of the Review Body), the Minister of Health, in consultation with the First Secretary of State, the Chancellor of the Exchequer and the Secretary of State for Scotland, should consider further the precise way in which this decision should be implemented, and the timing and presentation of a public announcement, including the question whether it would be desirable for him also to see representatives of the doctors before an announcement was made. The First Secretary of State should also prepare for consideration by the Cabinet proposals on the future status and functions of independent review bodies in relation to the Government’s policy on prices and incomes.

The Cabinet—

(1) Agreed that the recommendations of the Review Body on the remuneration of doctors and dentists should be accepted, save that the increases for general medical practitioners should be implemented in two stages, half from 1st April, 1966, and the other half from 1st April, 1967.

(2) Invited the Minister of Health, in consultation with the First Secretary of State, the Chancellor of the Exchequer and the Secretary of State for Scotland, to consider further the way in which this decision on phasing the increases for general medical practitioners should be implemented, the future handling of the situation as a result of the decision, and the timing and presentation of a public announcement.

(3) Took note that the Prime Minister would convey the Government’s decision to the Chairman of the Review Body before any public announcement was made.
(4) Invited the First Secretary of State to prepare for consideration by the Cabinet proposals on the future status and functions of independent review bodies in relation to the Government's policy on prices and incomes.

Cabinet Office, S.W.1,

28th April, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Monday, 2nd May, 1966, at 11 a.m.

Present:

The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. George Brown, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. Lord Gardiner, Lord Chancellor
The Right Hon. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. Douglas Houghton, M.P., Minister without Portfolio
The Right Hon. Anthony Greenwood, M.P., Minister of Overseas Development
The Right Hon. Richard Crossman, M.P., Minister of Housing and Local Government
The Right Hon. R. J. Gunter, M.P., Minister of Labour
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Cledwyn Hughes, M.P., Secretary of State for Wales

The Right Hon. Herbert Bowden, M.P., Lord President of the Council
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Arthur Bottomley, M.P., Secretary of State for Commonwealth Relations
The Right Hon. William Ross, M.P., Secretary of State for Scotland
The Right Hon. Douglas Jay, M.P., President of the Board of Trade
The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science
The Right Hon. The Earl of Longford, Lord Privy Seal
The Right Hon. Frank Cousins, M.P., Minister of Technology
The Right Hon. Barbara Castle, M.P., Minister of Transport
The Right Hon. Richard Marsh, M.P., Minister of Power
The Right Hon. Frederick Lee, M.P., Secretary of State for the Colonies

Also present:

The Right Hon. Edward Short, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir Burke Trend
Mr. W. A. Nield
The Chancellor of the Exchequer communicated to the Cabinet particulars of the proposals in the forthcoming Budget.

In accordance with precedent details are not recorded in the Cabinet Conclusions.

Cabinet Office, S.W.1.
9th May, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 5th May, 1966,
at 10.30 a.m.

Present:

The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. HERBERT BOWDEN, M.P., Lord President of the Council
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. ARTHUR BOTTOMLEY, M.P., Secretary of State for Commonwealth Relations
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS IAY, M.P., President of the Board of Trade

The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRANK COUSINS, M.P., Minister of Technology
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport

The Right Hon. LORD CARDINER, Lord Chancellor
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M.P., Minister without Portfolio
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Overseas Development
The Right Hon. RICHARD CROSSMAN, M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWYN HUGHES, M.P., Secretary of State for Wales

The Right Hon. RICHARD MARSH, M.P., Minister of Power

The following were also present:

The Right Hon. KENNETH ROBINSON, M.P., Minister of Health (Item 4)
Mr. AUSTEN ALBU, M.P., Minister of State, Department of Economic Affairs (Items 3 and 4)

The Right Hon. MARGARET HERBISON, M.P., Minister of Pensions and National Insurance (Item 3)
Mrs. EIRENE WHITE, M.P., Minister of State for Foreign Affairs (Item 2)

The Right Hon. EDWARD SHORT, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Miss J. J. NUNN

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Oversea Affairs
North Atlantic
Treaty
Organisation (NATO)
(Previous Reference: CC (66) 17th Conclusions, Minute 5)
Rhodesia
(Previous Reference: CC (66) 21st Conclusions, Minute 2)

Social Services
Ministry of Social Security Bill:
Administrative Arrangements
(Previous Reference: CC (66) 21st Conclusions, Minute 3)

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

2. The Minister of State for Foreign Affairs (Mrs. White) said that there were some indications of concern in France at the reactions of the other NATO Powers to the French Government's announcement of their intention to withdraw from NATO.

The Prime Minister said that there had been no developments since the last meeting of the Cabinet: we were still awaiting the arrival of the Rhodesian officials to participate in the talks. Meanwhile, it had been ascertained that President Kenyatta of Kenya, Dr. Obote of Uganda, President Nyerere of Tanzania and Dr. Banda, the Prime Minister of Malawi, accepted the expediency of our agreement to have these talks. President Kaunda of Zambia was, however, still perturbed about them and it might be desirable for the Commonwealth Secretary to visit Zambia for discussions with him. There had been general concern among African countries that no Africans would be associated with the talks and it might be appropriate to consider this aspect further after the discussions with President Kaunda. In the meantime, it was also clear that, since the announcement that the talks would be held, further pressure had been brought to bear on Mr. Smith, the leader of the illegal régime, by the most extreme members of the Rhodesia Front. For our part the less that was said publicly about the talks at this stage the better.

The Minister of State for Foreign Affairs (Mrs. White) said that we were seeking to avoid a meeting of the Security Council at the present juncture to discuss Rhodesia, but the prospect of success was uncertain.

The Cabinet—

Took note of these statements by the Prime Minister and the Minister of State for Foreign Affairs.

3. The Cabinet considered a memorandum by the Minister of Pensions and National Insurance (CC (66) 67) on the administrative arrangements necessary to implement the Ministry of Social Security Bill.

The Minister of Pensions and National Insurance recalled that the Cabinet had asked her on 28th April to consider the possibility of undertaking, between the Third Reading of the Ministry of Social Security Bill in the House of Commons in July and Royal Assent...
in November, the administrative arrangements necessary to bring the new non-contributory benefits into operation by the last week in November. She had found that operationally such a programme was possible, though not without some risk of breakdown, provided that the appointed day for the payment of the new benefits were deferred until 12th December; but she was dismayed by the effect which inability to secure Royal Assent before the Summer Recess would have on the presentation of the new scheme. The Bill was designed to make the new supplementary benefits more acceptable than national assistance, particularly to the 700,000 old people who had been shown by the Survey, which had been made of the circumstances of retirement pensioners and which was shortly to be published, to be eligible for assistance, but to be unwilling to apply for it. The new arrangements would also provide an answer to the growing demand for pensions for those old people who were not eligible for pensions under the existing national insurance scheme. If the proposals were to achieve their effect it was essential that the new Ministry should be introduced by a vigorous publicity campaign, and that the assessment of the new benefits should be undertaken by the Supplementary Benefits Commission. If Royal Assent were not obtained before the Summer Recess, however, the publicity would be much circumscribed and the assessments would have to be made by National Assistance Board Officers acting as such. It might also be necessary to postpone the introduction of a system of written claims and the pilot scheme for combined order books, both of which were valuable features of the new proposals.

The Lord President said that it would now be necessary to pass before the Summer Recess the Bill to be introduced by the Minister of Labour for the repayment to manufacturing industry of the sums collected through the selective employment tax. The Ministry of Social Security Bill could be passed in addition to this only if the Government were prepared to defer until the autumn the Second Reading of four important Bills—Iron and Steel, Prices and Incomes, Housing Subsidies and Industrial Reorganisation Corporation. If Parliament sat until 5th August it might be possible to take the Second Reading of some of these Bills, but it would not in any event be possible for them to begin their Committee Stage until the autumn because the Standing Committees were fully occupied on other urgent measures.

In discussion it was pointed out that, in these circumstances, to give the Bills a Second Reading before the Recess would not result in their receiving Royal Assent any earlier. There would therefore be no purpose in requiring Parliament to sit during the first week in August, and there was considerable disadvantage in doing so in view of the number of young Members who would wish to be with their families during the school holidays. Moreover, the Government had hoped that, with a substantial majority, it would be possible to avoid subjecting the present Parliament to the pressure under which its predecessor had worked; but the programme now contemplated would preclude any relief before the Summer Recess. There was general agreement, however, that it would be desirable
to secure the passage of the Ministry of Social Security Bill before the Recess even if this necessitated sitting until 5th August.

In discussion of the timetable for particular Bills the following principal points were made:

(a) The Ministerial Committee on Iron and Steel Nationalisation had considered it important to obtain the Second Reading of the Iron and Steel Bill as soon as possible in order to remove uncertainty within the industry and to demonstrate that the Government were determined to proceed with nationalisation. It would not be necessary for this purpose to have the Bill considered in Committee before the Summer Recess. On the other hand, the matters remitted to the Ministerial Committee on Iron and Steel Nationalisation on 7th April (CC (66) 18th Conclusions, Minute 4) had still to be brought back to the Cabinet. While, therefore, the Parliamentary programme would permit Second Reading before Whitsun, it might be desirable to introduce the Bill shortly after Whitsun and to take Second Reading before the Summer Recess.

(b) If it were found possible to include the new mortgage scheme for house purchasers in the Housing Subsidies Bill, it would be desirable that that Bill should receive a Second Reading before the Summer Recess so that persons wishing to buy houses would know what help they might expect. It might, however, be necessary to deal with mortgages in a separate Bill.

(c) It was desirable that the Industrial Reorganisation Corporation should start work during the Summer Recess but this would not necessitate the passage of the Bill since, once it had received a Second Reading, the members of the Corporation could begin informal negotiations with industry. No question of spending money would arise for some months thereafter.

(d) If the Iron and Steel, the Industrial Reorganisation Corporation and the Ministry of Social Security Bills were to be introduced before the long Recess, it would be important to make some progress with the Prices and Incomes Bill also, in order to reduce the risk of a weakening of confidence in sterling during the summer. On the other hand, to introduce the Bill some time before it could be passed might give an impression of indecision, and it was arguable that its introduction should be deferred until the autumn, when public opinion might possibly be more willing to accept the Bill. Some time must be allowed, however, for the further consultation to which the Government was pledged and for the consideration of the form of the Bill by the Cabinet, and a decision on timing could best be taken at that stage.

The Prime Minister, summing up the discussion, said that the Cabinet were agreed that arrangements should be made for the Ministry of Social Security Bill to be passed through all its stages before the Summer Recess. They recognised that, in view of the need to make progress with other Bills, this would mean asking Parliament to sit until 5th August and accepting a timetable which would leave little room for the debates, for which there might be a demand, on foreign policy or Rhodesia. Urgent consideration should
be given by the Ministers concerned to the compensation provisions of the Iron and Steel Bill, and it would be necessary for the Cabinet to consider the points remitted to the Ministerial Committee on 7th April. A convenient course might be to introduce the Bill shortly after Whitsun. He would consider with the First Secretary of State, in the light of their discussion, the timing of the Prices and Incomes Bill with a view to a Second Reading before the Summer Recess. The Bill might also need to be brought back to the Cabinet. The Industrial Reorganisation Corporation Bill should be given a Second Reading before the Summer Recess in order that members of the Corporation might begin work informally.

The Cabinet—

(1) Invited the Lord President of the Council to make the necessary arrangements to secure that Parliament should sit until 5th August, and to give further consideration to the Parliamentary timetable with a view to ensuring that the Iron and Steel Bill, the Prices and Incomes Bill, and the Industrial Reorganisation Corporation Bill received a Second Reading, and the Ministry of Social Security Bill be passed through all it stages, before the Summer Recess.

(2) Took note that the Prime Minister would consult the First Secretary of State on the timing of the Prices and Incomes Bill.

(3) Agreed to consider outstanding questions of policy and timing on the Iron and Steel and Prices and Incomes Bills at later meetings.

4. The Cabinet considered a memorandum by the Secretary of State for Scotland and the Minister of Housing and Local Government (C (66) 68) on the terms of reference and organisation of the proposed Royal Commissions on local government organisation.

The Minister of Housing and Local Government said that the Secretary of State for Scotland and he proposed the following terms of reference for each Commission:

"To consider the structure of Local Government (outside Greater London) (England only) in relation to its existing functions: and to make recommendations for authorities and boundaries and for functions, having regard to the size and character of areas in which these can be most effectively exercised and the need to sustain a viable system of local democracy."

It would be wrong to charge the Commissions with a full study of the distribution of functions between central and local government, since this would be a lengthy task which would divert them from their main one of revising the structure, but the terms of reference proposed would not debar them from considering some changes. The possibility should not be excluded that the Commissions might
suitably consider whether the structure of local government could conveniently accommodate some function not at present discharged by local government or alternatively whether some function might not be transferred from local to central government. It was, however, desirable that they should only embark on the examination of such questions after consultation with the Government and this could best be secured by an exchange of letters between the Chairmen and the Ministers concerned, setting out an understanding that the extent to which the Commissions should concern themselves with examining the distribution of functions between central and local government would be a matter for consultation. It had been ascertained that the proposed terms of reference would be acceptable to the Chairmen designate.

To enable the English Commission to make rapid progress it would need to be able to commission studies on a wide variety of subjects and for this purpose it was proposed to make available to it a research organisation supported by specialist staff from the Ministry of Housing and Local Government.

Concern had been expressed to him by the First Secretary of State at the exclusion of Greater London from the terms of reference of the English Commission, on the ground that there should be no suggestion that the pattern adopted in Greater London was inviolable and that the Commission should not be prevented from proposing an enlargement of the area if they thought it right to do so. The First Secretary of State had also expressed the view that the Commissions should be enjoined to report in not more than 18 months, since otherwise it might be impracticable to legislate on this contentious issue save in the last full session of the present Parliament. If this course were adopted, it might be necessary to pay the Chairmen and members to enable them to devote themselves full time to these questions.

His own view was, however, that it would be preferable specifically to exclude Greater London from the purview of the English Commission, in view of the need to avoid any suggestion that it might be the subject of a further review so soon after the major reorganisation which had recently been carried out. It would, however, be made clear to the Chairman of the Commission that it was open to the Commission to consider changes in the boundaries of Greater London if they thought fit and also that the structural pattern adopted there should not necessarily be regarded as one appropriate for the rest of England. This would meet the first point raised by the First Secretary of State. There would, however, be grave difficulty in enjoining the Commissions to report in a period of 18 months. The task before them was most formidable and, even if the Commissions were to work full time, it seemed doubtful whether it could be completed in less than two years. The length, complexity and political sensitivity of the issues involved might then make it desirable to consider postponing legislation until the first session of the succeeding Parliament, but this could only be determined in the light of the Commissions’ reports.

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In discussion there was general agreement that Greater London should be excluded from the terms of reference of the English Commission, subject to the understanding proposed by the Minister of Housing and also that the Commissions should not be enjoined to report within a period of 18 months. There was also general agreement that the concern of the Commissions with the division of functions between central and local government should be restricted as proposed. It would, however, be necessary for the Commissions to be completely free to propose a redistribution of functions as between local authorities themselves and this might be made clearer by amending the relevant part of the terms of reference to read: "To make recommendations for authorities and boundaries and for functions and their division."

The following points were also made:

(a) The term "a viable system of local democracy" was intended, and would be so interpreted by the Chairmen designate, as enabling the Commissions to have regard to possible changes in the system of local government finance in relation to its structure.

(b) There would be advantage in the specialist staff available to assist the English Commission being drawn partly from the Ministry of Transport.

In further discussion there was general agreement that there should be no change in the principle that members of Royal Commissions should not receive payment. There was, however, frequently need for such Commissions to be assisted by independent staff who might need to be paid full time for their services and to this end there might be advantage in reviving the practice of appointing paid Assistant Commissioners. If, on further consideration, this practice were approved, it might be applied in respect of the Royal Commissions in question.

The Cabinet—

(1) Agreed with the terms of reference proposed in C(66)68, subject to the amendment agreed in discussion.

(2) Took note that the Prime Minister would in the light of their discussion submit to The Queen proposals for the composition and terms of reference of Royal Commissions on the Reorganisation of Local Government in England and in Scotland.

(3) Invited the Minister of Housing and Local Government, in consultation with the Minister of Transport, to consider the appointment of specialist staff from the Ministry of Transport to assist the English Royal Commission.

(4) Invited the Chancellor of the Exchequer to consider in the light of the discussion the desirability of reviving the practice of appointing paid Assistant Commissioners to Royal Commissions.

Cabinet Office, S.W.1.
5th May, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 12th May, 1966, at 10.30 a.m.

Present:

The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. HERBERT BOWDEN, M.P., Lord President of the Council
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M.P., Minister without Portfolio
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRID PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLEIDWYN HUGHES, M.P., Secretary of State for Wales

The Right Hon. RICHARD MARSH, M.P., Minister of Power

The following were also present:

Mr. AUSTEN ALBIE, M.P., Minister of State, Department of Economic Affairs (Item 3)
Mr. GEORGE DARLING, M.P., Minister of State, Board of Trade (Item 3)

The Right Hon. EDWARD SHORT, M.P., Parliamentary Secretary, Treasury

Secretariat:

Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield

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

2. The Foreign Secretary said that he and the Chancellor of the Duchy of Lancaster had had a number of consultations with representatives of NATO Governments in preparation for a meeting of the NATO Council in Brussels on 6th June to consider the measures to be taken in the light of the French declaration of their intention to withdraw from the Organisation. Our first aim must be to carry out the most effective and economical re-organisation of the Alliance, leaving it open to France to participate on mutually acceptable terms, but being prepared to carry on without France if this proved necessary. The discussions had been complicated by an excessive desire on the part of some members of the Alliance to placate the French and by a tendency on the part of others to seek to discuss at too early a stage complicated issues which could well be left for later settlement. One major problem would be whether or not the Council should move from Paris and we must seek to avoid the Council, the Military Committee and Supreme Headquarters Allied Powers in Europe being located in three different places.

The Prime Minister said that it appeared from his recent discussion with the United States Ambassador that it was unlikely that the United States Government would be concerned to pursue the problem of nuclear sharing until agreement had been reached on the major problems of the reorganisation of the Alliance.

The Foreign Secretary said that the Government of the People's Republic of China claimed that the third nuclear test which they had just carried out had been a thermo-nuclear explosion. Evidence would shortly be available on which this claim could be assessed. The reaction of the Indian Government to the test had been sharp, but the Indian Prime Minister, Mrs. Ghandi, appeared at present to be determined that the Indians should not develop their own nuclear bomb. Nevertheless, the Indian attitude in future would be affected by the extent to which guarantees of security against nuclear attack could be given to non-nuclear Powers by the nuclear Powers as part of an agreement that the former would not develop their own nuclear weapons. Otherwise, the Chinese test did not greatly affect the course of discussions on a comprehensive test ban or on the non-proliferation of nuclear weapons. We must bear in mind that the French Government would shortly be carrying out a series of nuclear tests and the terms of our public statement on these and on the Chinese test should be in broadly similar terms.

The Foreign Secretary said that some indications had been received from the Indonesian Government of the goods which they wished to obtain with the £1 million grant which we had recently made to them: it appeared that for the most part these goods could be supplied by United Kingdom industry. The Indonesian
Government still adhered in public to their policy of confrontation but there had been a number of private exchanges of view between their representatives and those of other countries in an endeavour to seek a face-saving formula which would enable confrontation to be brought to an end; unfortunately, so far no formula had been found which would be acceptable both to the Malaysian and to the Indonesian Governments.

The Foreign Secretary said that the Security Council might meet the following day, or more probably early in the following week. The African States had prepared a draft resolution for tabling at the meeting; it was at present in terms which included the mandatory use of force and was quite unacceptable to us, but it was doubtful if it could obtain the nine votes which were necessary to make it effective under the provisions of the Charter. Our aim in the discussions should be to avoid the taking of a vote on the resolution and to seek a consensus merely that the item of Rhodesia should remain on the agenda.

In discussion it was urged that we should not use our power of veto in any circumstances to defeat a resolution on Rhodesia, but it was generally recognised that we could not accept a resolution which made it mandatory for us to use force to bring the rebellion to an end. Furthermore, we must have full regard to the effect on the position of Zambia and also on United Kingdom copper supplies even of a mandatory resolution confined to economic sanctions. There was general agreement that we must lose no opportunity of continuing to make clear our policy on Rhodesia, that our agreement to informal talks implied no condonation of the illegal declaration of independence and that we would maintain the six principles which we had laid down as a basis for a settlement. One difficulty in dealing with the views of African Governments was that, whereas the Heads of State were for the most part responsible in their attitude to the problem and understanding of the difficulties which affected both Zambia and ourselves, their representatives, whether at the United Nations or in London, were sometimes much more extreme. If there were to be a meeting of Commonwealth Prime Ministers in the course of the year it would be important to us that it should be attended by the Prime Ministers or Heads of State themselves.

The Prime Minister said that the informal talks had begun between United Kingdom and Rhodesian officials. While the latter clearly had been given little discretion by the leaders of the illegal régime, there were nevertheless indications that, no doubt in consequence of the effect of our economic sanctions, they were now prepared to be less intransigent and to envisage the prospect of majority rule. For our part, we should continue to emphasise that our concern in these talks was to find a way to restore constitutional rule and to ascertain whether or not a basis of negotiation existed and with whom such negotiations could take place.

The Cabinet—
Took note of these statements by the Foreign Secretary and the Prime Minister.

SECRET
3. The Minister of Labour said that the seamen’s dispute arose out of the 1965 agreement with the owners which had improved remuneration for week-end work at sea, on the understanding that the pattern of work would not be altered. Unfortunately this understanding had not been recorded in the agreement and many ships’ masters had increased week-end work—in effect introducing a seven-day week—contrary to previous practice. This had caused much resentment and in response to representations from the National Union of Seamen (NUS) the Shipping Federation had written to owners to draw their attention to the spirit of the 1965 agreement. However, this had only produced a limited reduction of the new week-end working. The Union had, therefore, put in a claim for a 40-hour week with all work above that to be paid at overtime rates. The owners in reply had offered an agreement reducing the working week to 40 hours in three annual stages, but seeking some countervailing advantage in a reduction of leave. Whilst the leaders of the Union had recommended this offer to the Union’s full Executive Committee, the latter had rejected it and were insisting on the 40-hour week being reached quickly with no reduction of leave. He had met the Union’s leaders but it was clear that they could not carry the Executive, still less the Conference, with them. He had, therefore, called the full Executive to the Ministry the previous day and spelt out the economic position to them very fully. He had offered them a full Court of Inquiry, but, whilst the Executive welcomed this and the meeting in general had been friendly, they remained insistent on a better offer from the owners as well. He had therefore called in the Trades Union Congress (TUC) who, however, took a pessimistic view of the position. He was seeing the TUC again in the afternoon and the TUC would also be seeing the National Union of Seamen. It had to be recognised, however, that the position was at present grave and a strike seemed probable.

In discussion, there was general recognition of the seriousness of the situation for the economy. If the seamen’s demands were met in full, it would on certain calculations amount to a 16 per cent increase in remuneration on top of a 13 per cent increase in 1965 and the breach in prices and incomes policy would be very damaging. Either this or a strike might weaken confidence in sterling at a time when the trade figures for the previous month were in any event unfavourable. A strike could cause widespread physical dislocation—about half our exports and nearly half our imports were carried in United Kingdom ships. The cost of switching to foreign ships would be about £13 million a month (if there were no sympathetic action on foreign ships). The
problem of moving essential supplies might cause the strike to spread to the docks, e.g., if the Royal Navy had to be used to clear strike-bound ships from berths to moorings. Nevertheless, if a strike were declared, the Government would be bound to resist it.

On the other hand, concern was expressed that the Government might find themselves in a false position in opposing the Union's demands. There might be considerable sympathy for the seamen in respect of their conditions of work. The calculation that the increase in remuneration demanded by the men would amount to a 16 per cent increase was unrealistic, as it assumed wrongly that all the men would work at week-ends. A prices and incomes policy which did not allow poorly paid workers to improve their conditions in order to bring them into line with those of other trades would be indefensibly rigid. Resistance to the seamen's case would not appear consistent with the treatment given to the doctors.

In further discussion of the prospects of avoiding the strike it was suggested that where, as in this case, the consequences of strike action would be very grave to the nation as a whole, the dangers of establishing a practice of appeal to the Prime Minister might be thought to be outweighed by the need to do everything possible to avoid the serious situation which would result from a strike. But any such intervention, if it were made, should take place before the strike had been declared and not after. It was possible, however, that the strike might be averted by the owners giving way. They were already under some pressure to do so from the Confederation of British Industries (CBI); but it was important that the Government should not be involved in any arrangement of this kind. In any event the prospect of a strike, and the possibility of its spreading were such that contingency planning to maintain essential supplies and services had become necessary.

The Home Secretary reported that the Ministerial and Official Committees on Emergencies had authorised some preliminary precautions. In these cases there was always a nice balance between the need for preparedness and the risk of provocation through taking the preparatory measures. The Ministerial Committee had not considered that emergency powers would be required before the strike started, but the necessary regulations were ready. It had been felt necessary to authorise four steps of a confidential, consultative, character:

(i) The Ministry of Agriculture to consult the meat trade about the possibility of a shortage in Southern England.

(ii) The Ministry of Defence to arrange for essential supplies to the Scottish and other islands.

(iii) The Ministry of Defence to consult port authorities about preparations for the navy to clear berths.

(iv) The Ministry of Defence to enquire of Commands about the availability of Service personnel in the event of the strike spreading to the docks.
The Secretary of State for Defence reported that the arrangements for supplying Scottish and other islands were now complete, that the discussions on clearance of berths would be continuing over the week-end, and that 34,000 men would be needed from the Services if there were a dock strike. If it became necessary to man coastal ships the naval authorities would need to contact their owners in advance.

The Prime Minister, summing up the discussion, said that it would be necessary to keep the position under continuous review. It would be for further consideration in the light of developments whether there would be advantage in his personally intervening in the negotiations before the strike began.

The Cabinet—

(1) Took note, with approval, of the statements of the Minister of Labour, the Home Secretary and the Secretary of State for Defence.

(2) Took note that the Prime Minister would give further consideration, in the light of further developments in the situation, to the possibility of intervening personally in the negotiations.

Cabinet Office, S.W.1,
12th May, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 19th May, 1966,
at 10 a.m.

Present:
The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. George Brown, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. Lord Gardiner, Lord Chancellor (Items 1-3)
The Right Hon. Michael Stewart, M.P., Secretary of State for Foreign Affairs
The Right Hon. Arthur Bottomley, M.P., Secretary of State for Commonwealth Relations
The Right Hon. William Ross, M.P., Secretary of State for Scotland
The Right Hon. Douglas Jay, M.P., President of the Board of Trade
The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science
The Right Hon. The Earl of Longford, Lord Privy Seal
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Cledwyn Hughes, M.P., Secretary of State for Wales

The Right Hon. Herbert Bowden, M.P., Lord President of the Council
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. Douglas Houghton, M.P., Minister without Portfolio
The Right Hon. Anthony Greenwood, M.P., Minister of Overseas Development
The Right Hon. Richard Crossman, M.P., Minister of Housing and Local Government
The Right Hon. R. J. Gunter, M.P., Minister of Labour
The Right Hon. Barbara Castle, M.P., Minister of Transport
The Right Hon. Frederick Lee, M.P., Secretary of State for the Colonies

The Right Hon. Richard Marsh, M.P., Minister of Power

Also present:
The Right Hon. Edward Short, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
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1. The Cabinet were informed of the business to be taken in the House of Commons in the following week. Parliament would rise for the Whitsun Adjournment on Friday, 27th May until Monday, 13th June.

In discussion it was pointed out that if it were necessary, because of the seamen’s strike, to proclaim an Emergency more than five days before Parliament resumed or to pass emergency regulations under such a Proclamation before then, such action should be taken before the Whitsun Adjournment since otherwise it would be necessary for Parliament to be recalled. It was agreed that this should be further considered under a later item of the agenda.

The Prime Minister said that it might be desirable for him to make a further statement the following Monday on South Arabia, to counter the allegation that he had misled the House of Commons on the course of earlier discussions with the leaders of the South Arabian Federation on the future of our base in Aden. Such a statement might avoid the need for a debate on a motion of censure which would both pre-empt Parliamentary time otherwise available for legislation and also prejudice the forthcoming discussions with South Arabian representatives the following week. If the issue were pressed in the House of Commons, it might prove desirable to propose the appointment of a Select Committee to enquire into the circumstances relating to the allegation.

In discussion it was the general view that it would be preferable to seek to avoid both a debate and the appointment of a Select Committee of Inquiry since either would run a serious risk of prejudicing the forthcoming discussions.

The Cabinet—

Took note that the Prime Minister would consider the matter further in the light of the discussion.

2. The Foreign Secretary said that the previous day he had had an initial discussion with the Spanish Minister of Foreign Affairs. Despite the fact that he had urged the need to avoid public statements by either side at the present stage in order to avoid prejudicing the negotiations, the Spanish Minister had subsequently issued a statement to the Press on the proposals which he had put forward in discussion. These were that the two Governments should sign a Convention which would provide for—

(i) the cancellation of Article 10 of the Treaty of Utrecht, 1713, which gave the United Kingdom a legal right to the Rock. Gibraltar would thereupon revert to Spain;

(ii) the acceptance by Spain of a United Kingdom military base in Gibraltar. Its structure, legal position and co-ordination with the defence organisation of Spain or of the free world would be negotiated in a special agreement to be attached to the Convention;
(iii) the establishment of a legal régime to protect the interest of the present citizens of Gibraltar, who would retain their United Kingdom nationality, and of a personal statute guaranteeing fundamental rights, such as freedom of religion and the inhabitants' right of residence, with a guarantee of permanence in their place of work;

(iv) the Convention to become effective after the two additional agreements, referred to in (ii) and (iii) had been signed and registered in the United Nations.

It would be necessary for him to issue a statement to counter the views expressed by the Spanish Minister, in which he would make it clear that the United Kingdom had in no way violated the provisions of the Treaty of Utrecht and that the Government were concerned to defend the rights of the Gibraltarians.

In the course of discussion with the Spanish Minister, he had said that it would be helpful to the negotiations if the Spanish Government would remove or lessen the restrictions which they had at present imposed on the frontier with Gibraltar. The Spanish Minister had said that his Government would consider doing so if we, for our part, would take down the present boundary fence. There might be defence objections to doing so, but we would consider the proposal and further negotiations over the whole field would take place between United Kingdom and Spanish officials. These would deal essentially with the peripheral aspects of the dispute and we should not be prepared to make any concessions on sovereignty. If our proposals failed to achieve agreement, we would then propose that the dispute should be referred to the International Court of Justice.

The Colonial Secretary said that he had kept in close touch with Gibraltarian Ministers during the discussions leading up to the initiation of the present negotiations, and he was considering various ways, including the possibility of conducting a plebiscite in Gibraltar, in which we might counter the views put forward by the Spanish Government both here and at the United Nations.

The Prime Minister said that there had been no substantial developments in the informal talks between the United Kingdom and Rhodesian officials since the position had last been reported to Cabinet. There would be a further meeting that day with a view to fact-finding talks subsequently continuing in Salisbury in order to ascertain whether a basis existed for negotiations and, if so, with whom such negotiations could take place. The talks had so far revealed a significant change in Rhodesian thinking, in particular in the régime's attitude to the prospect of majority rule; they were now concerned to explore the means by which the proper interests of the European minority might be protected thereafter. This change, which might even lead to a split in the illegal régime, was no doubt in consequence of the fact that our economic sanctions were beginning to take effect to a greater degree than was as yet publicly apparent. It required further sounding, which could best be carried out in Rhodesia, possibly under the aegis of the Governor. The means by
which the acceptability of any proposals to the population of Rhodesia as a whole could be ascertained, including discussions with the leaders of African nationalist parties in Rhodesia, would be a most important aspect of any negotiations which might take place.

The Chancellor of the Exchequer said that it must also be recognised that the continuation of sanctions imposed a substantial and unwelcome burden on the United Kingdom economy and on our balance of payments.

The Cabinet—

Took note of these statements.

3. The Minister of Labour said that the full effects of the strike were not yet apparent since seamen were going on strike only as their ships reached United Kingdom ports. He had been considering what moves it was open to the Government to take in present circumstances. If there were any indication from either the National Union of Seamen (NUS) or from the Shipping Federation which suggested that it might be useful for him to see them he would of course do so, but this seemed most unlikely during the course of the week. The earliest time when he might himself take the initiative in asking them to come and see him would be at the beginning of the following week. At such meetings he might again explore the possibility of the strike being called off on the basis of an interim settlement on either of the terms agreed by the Shipping Federation before the strike started. These provided for either an interim increase of 3 per cent on basic wage rates, or the implementation of the first stage of the three-stage offer, coupled with the appointment of a Court of Inquiry. The second suggestion had not been put to the executive of the NUS before the strike, because it was certain that it would not then be accepted and the likelihood of it being accepted the following week was very slight. He might also discuss further with the NUS and the Shipping Federation the proposal put to the Union by the Trades Union Congress (TUC) before the strike started, which was that there should be an interim settlement on the basis of overtime pay for Sunday working, without the consequential adjustment of the entitlement to paid leave specified by the Shipping Federation as a necessary accompaniment.

Whatever the outcome of the talks the Government were committed to setting up a Court of Inquiry into the dispute and into working conditions at sea. It was arguable that, even if the strike were not called off, it would be right to appoint such a Court, which might then produce a quick report on the dispute itself: this could be the basis for a settlement. There were however clear objections to such a course. At such time as the Court of Inquiry were appointed the terms of reference might be:

To inquire into:

(i) the causes and circumstances of the present dispute between the Shipping Federation and the National Union of Seamen;
(ii) terms and conditions of service of seamen, taking account of technological change and the need for an efficient and competitive shipping industry;

(iii) relations between shipowners, officers and seamen;

(iv) the law, including the Merchant Shipping Act, 1894 relevant to paragraphs 2 and 3 above;

and to report."

In discussion it was the general view that a governmental intervention in the dispute in order to seek further concessions to the NUS in pay and conditions of service would be contrary to the national interest. The country would then suffer both the industrial dislocation of the strike itself and the grave economic consequences of concessions on pay which would totally undermine the Government’s policy on prices and incomes, gravely weaken sterling and entail the adoption of a stern deflationary policy which it had been the Government’s objective to avoid. It was the general view that the proposals put forward by the TUC would be open to substantial objection on these grounds. It was recognised that the consequences of maintaining the Government’s position was likely to be a prolonged strike which might well spread to other sections of the community and particularly to the docks; and it was important that the justification for the Government’s policy should be made clear to the public and that their full support should be obtained.

In these circumstances it was the general view that it would be imprudent to appoint the Court of Inquiry at this stage, without the agreement of both parties to the dispute, since there would then be no further means open to the Government at a later stage to provide mediation and to seek a settlement, short of proposing unacceptable concessions on pay. The Cabinet were also informed that a review of Part II of the Merchant Shipping Act, 1894 had been carried out over the previous 18 months by the Board of Trade in discussion with representatives of the shipowners and the seamen and agreement had been reached on changes, ad referendum to the Shipping Federation and the NUS. This review might, however, now be outdated by the current dispute.

In further discussion, the Cabinet considered the desirability of an early proclamation of an Emergency.

The Home Secretary said that the Ministerial Committee on Emergencies had reviewed the situation and that there was no immediate need for the Government to take powers under such a proclamation. Powers would, however, be needed if the Armed Forces were to be used in moving merchant ships or supplies or if food prices were to be subject to control. The timing of a proclamation must also be considered in the light of the Government’s public position in respect of the strike and of the Parliamentary time-table, since regulations made under the proclamation would lapse if they were not the subject of an affirmative resolution within seven days of their being made. It would, therefore, be necessary for regulations which were required in the following three weeks to be so approved by Parliament before the Whitsun Recess or, alternatively, for Parliament to be recalled before 13th June.
In discussion there was general agreement that the balance of advantage lay in an Emergency being proclaimed on the following Monday and that all the regulations which were ready and required should then be laid before Parliament the same evening and debated before the Whitsun Recess. It was also the general view that the proclamation should be made before the Minister of Labour saw representatives of the NUS or of the Shipping Federation.

The Prime Minister, summing up the discussion, said that the Cabinet were agreed that grave economic consequences would ensue if further concessions on pay and conditions were made to the NUS in order to end the strike, though they recognised that this entailed the country being prepared to face a prolonged and perhaps widespread industrial dispute. It might prove desirable at a later stage in the dispute to appoint a Court of Inquiry on the lines proposed by the Minister of Labour, but the time had not yet arrived when such action could usefully be taken. An Emergency should be proclaimed on the following Monday and any regulations which would be necessary at the present stage should be laid before Parliament the same evening and debated before the Whitsun Recess. The Ministerial Committee on Emergencies should consider that afternoon the scope and terms of the regulations which should be laid. They should also consider the publicity which should be given to the Government’s position in the dispute. The Minister of Labour would invite representatives of the NUS and of the Shipping Federation to come and see him early the following week.

The Cabinet—

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

(2) Invited the Home Secretary to arrange for the Ministerial Committee on Emergencies to consider the arrangements for the proclamation of an Emergency on the following Monday, the scope and terms of the emergency regulations to be laid before Parliament the same evening and the publicity to be given to the Government’s policy, on the lines indicated in discussion.

(3) Took note that the Minister of Labour would ask representatives of the National Union of Seamen and the Shipping Federation to come and see him early in the following week and invited him to be guided in those talks by the Prime Minister’s summing up of their discussion.

4. The Cabinet considered a memorandum by the First Secretary of State and Secretary of State for Economic Affairs (C (66) 69), setting out the conclusions of the Ministerial Committee on Iron and Steel Nationalisation on the desirability of extending the provisions of the Bill to the British Iron and Steel Federation (BISF) and on the timing of the introduction of the Bill within the 1966–67 Session.
The First Secretary of State said that the Committee were agreed that the provisions of the Bill should not be extended to cover the BISF, since this would give rise to considerable drafting difficulties and would delay the introduction and passage of the Bill, so reducing the period available to the new Corporation for planning a smooth transition to public ownership. This aspect could best be dealt with subsequently by the Minister of Power under the terms of the Act. As regards the timing of the introduction of the Bill, the Ministerial Committee had concluded that there would be no advantage in any delay, and some disadvantage through postponing effective control of the industry, reducing the chances of co-operation from it, and delaying desirable developments within it. Compensation had been considered by the Ministers immediately concerned and their conclusions would be put before the Cabinet at a later stage.

The Minister of Power said that the more rapidly the Bill was taken, the better the prospect of achieving vesting day about the middle of 1967; this would mitigate the financial problems of compensation. Moreover, desirable measures of rationalisation and modernisation in the industry were at present being held up because of uncertainty about its future. It was, therefore, urgent to proceed with the Bill as quickly as possible.

In discussion the Cabinet were informed that since the Ministerial Committee had completed their report the BISF had written to the Minister of Power making proposals for the future of the industry. These were for a loose-knit supervisory authority with 18 out of the 26 appointments on the authority to be filled from private industry: they also provided for the possibility of Government ownership of the firms involved up to 50 per cent of the equity. The Cabinet had rejected proposals for less than 100 per cent ownership and these proposals were clearly unacceptable. There had also been approaches to Ministers from individual firms in the industry, urging that mixed ownership, including both Government majority shareholdings in the firms now concerned and Government minority shareholdings in other units not at present covered by the draft Bill, might produce a better integrated industry and greater co-operation from the industry than the Government’s present proposals.

In the light of these developments, it was suggested that the views of the industry should be further explored before the Bill was introduced: a refusal to do so would indicate unnecessary rigidity and might commit the Government to a Bill the precise provisions of which might later be found to be unsuitable for the best technical solutions. A 100 per cent ownership of the 12 main firms in an industry of over 300 firms was not necessarily the right organisation in that it would break links between complementary firms and also forgo the possible advantages of a wider though partial public ownership. Only discussion would show whether the co-operation of the industry, with all the advantages this entailed, could be obtained on acceptable terms. Such discussion need not compromise the introduction of the Bill in its present form if thereafter this proved desirable; nor need it delay its introduction since in any event a Second Reading was not possible before the middle of July.

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On the other hand it was argued that the disadvantages of further attempts to explore the attitude of the industry outweighed these possible gains. Any change from the present basis of 100 per cent ownership would involve extensive redrafting and might entail hybridity, so involving an unacceptable delay in the Bill being passed. Such delay would be politically embarrassing and would do grave harm to the industry and to the economy by delaying the reorganisation necessary to achieve greater efficiency. Within the ambit of the present Bill it should be possible to achieve satisfactory arrangements for an integrated industry: the Organising Committee and the Corporation would, if there were no delay, have a year to settle the organisation of the industry.

In further discussion on the timing and the introduction of the Bill, the Cabinet were informed that it would not be possible to take the Second Reading of the Bill before the middle or the third week of July. There was general agreement that in these circumstances the Bill should not be published before the Recess or unduly long before the Second Reading. The normal interval between publication and Second Reading would afford reasonable opportunity to ascertain whether the industry had any acceptable proposals to put forward without compromising the present Bill.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that the Minister of Power should inform the leaders of the industry the following week of the Government's decision to proceed with the Bill in its present form, but that they would welcome discussion with them on the best technical organisation of the industry within the ambit of the Bill as now drafted. The Bill should be introduced in the week beginning 19th June with a view to a Second Reading on 19th July, the date of the Second Reading being announced at the time the Bill was introduced.

The Cabinet—

(1) Invited the Minister of Power to consult the leaders of the steel industry on the lines indicated by the Prime Minister in his summing up of their discussion.

(2) Invited the Lord President of the Council, in consultation with the Minister of Power, to arrange for the introduction and Second Reading of the Iron and Steel Nationalisation Bill in the week beginning 19th June and on 19th July, 1966, respectively.

Cabinet Office, S.W.1,
19th May, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 26th May, 1966, at 10 a.m.

Present:

The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. George Brown, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. Lord Gardiner, Lord Chancellor
The Right Hon. Michael Stewart, M.P., Secretary of State for Foreign Affairs
The Right Hon. Arthur Bottomley, M.P., Secretary of State for Commonwealth Relations
The Right Hon. William Ross, M.P., Secretary of State for Scotland
The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science
The Right Hon. The Earl of Longford, Lord Privy Seal
The Right Hon. Frank Cousins, M.P., Minister of Technology
The Right Hon. Cledwyn Hughes, M.P., Secretary of State for Wales
The Right Hon. Herbert Bowden, M.P., Lord President of the Council
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. Douglas Houghton, M.P., Minister without Portfolio
The Right Hon. Richard Crossman, M.P., Minister of Housing and Local Government
The Right Hon. R. J. Gunter, M.P., Minister of Labour (Items 1-3)
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Frederick Lee, M.P., Secretary of State for the Colonies
The Right Hon. Richard Marsh, M.P., Minister of Power

The following were also present:
The Right Hon. Frederick Mulley, M.P., Minister of Aviation (Item 5)
Mr. Roy Mason, M.P., Minister of State, Board of Trade (Items 3 and 4)
The Right Hon. Edward Short, M.P., Parliamentary Secretary, Treasury
The Right Hon. John Diamond, M.P., Chief Secretary, Treasury (Items 4-6)
The Right Hon. Sir Elwyn Jones, Q.C., M.P., Attorney-General (Item 3)
Mr. Stephen Swingler, M.P., Joint Parliamentary Secretary, Ministry of Transport (Item 3)

Secretariat:
Sir Burke Trend
Mr. W. A. Neil
Mr. D. S. Laskey
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1. The Cabinet were informed of the business to be taken in the House of Commons in the week beginning 13th June, after the Whitsun Recess.

2. The Foreign Secretary said that in the recent debate in the Security Council of the United Nations the extreme Resolution which would have required members of the Organisation to impose mandatory sanctions against nations not co-operating in the economic measures against Rhodesia had failed to secure the necessary number of votes. For the time being at least this was a satisfactory outcome.

3. The Minister of Labour said that he had had a further discussion with the National Union of Seamen (NUS) and the Shipping Federation on the previous Monday. The Union's position appeared to have hardened after the week-end; and he had been told in confidence that the Union leaders saw little hope of any change in the attitude of their members for at least a fortnight. In these circumstances he proposed that the Government should announce that they intended to establish forthwith a Court of Inquiry, even though the strike was still in process; there were sufficient precedents for action of this kind. The Court's terms of reference might be:

"To inquire into—

(i) the immediate causes and circumstances of the present dispute between the shipowners and members of the National Union of Seamen;

(ii) terms and conditions of service of seamen, taking into account the national interest, technological change and the need for an efficient and competitive shipping industry;

(iii) relations between shipowners, officers and seamen;

(iv) the law, including the Merchant Shipping Act, 1894, relevant to paragraphs (ii) and (iii) above;

and to report."

These terms of reference would allow the Court to make an early interim report on the issues involved in the immediate dispute before they proceeded to consider the longer-term reforms which might be required.

The Home Secretary reported that congestion in the docks had been developing more gradually than had been expected. Unless there were some unforeseen change in the situation, there should be no serious congestion at any port until the following Tuesday and perhaps not even then. So far it had not been necessary for naval
tugs to move strike-bound ships from their berths; and this issue also was not expected to arise before the following Tuesday. No Department had needed to implement the Emergency Regulations, with the exception of the Ministry of Transport who proposed to establish Port Emergency Committees on the following day. It had been necessary for the Royal Navy to introduce emergency services to the Western Isles; and fuel supplies for the Western Hebrides might have to be arranged by the same means. Otherwise, naval vessels had not had to be used; and supplies to the Orkneys and Shetlands were being maintained. The Northern Ireland Government had now decided to proclaim a state of emergency in Ulster; but they would not take any action under the Proclamation without prior consultation with ourselves.

In discussion some concern was expressed about the probable course and duration of the strike. The Government faced a dilemma between on the one hand making or promoting concessions to the NUS, which might bring the strike to an end but would prejudice the prices and incomes policy, and on the other hand facing a prolonged and perhaps widespread dispute. It could be argued that, rather than allowing the strike to continue indefinitely, with increasingly serious consequences to the economy, the Government should take some further action to promote a compromise settlement. On the other hand it was open to question whether any settlement was yet feasible; and it might well be preferable to press forward with the proposed Court of Inquiry, which would show that the Government were determined to redress the long-standing grievances of the NUS stemming from the Merchant Shipping Act of 1894 and so to tackle the problem at its roots. Although a major statutory reform would be a very lengthy process, the crucial Part II of the Act, dealing with disciplinary provisions, had already been examined by the Board of Trade in consultation with the NUS and the owners; and this survey would be a valuable starting point for the Court of Inquiry.

In further discussion some doubt was expressed whether the Court of Inquiry might prejudice the Government’s policy on prices and incomes. Was it intended that the findings of the Court in their interim report on pay and hours of work should be accepted by the Government even if they were in conflict with the prices and incomes policy? But it might be no less embarrassing if they had to be rejected on that ground, especially in the light of other recent cases where substantial awards by independent review bodies had been accepted.

On the other hand it had never been the Government’s policy that the norm established for the purposes of the prices and incomes policy should not be exceeded in any circumstances; and in the present case an award by the Court of Inquiry which was in accordance with the criterion of the national interest need not make any greater breach in the policy than the previous cases. There would be no advantage in seeking to enforce a reference of the present dispute to the Prices and Incomes Board, but the fact that the Court would include at least one individual who was also a member of the Board should be helpful in this connection.
The Prime Minister, summing up the discussion, said that the strike was of a unique character, and could not have been averted by any steps which the Government could realistically have taken. But an interim report by the proposed Court of Inquiry might well provide a means whereby the moderate elements in the Union could contribute to a reasonable settlement; and arrangements for constituting the Court should therefore proceed as rapidly as possible.

At present it seemed unnecessary for the Cabinet to meet during the following week and the day-to-day developments in the situation should be dealt with by the Ministers directly concerned. The Ministerial Committee on Emergencies, however, should meet on the following Tuesday and Thursday.

The Cabinet—

Approved the proposal to constitute a Court of Inquiry into the dispute between the National Union of Seamen and the Shipping Federation and invited the Minister of Labour to announce this decision in the House of Commons that afternoon.

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4. The Foreign Secretary said that in the discussions which, together with the Prime Minister, he had had with Dr. Erhard, the Federal German Chancellor, and Dr. Schroeder, the Federal Foreign Minister, during their recent visit to London close agreement had been reached on the tactics to be pursued in the North Atlantic Treaty Organisation (NATO) in face of the French withdrawal. There was a good prospect that the policy on which we were agreed would also be accepted by the 14 NATO Powers before the meeting of the Ministerial Council of the Organisation in Brussels in June. He had had a brief discussion with Dr. Schroeder about the problem of nuclear sharing in the North Atlantic Alliance; but it had been agreed that this issue should be deferred until after the Brussels meeting. Dr. Schroeder still appeared to favour a solution which would give the German Government some degree of physical control over nuclear weapons; but he might not press this view. The German Government, however, attached less importance than ourselves to the possibility of concluding a non-proliferation treaty, which we regarded as an integral element in any solution of the nuclear problems of the Alliance. As regards accession by the United Kingdom to the European Economic Community (EEC) we had suggested to Dr. Erhard that a statement by the Six supporting the principle of United Kingdom entry into the Community would assist the more detailed discussions and investigations which would now have to be undertaken. The question of the cost of United Kingdom forces in Germany had been the most difficult subject. Dr. Erhard had been surprised by our request for an additional contribution this year and had represented the difficulty of committing himself on this issue before discussion with his own Cabinet.
The Prime Minister said that Dr. Erhard faced a dispute within his own party about NATO and policy towards France in the light of the French Government's decision to withdraw from the Organisation; and he was also confronted by a difficult budgetary problem. It was not unnatural, therefore, that he should wish to deal with these problems one at a time and to concentrate on solving the NATO problem before addressing himself to other subjects such as the question of nuclear sharing, the financing of United Kingdom troops in Federal territory and United Kingdom entry into the EEC. But it was perhaps significant that he had been inclined to discount the indications that the French Government might now be more favourably disposed to our entry.

The Chancellor of the Exchequer said that Dr. Erhard had clearly expected that we would raise the question of the cost of United Kingdom forces in Germany in regard to 1967 and subsequent years but had perhaps not appreciated that we should feel bound to press this issue in relation to the current year as well. We had put to Dr. Erhard the need for a German financial contribution of £50 million by such means as German payment for the civilian labour employed by our forces or the reimbursement of the taxes which we paid to the Federal Government in respect of our troops. In reply Dr. Erhard had emphasised the budgetary difficulties of the Federal Government and the unwelcome need to increase taxation with which they were confronted; but we had pointed out the much larger tax increases which had been made in our own Budget. Dr. Erhard had wished to defer further discussion of the problem; but it had finally been agreed that the German Finance Minister should come to London in June for this purpose and that this might be followed by the visit of a United Kingdom Minister to Germany in July. These discussions would undoubtedly involve some hard bargaining; but we must adhere to our determination to reach a settlement by mid-September.

The Cabinet—

Took note of these statements.

5. The Cabinet considered a memorandum by the Minister of Aviation (C (66) 73) about United Kingdom participation in the European Launcher Development Organisation (ELDO).

The Minister of Aviation reminded the Cabinet that, in December 1965, they had decided that we should terminate our commitment to ELDO. Subsequently, however, our partners in the Organisation had put forward a new proposal for the development of an extended version of the ELDO-A launcher (ELDO-PAS) and had also indicated that they would be prepared to consider some reduction in the United Kingdom contribution to the Organisation. It had therefore been decided that these new developments justified a postponement of our withdrawal for a period of up to 3 months in which the new proposals could be studied in more detail. This
proposal had been accepted by the Ministerial ELDO Conference in April and it had been agreed that the Conference should adjourn until 9th June. It was now necessary to decide our attitude when the Conference reassembled.

The Official Committee on Technology had completed a study of the scientific and technological implications of the new proposals. Their report, which was appended to C (66) 73, indicated that these implications had not changed significantly since the Cabinet’s decision that we should end our commitment to ELDO—apart from the facts that the ELDO-PAS system should provide an appreciable technical improvement on the original ELDO-A programme and that there was now a growing interest in the use of satellites for television purposes. It remained true, therefore, that, while the amount of technological “fall-out” from space research and development was arguable, our attempts to strengthen and modernise our technology would be jeopardised if we withdrew entirely from this field while our European allies remained active within it. The Official Committee also indicated that from the financial point of view there was now a prospect that, if our contribution could be reduced from its present level of 38·8 per cent to 25 per cent from 1st January, 1967, our total expenditure in relation to the revised programme would amount to only some £42 million as compared with the estimate of £48·58 million which had been before the Cabinet when they took their original decision to withdraw from the Organisation. Moreover, if we withdrew from ELDO while our partners continued, we should have to pay some £14·5 million as the balance of our commitment. For these reasons the additional cost of remaining in the Organisation could now be put at no more than some £27 million over the next six years; and most of the foreign exchange costs would be met by contracts placed in this country.

But the strongest arguments in favour of our remaining in the Organisation were political. It was now clear that our withdrawal would have a serious effect on our standing in Europe and would prejudice our attempts to promote closer European association. If we withdrew, our European partners would certainly go ahead without us; and we should then be effectively excluded from any collaboration in European space technology, while our efforts to seek closer co-operation with Europe in new scientific and technological fields would also be prejudiced. Finally, it had recently become evident that the United States Government were anxious that we should remain in ELDO; and our withdrawal might therefore forfeit United States goodwill, on which we were greatly dependent in many other fields.

For these reasons, the balance of advantage lay in our continuing to participate in the ELDO-A programme on the basis of its modification to include ELDO-PAS, provided that our financial contribution was reduced. Informal enquiry of the Secretary-General of ELDO suggested that it should be possible to secure a reduction
in our total contribution to a level of 29-75 per cent over the period 1967-71.

In discussion there was a significant degree of support for this proposal. The Cabinet's original decision to withdraw from ELDO had been based largely on an assumption that our partners in the Organisation would welcome our action as an excuse to bring the enterprise to an end and so to relieve themselves of a financial burden which they were privately finding as onerous as ourselves. This assumption, however, had been shown to be wrong. The other European Governments were now genuinely anxious that ELDO should continue; and they were increasingly reluctant to be left in a position in which, if the Organisation were discontinued, Europe would be in effect dependent on the United States for the provision of launchers. The decisive considerations, however, were political. Our international reputation and our prospects of promoting closer European integration in wider fields would alike be gravely damaged if, at this juncture, we withdrew from an advanced technological enterprise to which other European Governments attached so much importance and were seen to be prepared to become virtually dependent on the United States for launching facilities. Moreover, we could expect a withdrawal to provoke a particularly sharp reaction from the French Government whereas, if we met the French desire that we should remain in the Organisation, we might be better placed to adopt a firm attitude towards the French Government in relation to a reassessment of the Concord project, the cost of which was rising at an alarming rate. For these reasons it would be to our advantage to remain in ELDO provided that we could secure a significant reduction in our financial contribution.

As against these considerations it could be argued that there had been no real change in the economic considerations involved since the Cabinet had taken their original decision and that, if we remained in the Organisation, we should be tacitly accepting a commitment which would prove to be of indefinite duration and to entail much greater expenditure than any of the estimates which were at present under consideration. The other European Governments were anxious that we should continue in partnership with them since this implied, in effect, that we should continue to finance a great part of their research and development—whereas the proper course for us to adopt in our own interests would be to reverse this process and, by withdrawing from the Organisation, to compel them, if they wished to continue, to finance our development by purchasing our launcher. The ELDO project held no prospect of military advantage for us, since any military use of the launcher was debarred by the Organisation's Charter; and such civil use as was contemplated for it would be wholly uneconomic by comparison with an arrangement whereby we could purchase telecommunications channels by our participation in the International Telecommunications Satellite Organisation. It was unrealistic to suppose that, by acquiescing in the wishes of other Governments at our own expense, we should be in any better position either to secure their goodwill in relation to wider aspects of European collaboration or to persuade the French
South Arabia Military Aid

(Previous Reference: CC (65) 12th Conclusions, Minute 2)

Government in particular to adopt a more realistic attitude towards the Concord project. These considerations were irrelevant to an issue which we should now decide on its merits and in the light of our own interests.

The Prime Minister, summing up the discussion, said that the arguments were very nicely balanced but that it appeared to be the preponderant view of the Cabinet that such change in circumstances as had occurred since the Cabinet took their original decision did not justify any change in that decision.

The Cabinet—

Endorsed the decision that we should now terminate our commitment to ELDO as soon as was practicable.

6. The Cabinet considered a memorandum by the Foreign Secretary (OPD (66) 62) about military aid to South Arabia, which had been discussed by the Defence and Oversea Policy Committee on the previous day and had been referred to the Cabinet at the request of the Chancellor of the Exchequer.

The Foreign Secretary said that it had been agreed in the Defence Review that we should leave Aden and conclude no defence agreement with an independent South Arabia. He had seen the South Arabian Federal Ministers, now in London, on the previous day and had confirmed our decision not to conclude a defence agreement. We were however under an obligation to assist the Federal Government in building up local forces so that they could take over the defence of the country when we left. This was agreed; what was at issue was the amount we should pay and the length of our commitment. What was now proposed was substantially less than what the Federal Government had asked for and represented, in the view of the Chiefs of Staff, the minimum required to maintain internal security and offer some protection against external attack when South Arabia became independent. We were under a treaty obligation to defend the Federation and assist in maintaining internal security until independence and he proposed that our commitment after independence should be for a strictly limited period of three years until 1971. If we did not assure the Federal Government that they would be provided with adequate defence there was a risk that they would give up the effort they were now making to achieve constitutional progress leading to independence and that the Federation would at once disintegrate and South Arabia would relapse into chaos. This would gravely damage United Kingdom interests since a breakdown in internal security might mean that we should have to make a fighting withdrawal, with consequent loss of men and material. We should also be accused of betraying our friends in South Arabia: the humiliation of a disorderly withdrawal would weaken confidence in us in the Persian Gulf: and our failure to bring South Arabia to independence in an orderly manner would damage our prestige throughout the world.
The Chancellor of the Exchequer said that our civil and military aid to the Federation was now running at £16 million a year and amounted to nearly three-quarters of total Federal expenditure. The Foreign Secretary’s proposals would involve capital expenditure of some £6 million and additional recurrent expenditure of £5-6 million a year. The Foreign Secretary suggested that our commitment would end in 1971 but in view of the degree of the Federation’s dependence on us it was unrealistic to suppose that we should be able to extricate ourselves then. It was agreed that some additional aid would have to be given in order to secure our own withdrawal, but the level suggested was unacceptably high. A figure of £1 million a year, to cover both capital and recurrent expenditure and aid to the Eastern Aden Protectorate as well as the Federation, should be sufficient to meet the minimum necessary increase in the Federal forces.

The Secretary of State for Defence said that what was at issue was the price we must pay in order to secure our political and military withdrawal from South Arabia in good order. It was essential that internal security should be maintained until our forces had left and we should be dependent for this on the Federal Regular Army, whose loyalty could only be relied upon so long as they were assured of their pay and of their future. We could not withdraw politically with honour unless we could secure orderly constitutional progress to independence and for this we were dependent on the co-operation of the Federal Government. It need not be assumed that we should be unable to terminate our commitment in 1971 since by that date the whole position in South Arabia might well have changed. Saudi Arabia might have taken over the protection of South Arabia, which she could well afford to do, or the country might have been absorbed by the United Arab Republic. All his advisers, including the Chiefs of Staff, agreed that we must be prepared to pay a price of the order suggested by the Foreign Secretary if we were to withdraw from South Arabia in good order. The precise level to which the Federal forces should be built up should, however, be subject to a more detailed examination of the costings.

In discussion it was argued that the level of expenditure suggested by the Foreign Secretary was unduly high both in relation to the savings which should accrue from the Defence Review and in relation to other claims for civil and military aid. The forces proposed for South Arabia, both in size and in the degree of sophistication, would be far beyond the ability of the country to sustain. There was therefore a serious risk that whatever conditions we might now put on our commitment we should in practice be unable to terminate it by 1971. On the other hand, it was pointed out that the size of the country and the difficulty of maintaining internal security called for disproportionately large forces, including some air forces. Any course open to us involved risks, but agreement with the Federal Government was urgent and if we refused to give them adequate help we might at once create conditions which would make it either impossible or at least more difficult and even more expensive to bring South Arabia to independence and to secure our orderly withdrawal.
The Prime Minister, summing up the discussion, said that in the Defence and Oversea Policy Committee on the previous day the general sense had been that the Foreign Secretary's proposals should in principle be accepted as the price we must pay to secure our political and military withdrawal from South Arabia. There was however a difference of view in Cabinet and some members felt that it should be possible to meet our minimum requirements at a lower level of expenditure. A decision was urgent in view of the negotiations with the Federal Ministers now in London and he would therefore propose to have a further discussion later that day with the Chancellor of the Exchequer, the Foreign Secretary and the Secretary of State for Defence in an attempt to resolve the issue.

The Cabinet—

Took note that the Prime Minister, in consultation with the Chancellor of the Exchequer, the Foreign Secretary and the Secretary of State for Defence, would give further consideration to the level of military aid to be offered to the Federal Government of South Arabia.

Cabinet Office, S.W. 1.
26th May, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 9th June, 1966,
at 10 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P, Prime Minister
The Right Hon. GEORGE BROWN, M.P, First Secretary of State and Secretary
of State for Economic Affairs (Items
1-3)
The Right Hon. LORD GARDNER,
Lord Chancellor (Items 1-3)
The Right Hon. MICHAEL STEWART,
M.P, Secretary of State for Foreign
Affairs
The Right Hon. ARTHUR BOTTOMLEY,
M.P, Secretary of State for Common-
wealth Relations
The Right Hon. WILLIAM ROSS, M.P,
Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P,
President of the Board of Trade
(Items 1-3)
The Right Hon. THE EARL OF
LONGFORD, Lord Privy Seal
The Right Hon. FRANK COUSING, M.P,
Minister of Technology
The Right Hon. BARBARA CASTLE, M.P,
Minister of Transport (Items 1-3)
The Right Hon. FREDERICK LEE, M.P,
Secretary of State for the Colonies

The following were also present:
The Right Hon. FREDERICK MULLEY,
M.P, Minister of Aviation (Items 1
and 2)
The Right Hon. SIR ELWYN JONES, Q.C,
M.P, Attorney-General (Items 1-3)
The Right Hon. FREDERICK HOUGHTON,
M.P, Minister without Portfolio

Secretariat:
Sir BURKE TREND
Mr. W. A. NIELD
Mr. D. S. LASKEY
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1. The Prime Minister said that there had been a number of recent leakages of information to the Press. The report in The Times of Friday, 3rd June, on the Government's decision about the European Launcher Development Organisation (ELDO) had been particularly damaging on the eve of the North Atlantic Treaty Organisation and ELDO Conferences. There had also been misleading reports about the Government's intentions in regard to the prices and incomes policy, which had probably had an adverse effect on sterling; and premature disclosure of the report by the Court of Inquiry on the Shipping Industry had enabled the militant elements in the National Union of Seamen to bring pressure to bear on the union's Executive. There was an established procedure for investigating leakages of information; and the Cabinet might now think it right that, where necessary, it should include Ministers. But investigation in retrospect was no substitute for discretion in contacts with representatives of the Press; and, although legitimate Press guidance and briefing by Ministers should of course continue it remained incumbent on all individuals who enjoyed access to confidential information to take particular care to safeguard it from premature or improper disclosure.

The Cabinet—

Took note, with approval, of the Prime Minister's statement.

2. The Cabinet had before them a memorandum by the Minister of Aviation (C (66) 75), to which was attached an annex by the Attorney-General, about the Government's decision to terminate our financial commitment to the European Launcher Development Organisation (ELDO).

The Minister of Aviation said that since the Cabinet had taken this decision it had become clear that its legal implications might be more serious than we had supposed. In particular, it could apparently be argued that, largely as a result of the views which the United Kingdom delegate had expressed during the negotiations which had preceded the original establishment of ELDO, we were under an obligation to share in the total cost of the initial programme until it was completed and that we had no freedom of action to terminate our financial commitment by unilateral decision. If our decision to withdraw were challenged on these grounds and this challenge were sustained in international legal proceedings, we should have to be prepared to meet expenditure considerably greater than the sum of £15.5 million which the Cabinet had earlier been given to understand would represent the maximum cost of withdrawal. The extent of our further liability could not be estimated with precision. At the minimum, it would be the sum representing our percentage contribution in respect of the uncommitted part of the initial programme, i.e., an additional £14.7 million, making a total
liability of £30.2 million; but, if the other member States were unable to continue the initial programme without us and consequential damages were also awarded against us on this account, we might have to pay not only a proportionate share of the cancellation charges but also some part of the expenses which the other States had already incurred in respect of the programme. The alternative to accepting these risks was to maintain our participation in the ELDO-A programme and to accept its modification by the addition of the new PAS programme. The latter was an additional programme, in respect of which no country had so far accepted any financial commitment. Its cost was estimated by the Ministry of Aviation at £67.5 million; and, if we could persuade our European partners to reduce our contribution to 25 per cent from 1st January, 1967, the amount which we should have to pay towards the cost of completing the initial ELDO-A programme and undertaking the additional PAS programme would be about £42 million. This sum had to be compared with the revised estimate of the expenditure which we might incur if we maintained our unilateral decision to withdraw from the Organisation; and, since it might well prove less than the total cost of withdrawal as this must now be estimated on the basis of the latest legal advice, it was for consideration whether the earlier decision should be maintained. In reassessing the relative advantages and disadvantages of the two courses, the Cabinet would wish to bear in mind the political difficulty of defending a decision to withdraw from the Organisation in order to save over a period of six years a sum which, it now appeared, could not exceed £12 million at the maximum.

In discussion it was suggested that contacts with our other partners since the Cabinet’s decision had been made known had indicated that their attitude to that decision would be even more critical than we had originally expected. It was clear that, if we refused to continue to participate in the Organisation, we should risk inflicting grave damage on our prospects of securing European co-operation in other technological projects to which we attached importance and that, in addition, we should provoke the suspicion that we were no longer in earnest in our professed desire to promote European collaboration in the widest sense. There were good reasons for supposing that our partners would consent to a reduction in our contribution to ELDO if we continued to participate in its programmes; and it would therefore be to our advantage, on balance, to take the initiative in indicating that we were prepared to remain in the Organisation on this basis, an initiative which we could take with less political embarrassment since the commitment which apparently prevented us from leaving the Organisation by unilateral decision had been inherited from the Conservative Administration.

On the other hand, the view was expressed that the ELDO enterprise had no justification in terms of economic or technological return on the investment involved and that, in the light of the continuing strain on our balance of payments, we should be ill advised to accept a continuing commitment of any size in respect of ELDO projects. Without actually withdrawing from the
Organisation, therefore, we should at least make it clear that we would not be prepared henceforward to pay more than a minimal contribution to its work. Indeed, it could be argued that we should press this argument to its logical conclusion, especially since the charge of vacillation to which the Government would be exposed if they now reversed their decision to withdraw from the Organisation would be so damaging that it would be preferable to maintain that decision without regard to the consequences. The risks to our other co-operative European enterprises should not be exaggerated; our partners in Europe would judge each case on its merits in the light of their own interests and we should be guided by the same consideration in deciding our attitude towards ELDO. For these reasons it might still be preferable to maintain our earlier decision and to withdraw from the Organisation completely.

In further discussion it was suggested that it might be possible to transfer to our partners the onus of taking the effective decision about the future of ELDO by offering to discharge our legal commitment to contribute to the balance of the cost of the ELDO-A programme but refusing to participate at all in the subsequent PAS programme. Since it was generally agreed that the ELDO-A programme itself would be of no economic value unless it was modified by the addition of the PAS programme, our partners might decide that in these circumstances they should abandon the PAS programme and terminate the ELDO-A programme as rapidly as possible. In that event we might hope to extricate ourselves from the dilemma at little greater cost than the original estimate of £15.5 million. Alternatively, however, if it were judged that the political reasons in favour of our continuing to participate in ELDO projects were overriding, we should not only insist upon a significant reduction in our proportionate contribution but should also attach to it an absolute money ceiling, which might well be approximately the same figure as the £42.5 million which was estimated to be the cost of our contribution to the ELDO-A and PAS programmes on the basis of a reduction in our contribution to 25 per cent from 1st January, 1967. A provision of this kind would constitute an additional safeguard against an escalation of costs beyond the present estimate of £67.5 million for the PAS programme. It would also be salutary to stipulate that the ELDO programmes should be the subject of an annual review and that the Organisation's Convention should be so modified as to enable member States to withdraw at these periodical "break points" if they saw fit to do so.

The Prime Minister, summing up the discussion, said that the issues remained very finely balanced. But the preponderant view of the Cabinet was that the Minister of Aviation, in opening the discussion at the meeting of the ELDO Council in Paris that afternoon, should re-emphasise the reasons for our reluctance to participate further in the Organisation but might indicate, in conclusion, that he would be prepared to recommend the United Kingdom Government to reconsider their position if our partners were willing to negotiate the further stages of the ELDO-A enterprise,
including the PAS system, on terms which we might find less intolerable. We should continue to maintain, however, that the PAS system constituted a new programme, which would have to be negotiated separately from the ELDO-A programme; and we should make it clear that the conditions on which we would be prepared to consider renewing negotiations for the completion of the ELDO-A programme and the addition of the PAS programme would have to include:

(i) An early and substantial reduction in our future contribution to a figure which would not exceed 25 per cent and should, if possible, be less.

(ii) In addition to (i) an absolute money limit, of say £40 million, on our contribution so calculated.

(iii) An arrangement whereby the ELDO programme would henceforward be reviewed annually and would incorporate suitable break points which would safeguard member States against any automatic commitment to escalating costs.

Of these conditions (iii) was perhaps not one on which we should wish to break in the last analysis. But (i) and (ii) were essential and would need to be so expressed that we could take advantage of whichever of them proved the more favourable in the light of actual expenditure.

In making this offer, the Minister should avoid making any reference to our misgivings about the legal liabilities which we might incur if we adhered to our intention to terminate our ELDO commitment unilaterally. He should also refrain from accepting any definite commitment at this stage and should confine himself to indicating that he would be willing to advise the United Kingdom Government to consider resuming negotiations if our partners were willing to do so on a basis which would satisfy our conditions.

The Cabinet—

Invited the Minister of Aviation to be guided by the Prime Minister's summing up of their discussion at the resumed meeting of the Council of the European Launcher Development Organisation in Paris later that day.
General Council of the TUC would be called for the following Tuesday, again with the Executive of the NUS available for discussion. But it would be premature to base optimistic expectations on these discussions in view of the extent to which the militant faction in the NUS appeared to be in control of the union's policy.

The Prime Minister said that by rejecting the Court's Report and appearing to challenge the community, the NUS were now in danger of gradually forfeiting public support. It was doubtful whether the membership of the Union had much enthusiasm for the strike, particularly since the coastal trade seamen had now been living for over three weeks on £3 a week strike pay, as against normal earnings of about £20 a week. On the other hand, there was still considerable militancy, due to the past frustrations of the Union; and it was not easy to assess what would be the effect of the Report on the strike.

In discussion the following points were made:

(a) Although the strike was reaching the stage when other unions might be involved, the TUC had no powers to regulate the decisions of individual unions. They had only the right to intervene by persuasion where a dispute seemed likely or had broken out.

(b) The General Secretary of the NUS had made it clear to the Minister of Labour that it would be of no avail to seek to reconvene the Annual Conference of the Union, although the Minister would give this possibility further consideration if the intervention of the TUC proved unsuccessful.

(c) The recommendations of the Court of Inquiry would result in an award which would be only marginally above the norm under the prices and incomes policy, which need not now, therefore, become an issue in the strike.

In further discussion it was suggested that the recommendations of the Report could be regarded as being in fact less favourable to the seamen than the owners' last offer. In particular, the Report had recommended against the increase of 12s. 6d. per month in efficiency pay offered by the owners. It was not easy to see how the Union could be expected to resume work on such a basis, especially since United Kingdom seamen were less well paid than those of other European nations. It should not be assumed, therefore, that other Unions would not support the NUS, especially when the likely response from the International Transport Workers' Federation to the NUS appeal became apparent. On the other hand, it was pointed out that, while the proposals in the Report were slightly less favourable than those of the owners in respect of the first year, those in respect of the second year were more favourable. Moreover, the Report's proposals would take effect in two years instead of three; it recommended a rather higher number of days of paid leave than was contained in the owners' last offer; and it conceded the principles of the 40-hour week and of week-end overtime pay for which the strike had been called.
On these grounds it could be argued that it was incumbent on the Government, having set up an impartial Court of Inquiry and received from it a Report embodying fair and reasonable recommendations, to accept the Report and to ask for the strike to be terminated on the basis of the Report's findings. Such a declaration of the Government's attitude should be made at once. It would not prejudice the efforts of the TUC; indeed, it might inhibit their attempt to resolve the dispute if the Government did not declare their support for the Report publicly and promptly. If, despite the continued efforts of the Government and the TUC, the Union did not accept the Report's findings but sought to extend and to intensify the strike, it would be clear that they were determined to challenge the Government's policies and it would be the Government's duty to take any actions necessary to maintain the public services and to limit the damage to the economy.

The Prime Minister, summing up the discussion, said that it was the view of the Cabinet that a statement should be issued that afternoon on behalf of the Government calling on both parties to the dispute to accept the proposals of the Court of Inquiry; and he would make the necessary arrangements for this purpose. In the meantime the Ministerial Committee on Emergencies should continue to limit emergency action by the Government to cases of clear necessity, pending further efforts to bring the strike to a conclusion, and should seek to avoid any measures which could be regarded as provocative.

The Cabinet—

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

4. The Foreign Secretary said that on his way to Canberra for the meeting of the South-East Asia Treaty Organisation he would be passing through Bangkok and had hoped to have a meeting there with Mr. Adam Malik, Deputy Prime Minister and Foreign Minister of Indonesia. Mr. Malik could not however leave Indonesia and the question therefore was whether he should visit Djakarta on his way back from Canberra for a meeting with Mr. Malik. In the new situation now prevailing in Indonesia the balance of advantage seemed in favour of such a visit, subject to three conditions; that there was no recrudescence of hostilities between Indonesia and Malaysia; that the Indonesian Government had not failed to ratify the agreement with Malaysia reached at Bangkok; and that the visit would not damage Mr. Malik's position in Indonesia, of which Mr. Malik himself would be the best judge.

The Commonwealth Secretary said that in his view it would be unwise for the Foreign Secretary to commit himself to a visit to Djakarta before Indonesian confrontation against Malaysia was over; this might strengthen President Sukarno's position in opposing the
end of confrontation. Moreover, if there were a setback in the negotiations between Malaysia and Indonesia the Malaysians would be inclined to blame this on the Foreign Secretary's visit to Djakarta.

_The Secretary of State for Defence_ said that he thought the risks involved in the visit were worth taking. He would like to consult the Foreign Secretary about the possibility of a military adviser accompanying him to Djakarta since this might afford an opportunity for direct discussions with the Indonesian military authorities.

Summing up the discussion _the Prime Minister_ said that the general view of the Cabinet was in favour of the Foreign Secretary's proposal that he should visit Djakarta, subject to the three conditions he had mentioned.

The Cabinet—

1. Agreed with the Foreign Secretary's proposal that he should visit Djakarta, subject to the conditions he had mentioned.
2. Invited the Foreign Secretary and the Secretary of State for Defence to consider whether a military adviser should accompany the Foreign Secretary.

_The Foreign Secretary_ said that at the meeting of the North Atlantic Treaty Organisation (NATO) in Brussels decisions had been reached about the relocation in the Benelux countries or in Germany of the military headquarters which were under notice to leave France. The French Government had not asked that the North Atlantic Council should leave and the French Foreign Minister had indicated that they would be glad if the Council remained in Paris but would not oppose a move. If the Council stayed in Paris it would be divorced from all immediate sources of military advice. Nevertheless, some members of the Fourteen, particularly Denmark and Canada, were hesitant about a move for fear of offending the French. A statement had been agreed stressing the importance of close co-operation between the political and military authorities in NATO, agreeing on a study of alternative sites for the Council, deferring a final decision pending discussions with the French Government on other matters and calling for a meeting of Ministers in October. It seemed likely that the French would be very uncompromising in the discussion on other matters and the final decision would probably be in favour of the North Atlantic Council leaving Paris.

On the position of the French forces in Germany, the French Government had proposed that apart from bilateral discussions with the German Government about the status of their forces other issues should be discussed only between their military authorities and those of NATO. This was not acceptable to the Fourteen Powers since the role of the French forces and arrangements for their co-operation with NATO both in peace and in an emergency were essentially...
political matters. The French had finally agreed that these issues should be discussed in the North Atlantic Council but their attitude in such discussions was likely to be very obstructive. The bilateral talks on the status of the forces would begin on 13th June; their progress would depend on progress in the political discussions and no agreement was likely to have been reached by 1st July when the French forces would be withdrawn from NATO. The status of the French forces in Germany would thereafter be covered by some provisional arrangement.

If matters developed in this way the French people might begin to have doubts about the implications of General de Gaulle's policy. We wished to keep France in the Alliance, but it was doubtful whether the French attitude would be reasonable on the issues which must be resolved and their declaration that they wished to remain an ally of their allies might prove to have little substance. Our essential objective was that NATO should remain efficient and workable, with France if possible, but without her if necessary.

Relations with Eastern Europe had also been discussed and a considerable range of opinion was apparent amongst the Fourteen on the possibility of making progress. It had been agreed that each country should endeavour to improve relations in such minor but still significant fields as travel, trade, cultural relations, etc. On the central issues, such as German reunification, it was recognised that a united approach was essential and there was some fear that General de Gaulle, during his visit to Moscow, might try to make bilateral arrangements with the Soviet Union, although these would in practice remain without effect so long as other NATO countries were not associated with them. Proposals for improving East/West relations, including the possibility of a European conference, would be further discussed in the North Atlantic Council. The French Foreign Minister had stated that no new or spectacular development was to be expected from General de Gaulle's visit to Moscow, but there was no indication of General de Gaulle's real intentions as regards the visit.

The Cabinet—

(3) Took note of the Foreign Secretary's statement.

Cabinet Office, S.W.1,
9th June, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 14th June, 1966, at 11 a.m.

Present:

The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. MICHAEL STEWART, M.P., Secretary of State for Foreign Affairs
The Right Hon. ARTHUR BOTTOMLEY, M.P., Secretary of State for Commonwealth Relations
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Overseas Development
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. RICHARD MARSH, M.P., Minister of Power

The following were also present:

Mr. ROY MASON, M.P., Minister of State, Board of Trade
Mr. ROY JENKINS, M.P., Secretary of State for the Colonies

Secretariat:

Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
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1. The Minister of Labour said that the previous evening he had discussed with the Finance and General Purposes Committee of the Trades Union Congress (TUC) the interim Report of the Court of Inquiry under the chairmanship of Lord Pearson. It appeared that they had now somewhat changed their view: they now suggested that agreement might be reached with the National Union of Seamen (NUS) if the recommendations were improved by abandoning the proposal that the number of days’ leave should be reduced in consequence of the immediate move to a 48-hour week. The Committee had been unanimous that this was the only basis on which agreement might be reached. Such an arrangement would, however, amount to an immediate increase of pay equivalent to 7½ per cent, as compared with the 5 per cent represented by the recommendations of the Court of Inquiry and would destroy any prospect of maintaining the Government’s policy on prices and incomes. It was unfortunate that the view of the TUC had already become public knowledge. The shipowners for their part were not prepared to make concessions going beyond the Court’s recommendations. As regards the seamen, it appeared that a substantial number were now ready to return to work on the terms recommended by the Court, but strong efforts, including intimidation in some instances, were being made by certain sections of the Union to maintain the strike.

In discussion it was suggested that the responsibility which had been laid upon the Minister of Labour for the maintenance of the Government’s policy on prices and incomes had made it impossible for him to carry out his task of industrial conciliation. A solution could not be found to the present dispute unless the Government were prepared to move from its rigid position, the maintenance of which might alienate public support. Nor would the industrial issues be settled even if the seamen’s strike were to collapse: it was also of major importance to maintain the Government’s relationship with the TUC, which had to take on the role of conciliation hitherto held by the Minister of Labour.

It was, however, the general view of the Cabinet that the Government could not seek the termination of the strike on the terms proposed by the Finance and General Purposes Committee of the TUC, even if these should prove acceptable to the owners, and that the adoption of such a course would destroy any prospect of success of the Government’s policy on prices and incomes. It would, therefore, inevitably lead to the abandonment of the Government’s policy of maintaining full employment and the consequences would, in the longer run, be far more damaging to the people of the country as a whole than the prolongation of the strike. There was general recognition that the maintenance of the Government’s policy might involve an early widening of the area of industrial dispute and that the continuation of the strike would shortly necessitate the greater use of the Government’s emergency powers, particularly in respect of the maintenance of port working.
There might even be a threat to the maintenance of law and order in certain areas, in view of the extent of intimidation. These consequences had, however, been envisaged when the Cabinet had first decided on its course of action in relation to the current dispute and must, if necessary, be accepted as preferable to a change in policy which would involve substantial unemployment. There was also general agreement that it was important to seek to maintain the fullest co-operation with the TUC and to persuade the General Council of the TUC of the importance of not departing in any material respect from the recommendations of the Court of Inquiry, of which the Chairman of the TUC was a member. It could also profitably be emphasised that these recommendations constituted solely an interim report and that other long-standing and serious grievances of the seamen were being considered by the Court.

The Prime Minister, summing up the discussion, said that the Cabinet were agreed that the Government could not contemplate any material departure from the recommendations of the interim Report of the Court of Enquiry. They recognised that this policy might lead to a deterioration of the immediate industrial situation and every effort should be made in further discussion with the TUC to avoid this. He would accordingly now, together with the Minister of Labour, discuss the situation with the TUC and seek to persuade them of the importance of standing by the recommendations of the interim Report of the Court of Inquiry. He would also consider in the light of the reactions of the TUC whether he and the Minister of Labour might profitably then see the Executive of the NUS or their negotiating committee. If from these discussions the possibility emerged of any compromise proposals which would be compatible with the Government’s policy on prices and incomes, the Cabinet would be further consulted.

The Cabinet—

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

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2. The Prime Minister said that, when the Cabinet last considered steel nationalisation, the views of the steel companies had been reported. These had fallen a long way short of what the Government considered necessary both in terms of effective reorganisation of the industry and of public ownership. The Minister of Power had since indicated the views of the Government to the industry, and on Monday, 13th June, Mr. Judge and Mr. Peach of the British Iron and Steel Federation (BISF) had come to give him and the Minister of Power the industry’s views on nationalisation. Mr. Judge had also told him that the Federation would be issuing a statement of their views that night (Tuesday). Their proposals were quite inadequate to meet the Government’s requirements and he had replied that although he
would report the industry's views to his colleagues, they were not acceptable.

The Minister of Power said that, despite the pending Press release, he would be meeting Mr. Judge later that day to consider with him how the nationalisation measures could be put into effect.

The Cabinet—
Took note of the statements by the Prime Minister and the Minister of Power.

Cabinet Office. S.W.1.
14th June, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 16th June, 1966,
at 10.30 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary
of State for Economic Affairs
The Right Hon. LORD GARDNER, Lord Chancellor
The Right Hon. MICHAEL STEWART, M.P., Secretary of State for Foreign
Affairs
The Right Hon. ARTHUR BOTTOMLEY, M.P., Secretary of State for Common-
wealth Relations
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Overseas Develop-
ment
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRANK COUSINS, M.P., Minister of Technology
The Right Hon. BARBARA CASTLE, M.P., Minister of State, Board of Trade (Item 3)
The Right Hon. FREDERICK LEE, M.P., Secretary of State for the Colonies

The following were also present:
Mr. ROY MASON, M.P., Minister of State, Board of Trade (Item 3)
The Right Hon. EDWARD SHORT, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD

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

2. The Foreign Secretary said that there was reason to be hopeful that the recent discussions between representatives of the Malaysian and Indonesian Governments at Bangkok would lead to an end of confrontation, but the outcome was still uncertain. Meanwhile, there had been military clashes in Sarawak in which Australian troops had been involved and there was as yet no evidence that the Indonesians were withdrawing their forces from the frontier areas or giving up military activity. President Sukarno was also still opposed to the ending of confrontation. There had, however, been large public demonstrations in Indonesia in favour of the Bangkok Agreement.

His own projected visit to Djakarta would, of course, have to be cancelled if there were to be further military incidents in Borneo indicating the continuation of confrontation, but it was hopeful that, when the possibility of the visit had been mentioned to Mr. Malik, the Indonesian Foreign Minister, the latter had immediately made it known that the Foreign Secretary would be visiting Indonesia at Mr. Malik’s invitation.

The Commonwealth Secretary said that there had been certain internal political disputes in Malaysia which might be exploited by Indonesia if there were not a real desire on the part of the latter to end confrontation.

The Foreign Secretary said that increased financial aid had been offered to Federal Ministers amounting to capital aid of £5.5 million and additional recurrent aid of £2.5 million a year, on the understanding that their own contribution to the total cost of the Federal security forces would not fall below the present figure of £2.2 million. We were also prepared, in principle, to increase this aid somewhat if the States of the Eastern Aden Protectorate were to enter the Federation. Although the Federal Ministers would still have liked a defence agreement with the United Kingdom, they appeared to be reasonably satisfied with the offer of aid which had been made.

The Secretary of State for Defence said that in response to the request of the Colonial Government for assistance in dealing with disorder arising from a strike, one of Her Majesty’s frigates had landed 50 seamen and these might be reinforced by a further 100 marines later that week.

The Commonwealth Secretary said that there was strong opposition in the North to the recent constitutional proposals for a
unitary government put forward by the Military Government of Nigeria; there was in consequence the possibility of disorder and riots which would threaten the position of that Government.

The Cabinet—

Took note of these statements.

3. The Prime Minister said that since the Cabinet had last discussed the seamen’s strike he and the Minister of Labour had held discussions with the Finance and General Purposes Committee of the Trades Union Congress (TUC) and subsequently with the negotiating committee of the National Union of Seamen (NUS). Later, they had seen representatives of the shipowners. The NUS now appeared to be less concerned with their demand for an immediate move to a 40-hour week than with the retention of their existing leave rights in respect of Sunday working. They also appeared to be convinced that productivity could be so increased as to enable overtime to be reduced without any loss of output. The shipowners had felt unable to offer any compromise with the union; but they had offered a concession whereby seamen would be entitled to take an additional day’s leave in respect of each eight hours overtime worked instead of receiving overtime pay. This offer, which represented only an extension to the seamen of an agreement already in force in respect of the Merchant Navy officers, would involve no additional cost and would not, therefore, involve any departure from the principles of the settlement recommended by the Interim Report of the Court of Inquiry under Lord Pearson.

In the light of these exchanges with the union and the employers it remained important that the Government should not themselves suggest any concessions which would make a settlement more expensive than the proposals in the Interim Report. Nevertheless it might not be inconsistent with this objective to suggest that leave entitlement in respect of Sunday working might be restored rather later in the year in so far as the Court of Inquiry found, in the second stage of their investigation, that compensating economy could, and would, be secured by the implementation of additional measures to increase productivity, whether by a reduction in overtime, a redefinition of existing demarcations of function or otherwise. But, even if it proved possible to resolve the present dispute on some such lines as these, it was apparent that there was a need for a more radical and searching examination of the structure and organisation of the shipping industry; and there might be advantage in promoting a review of this kind as soon as the Court of Inquiry had completed its work.

In discussion some concern was expressed that any initiative towards a settlement of the kind suggested by the Prime Minister might convey the impression that concessions of substance, involving a further increase of wage costs beyond those recommended by the Court of Inquiry, would be acceptable to the Government, with all
the damage to the Government's policy on prices and incomes which would certainly ensue. Moreover, the proposals in the Interim Report of the Court of Inquiry could only be reconciled with the prices and incomes policy if overtime were reduced by two hours a week within the next 12 months, as the Court had recommended; and this increase in productivity, which had still to be achieved, must not be allowed to rank as the justification for any further improvement in the terms of a settlement such as would be represented by the reinstatement of some measure of Sunday leave entitlement. Any new concession of this kind would need to be justified by the implementation of measures to secure an additional increase in productivity. Doubts were also expressed whether, despite the views put forward by the NUS, an actual reduction in overtime worked would be popular with the seamen themselves, since, given the conditions of life at sea where leisure facilities were necessarily limited, they might well prefer in many cases to work additional overtime and so to increase their earnings for the voyage.

In further discussion, it was the general view that, while it was important that any initiative on the part of the Government should be made only in response to an indication on the part of the NUS that they were now seeking a settlement of the strike, it would nevertheless be neither unreasonable on merits nor inconsistent with the Government's policy on prices and incomes if it were to be made clear that the Government accepted that the NUS might reserve their right to propose an increase in leave entitlement beyond that proposed in the Interim Report of the Court of Inquiry, provided that any such increase was no more than was justified by an increase in productivity, which would need to be additional to the reduction of two hours overtime already contemplated by the Interim Report.

In further discussion the following additional points were made:

(a) It might be helpful if the Court of Inquiry consulted the association of Merchant Navy Officers in addition to the shipowners and the NUS.

(b) It would be necessary for the Proclamation of Emergency to be renewed by the following Wednesday if the strike had not been settled by then. Regulations under the Proclamation would have to be approved by both Houses of Parliament within a period of seven days thereafter; and this might entail a full day's Parliamentary debate.

The Prime Minister, summing up the discussion, said that the Cabinet were concerned that any settlement of the dispute should not involve an increase in wage costs going beyond that implicit in the proposals of the Interim Report of the Court of Inquiry. They agreed, however, that, provided that the Government took no new initiative save in response to an indication by the NUS that they no longer sought to insist on the complete acceptance of their terms, it might be proposed that, in addition to the concession of additional leave in lieu of payment for overtime which had been suggested by the shipowners on the previous evening, consideration should be
given later in the year, after the further report of the Court of Inquiry on productivity, to an increase in the leave entitlement envisaged by the Interim Report to the extent that this was justified by any increase in productivity actually achieved over and above the reduction of two hours overtime contemplated in the Interim Report. The Cabinet also agreed that, after the Court of Inquiry had completed their work, there might be an advantage in promoting a searching investigation into the structure of the shipping industry, comparable with the recent enquiries into the aircraft and shipbuilding industries. Together with the Minister of Labour he would pursue further discussions with those concerned in the dispute in the light of these conclusions.

The Cabinet—

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

Cabinet Office, S.W.1,
16th June, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 21st June, 1966, at 10 a.m.

Present:

The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. MICHAEL STEWART, M.P., Secretary of State for Foreign Affairs
The Right Hon. ARTHUR BOTTOMLEY, M.P., Secretary of State for Commonwealth Relations (Items 1 and 2)
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland (Items 1 and 2)
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade (Item 1)
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science
The Right Hon. THE E A R L O F LONGFORD, Lord Privy Seal
The Right Hon. FRANK COUSINS, M.P., Minister of Technology
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. FREDERICK LEE, M.P., Secretary of State for the Colonies

The following were also present:

Mr. ROY MASON, M.P., Minister of State, Board of Trade (Item 2)

The Right Hon. EDWARD SHORT, M.P., Parliamentary Secretary, Treasury

Secretariat:

Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
Mr. R. T. Armstrong

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The Cabinet had before them a Note by the Secretary (C (66) 84), to which was attached a report by officials on the action to be taken in the light of the seamen's strike, together with a Note by the Home Secretary (C (66) 85), summarising the views of the Ministerial Committee on Emergencies on the recommendations in the report by officials.

The Prime Minister said that in accordance with the discussion in Cabinet on 16th June he had, on the following day, had discussions with the leaders of the Shipping Federation and the National Union of Seamen (NUS). He had been able to bring the two sides together for a joint discussion of the possibilities of a settlement; but it had become clear that the discussions were fruitless. He had then met the full Executive of the NUS and had made clear to them the Government's view of the position; but the Union had decided on the following day to continue the strike. Both he and the Minister of Labour had felt that many members of the NUS Executive would have supported a return to work if they had been free from pressures against this course. The General Secretary of the NUS (Mr. Hogarth) had considered the possibility of taking a ballot on the question of continuing the strike; but there were formidable objections to this. In the last ballot taken by the NUS for the election of the Executive Committee only 5,000 out of 55,000 members had voted. Moreover, the method of balloting presented great difficulties for seamen on long voyages and both the question to be put and the recording of votes offering opportunities for manipulation. There were considerable uncertainties as to the Union's roll of membership, which included many who had not been to sea for a considerable time; and a ballot could not be taken in less than a fortnight at best. For all these reasons he and the Minister of Labour had come to the same view as Mr. Hogarth.

The strike now showed signs of disintegrating; but the same pressures to maintain it were being brought to bear in the ports as in the Executive Committee. It was quite clear that the Executive of the NUS were being subjected to organised pressure by their more militant members, inspired by a small group who were not members of the Executive but were meeting daily to further the extension of the strike. The existence and methods of the group were known to some members both of the Press and of the Executive of the NUS itself; and it was for these reasons that he had thought it right, in agreement with the Minister of Labour, to bring these facts, by means of his statement in the House of Commons on the previous day, to the notice of the country and the main body of the membership of the Union. Thereafter he had again seen Mr. Hogarth to tell him something of the background of the dispute as indicated in his Parliamentary statement.

The Home Secretary said that at the meeting of the Ministerial Committee on Emergencies on the preceding day it had become apparent that action under the Emergency Powers might not become necessary before the end of the week. The Committee had therefore...
thought it right to advise the Cabinet in the terms of his Note C (66) 85, namely, that the Proclamation of Emergency should be renewed and a further set of Emergency regulations made on 22nd June; that the existing policy of avoiding emergency action which could have serious industrial consequences should be continued; but that Departments should authorise more liberally, as necessary, the exceptional use of sea, air or road transport and other facilities for the movement of goods.

In discussion it was urged that whilst the first of these recommendations was essential and the third unexceptionable in the circumstances, some firmer action than was proposed in the second recommendation was necessary, in view of the Union's decision to continue the strike and of the Prime Minister's statement in the House of Commons about the background of this decision. For this purpose the setting up of Port Emergency Committees (PECs) would be appropriate as indicating the Government's determination to be prepared for an extension of the strike, without immediately involving provocative action.

In further discussion the following points were made:

(a) If the strike continued, it would sooner or later become necessary to use the Emergency Powers in the ports; and the machinery for this purpose, in the shape of the PECs, should be ready and waiting. The preparations already made, however, would enable these Committees to be set up at a few hours notice; and it might be an error in tactics to establish them until there was manifestly work for them to do.

(b) A further argument against premature action in relation to the PECs was the fact that the absence of congestion in the ports so far was largely due to the agreement reached early in the strike between the NUS and the Transport and General Workers' Union to keep open certain berths. In the light of this it would be both wrong and provocative to set up the PECs before they were needed to deal with actual congestion.

(c) On the other hand it was difficult to justify the renewal of Emergency Powers if they were not used; and, given that the Opposition were likely to challenge the renewal, there would be advantage in being able to point to at least one instance in which they had been put into effect. Moreover, even though it had not been necessary to use the Powers, it might become necessary to do so at short notice. Their renewal was therefore fully justified on these grounds; and similar considerations would be understood as applying to the establishment of the PECs.

(d) If a demonstration of firm action was called for, it would be best for this to be at the points where it had already become necessary. The strike had already caused considerable damage to the economy of the Scottish Islands. So far the minimum of essentials had been taken in and nothing had been brought out, with consequential damage to the Islands' exports to the mainland of fish, livestock and livestock products. On the other hand Royal Navy ships were not suitable for the purpose envisaged; and the arrangements made by the Ministerial Committee on Emergencies...
on the preceding day would now allow the export of bacon and cheese, although not fish products.

(e) Seamen terminating their contract at the end of a voyage would qualify for unemployment benefit provided that they were not going back to sea and were seeking work ashore. The Ministry of Labour was trying to estimate the number of cases of this kind, though there was considerable difficulty in determining how many could be classified as cases of where the strike was being subsidised.

In further discussion it was stated that the main effect of the strike on United Kingdom trade to date had been to delay heavy exports to Australia and New Zealand. Surplus air freight capacity for exports to distant markets as well as to Europe was still available; but the air freight charges were not economic. It had been ascertained that the Royal Air Force (RAF) could carry 4,000 tons of goods a week to Europe and a few hundred tons to Australia and New Zealand; but the problem of uneconomic cost would still arise. Between 70 and 80 per cent of exports were getting away in foreign ships; and the main use of air freight would be for exporters in exceptional difficulties. The Board of Trade were investigating a scheme whereby in such cases they could be asked for assistance in securing air freightage from the RAF.

The Prime Minister, summing up the discussion, said that the Cabinet approved the two recommendations of the Ministerial Committee on Emergencies, that the Proclamation of Emergency should be renewed and a further set of Emergency Regulations made on the 22nd June and that Departments should authorise more liberally, as necessary, the exceptional use of sea, air or road transport and other facilities for the movement of goods. The balance of opinion was that PECs should also be established on 22nd June.

The Cabinet—

(1) Invited the Secretary of State for the Home Department to arrange for the renewal of the Proclamation of Emergency and of the Emergency Regulations, and for a further Regulation, conferring certain Emergency Powers on the Ministry of Aviation, to be made on 22nd June.

(2) Invited the Secretary of State for the Home Department to inform Departments that the exceptional use of sea, air or road transport and other facilities for the movement of goods might now be authorised more liberally, as necessity arose.

(3) Invited the Secretary of State for the Home Department, in consultation with the Minister of Labour and the Minister of Transport, to arrange for the Port Emergency Committees to be constituted forthwith and for a public announcement of this to be made on 22nd June.
2. The Cabinet considered a memorandum by the First Secretary of State (C (66) 79) on the Channel Tunnel.

The First Secretary of State said that, after preliminary studies had shown that as between a Channel tunnel and a bridge the advantage was decisively in favour of the former, the previous Administration, in conjunction with the French Government, had decided in February 1964 to carry out a detailed examination of the technical feasibility of, and economic case for, a tunnel. The present estimates were that a tunnel with a very large capacity for freight, passengers and accompanied cars would take about five years to build and cost £134 million (£160 million inclusive of capital charges and interest capitalised over the construction period). A joint official report on problems of organisation and finance would be ready in July, but all the technical and economic assessments required for a decision in principle were already available. There would be political advantage in reaching such a decision by the time the French Prime Minister and Foreign Minister paid their visit to the United Kingdom on 6th July.

The technical and economic appraisal showed that a bored tunnel was technically feasible and that there was no serious geological impediment. Its construction would not impose a serious additional burden on United Kingdom resources. On the latest estimates of traffic demand the overall net economic benefit, as compared with meeting traffic requirements by surface or air transport, was between £250 million and £350 million and the "discounted cash flow" rate of return was between 17 and 21 per cent. This clearly allowed ample margin for contingencies.

The construction of the Channel Tunnel would increase the attractiveness of the Channel port area of the South-East region, but the growth of trade with Europe would in any event tend to have this effect: nor would a stimulus to growth in the part of Kent concerned be unwelcome. The opening of a direct rail link with Europe could lead to better use of the railways and bring to United Kingdom deep-sea ports ocean-bound traffic which would otherwise go to continental ports. The net effect on regional development was unquantifiable and though, on balance, it appeared that it would be necessary to strengthen the Government's control over regional industrial development, any disadvantages in this field were greatly outweighed by the economic advantages of the Tunnel as a whole.

In the Ministerial Committee on Economic Development there had been some reservations on the estimates of cost and traffic and on the regional consequences, but the main difficulty arose in respect of organisation and finance. It was clear from the discussions between French and United Kingdom officials that the French Government would insist that the Tunnel should be constructed as a basically private enterprise, raising its own capital. They would, however, agree that it should be operated by a public authority which, it was suggested, should have the right to acquire all the rights of the Tunnel after a certain period. It would be necessary for the lease
agreement to provide the equity holders with the prospect of a reasonable return on their investment, while ensuring that they did not reap excessive profits. While there was objection on grounds of principle to the construction and ownership in the initial period of the Tunnel by private enterprise, the balance of advantage lay in accepting the French view. There were, moreover, certain compensating advantages in that this arrangement would relieve the heavy pressure upon United Kingdom public finance in the period involved and might facilitate the investment of European funds in the project. In these circumstances, the Committee on balance had taken the view that the Government should now decide in principle to go ahead with the Channel Tunnel without delay, on the basis of a private enterprise company to construct and hold it and a public authority to operate it, subject to detailed negotiations with the French Government and the private interests concerned on the terms involved. These should include the reservation of the United Kingdom right in principle to participate in the equity of the investment company and to a guarantee of unrestricted access to the Tunnel for through traffic between the United Kingdom and continental countries other than France.

In discussion it was urged that the objection in principle to private enterprise constructing and owning the Tunnel in the initial period should be overriding. The use of the term “risk capital” was inappropriate in the circumstances involved, in that no substantial risk would be borne by private enterprise and it was unacceptable that private capital should obtain a rate of profit which might be incommensurate with the degree of risk involved. It was also suggested that the increased economic attractiveness of the South-East region arising from the construction of the Tunnel would be damaging to the Government's regional policy and the economic interests of other regions of Great Britain. There might also be advantage in waiting for the fuller studies which would be available in July before deciding in favour of a tunnel, rather than, say, a cross-channel bridge, or in favour of a rail tunnel rather than a road and rail tunnel combined.

It was, however, the general view that the further studies which would become available would not affect the broad technical and economic appraisal which had already been made and which showed decisive economic arguments in favour of the construction of a tunnel for rail traffic. The Cabinet were informed that there were no objections on defence grounds to this proposal. As regards the regional consequences it was pointed out that, while further study was required, the considerations were by no means wholly one-sided. The growth of United Kingdom trade with Europe would in any event have implications for the economic growth of the South-East. The construction of a rail tunnel would however enhance the economic attractiveness of rail transport and this, in addition to its value for its own sake, could if properly exploited improve the economic competitiveness of regions other than the South East, as well as that of the United Kingdom deep sea ports. In considering
the question of public ownership it was also the general view that, while in principle such ownership would have been desirable if acceptable to the French Government (whose attitude was determined by their own Budget difficulties rather than on ideological grounds), there were substantial financial advantages in the construction being financed by private capital. This would relieve the pressure upon public financing in the period involved and, in addition to attracting European investment, was calculated to cause less additional strain upon United Kingdom financial resources as a whole. In this connection, however, the negotiation of the Government's option to acquire the rights of the Tunnel at a later date would be of particular importance.

The Prime Minister, summing up the discussion, said that there was general agreement with the proposals put forward in the memorandum by the First Secretary of State and further action should proceed accordingly. Additionally it would be necessary to carry out a detailed study of the regional consequences of the construction of the Tunnel and for consideration to be given to the possible need for measures to be taken by the Government to counteract any undue stimulus to the development of the South East region.

The Cabinet—

(1) Approved C (66) 79.

(2) Invited the First Secretary of State to arrange for the Ministerial Committee on Economic Development to consider, on the basis of a draft prepared by the Minister of Transport, the statement which should be made to the French Prime Minister on 6th July.

(3) Invited the First Secretary of State, in consultation with the Ministers concerned, to arrange for a further detailed study of the regional implications of a decision in principle to construct the Channel Tunnel and of any further measures which the Government might need to take to maintain their regional development policy.

3. The Cabinet had before them memoranda by the First Secretary of State on prices and incomes policy (C (66) 81), on the draft Prices and Incomes Bill (C (66) 80) and on pay review machinery (C (66) 82); and a memorandum by the Minister of Labour (C (66) 83) on arbitration and courts of inquiry.

The First Secretary of State said that it would be convenient first to consider the issues of policy raised in his memorandum on prices and incomes policy (C (66) 81), because decisions on other matters before the Cabinet would largely flow from the major decisions of policy. Since the Government took office they had been developing a policy for productivity, prices and incomes which was designed, on the basis of co-operation and agreement with representative bodies.
on both sides of industry, to bring about a gradual but lasting improvement in the relationship between the growth of prices and incomes and the growth of national productivity. The initial steps, which had not been easy to achieve, had been to secure agreement to a joint declaration of intent and to the principles of prices and incomes policy as set out in the White Paper (Cmd. 2639). At that stage the Government had deliberately rejected any idea of a standstill in the level of prices and incomes, mainly on the ground that it would make impossible any attempt to work out a longer-term policy for prices and incomes and productivity. It had always been recognised that the policy would be effective only over a time; none the less in the 14 months since the White Paper was published there had for several reasons been less success than might have been hoped in achieving some restraint in the growth of personal incomes in relation to the growth of productivity. Despite the fact that the level of employment and of industrial investment had been maintained, and the volume of imports increased, production and output per head had risen less than had been expected. The Government's relative success in holding down prices, at any rate up to the end of March 1966, at a time when incomes were continuing to rise had added to the pressure of demand. It was now necessary to decide whether to continue broadly on the lines of the existing policy, developing it within the limits set by the general basis of co-operation and agreement on which it was founded and recognising that it could not be expected to have dramatic results over a short period of time; or whether the exigencies of the economic situation demanded more drastic measures, in particular the institution of a prices and incomes standstill.

His own view was that the Government should not seek to introduce a standstill. This would seriously prejudice the chances of the longer-term policy and of retaining support for that policy; the measure of influence on wage claims which the Economic Committee of the Trades Union Congress (TUC) had gradually achieved would be lost; and a standstill was bound to be unfair in its incidence, particularly on wages and salaries in the public sector where the Government would be able and bound to insist upon its imposition. If it were accepted that there should be no standstill, the alternative was to carry forward the existing policy, by developing the principles in agreement with the TUC and the Confederation of British Industries (CBI) and others, by changes in pay review and arbitration machinery on the lines discussed in C (66) 82, and by the introduction of the Prices and Incomes Bill in order to give statutory force to the early warning system, on the lines suggested in C (66) 80. At the same time the Government would need to reaffirm that it was their policy to aim at a rising rate of growth and a proper relationship between incomes and growth; and it would be necessary to consider further why the measures taken so far to encourage the growth of industrial productivity had been less successful than might have been hoped.
A decision on this major question of policy was a necessary preliminary to a decision on the Prices and Incomes Bill, since it would in his view be inappropriate to introduce the Bill if the Government decided to adopt a policy of a prices and incomes standstill.

The Chancellor of the Exchequer said that he accepted the First Secretary's approach to prices and incomes policy, which was an important element in the education of public opinion in a democracy about the consequences of maintaining a high level of employment. Nevertheless, the policy had not so far succeeded in substantially moderating the growth of incomes; and the balance of payments situation was such that it was not possible simply to rely on leaving the policy to achieve its results in the fullness of time. Apart from any other measures that might be necessary—and it must be recognised that the effect of the selective employment tax would be to impose a considerable measure of deflation between September when collection of the tax would start and February when repayments would start—he considered that the measures proposed by the First Secretary of State should be supplemented by an announcement that the norm for increases in prices and incomes for the next 12 months should be nil and that any increases at all would need to be strictly justified by the criteria which had been laid down. It might be desirable to accompany such a move by a public gesture of some kind to encourage voluntary offers of temporary reductions in larger incomes.

In discussion the view was expressed that the prices and incomes policy had been misconceived from the outset and represented the wrong approach to the problems with which it sought to deal. The policy had, if anything, accelerated the pressure of incomes inflation by encouraging attempts to seek to anticipate its effects. On this basis it would be preferable that the Government should not proceed with the Prices and Incomes Bill, which was incompatible with the Government's relationship with industry and the trade union movement, and should consider other means of achieving the aims of their economic policies.

On the other hand there was a wide measure of agreement that the Government had been right to initiate a prices and incomes policy in the form and manner which they had adopted, that the arguments against a prices and incomes standstill were cogent and that the right course of action was to proceed on the general lines proposed by the First Secretary of State. At the same time it could be argued that the Government had relied on the prices and incomes policy for more than it could be expected to achieve and had on occasion tended to defer difficult but necessary decisions in a mistaken over-reliance on the policy for fear of prejudicing it. If, therefore, the Government now decided to continue this policy, the Cabinet should without delay take stock of the whole range of economic prospects and strategy for the next four or five years, in order to review the prices and incomes policy in its wider context and to consider what alternative or supplementary measures were available and what decisions on policy might need to be taken on the assumption that only a gradual development of prices and incomes policy could be
expected. Such a review should concentrate primarily on the possibility of further action to encourage the growth of industrial productivity.

In further discussion the following points were made:

(a) While a norm of nil, on the lines suggested by the Chancellor of the Exchequer, would differ from a standstill in that it would leave room for price and income increases in exceptional cases, it would be widely regarded as a standstill; and for this reason it might well be impossible to combine it with the introduction of the Prices and Incomes Bill. On the other hand it might be desirable to suggest a norm of less than the present 3\(\frac{3}{4}\) per cent, perhaps one corresponding to the actual increase in productivity, although it had to be remembered that the 3\(\frac{3}{4}\) per cent figure had been agreed by the TUC and the CBI and that they would not necessarily accept a lower figure. There might, indeed, be some advantage in not naming a figure or range of figures since any figure tended to set not a norm but a minimum for increases of wages and salaries.

(b) There might well be more public support now than before for a standstill, or for a lower norm, if the need for it could be clearly explained to public opinion.

(c) The reasons for the lack of success of the prices and incomes policy in achieving the necessary degree of restraint so far were complex. One reason was that some of those who supported the policy in principle did not carry that support through in practice. Another reason was a lack of the necessary degree of voluntary discipline. A third reason was a general impression among lower paid workers that the policy was enforced upon them more rigorously than upon some of those who were more highly paid. The Government's own decisions in certain cases, e.g., judges and doctors, had contributed to this impression. It might be desirable to re-examine the possibility of a two-standard norm, with a higher rate for lower paid than for higher paid people, although in employments where income levels covered a wide range this would create problems in relation to differentials. It would also be desirable to make it clear that the policy applied not just to weekly wage earners and public servants but also to the higher salary levels in industry and commerce and to professional fees, dividends and rents.

(d) There would be some presentational advantages if the Prices and Incomes Bill gave powers to require not only compulsory notification of dividend increases but also a temporary standstill, as with prices and salaries and wages. It was recognised, however, that there would be formidable difficulties about a statutory power to require a standstill on dividends; the TUC's Economic Committee had reluctantly accepted the objections as decisive.

The Prime Minister, summing up the discussion, said that there was a substantial measure of support for the general objectives of the prices and incomes policy as stated in the First Secretary of State's memorandum (C (66) 81). The immediate need was to put the First

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Secretary in a position to meet the Parliamentary Labour Party the following day. Sufficient measure of agreement had been reached on general principles to enable the Cabinet to authorise the First Secretary to say that the Government were maintaining their intention of introducing a Prices and Incomes Bill. He might indicate, however, that the Government were prepared to have further consultations with those concerned before the Second Reading of the Bill; and he should emphasise that the Bill would contain provision enabling the Government to require compulsory notification and to allow reference to the Prices and Incomes Board, of dividend increases. He should also emphasise there was no provision for imprisonment as a direct penalty of failure to comply with any provision of the Bill and that penalties for non-payment of fines, whether imposed under this or other legislation, were being considered as a general question by the Home Secretary in relation to the forthcoming Criminal Justice Bill. Discussion of the details of the draft Prices and Incomes Bill and of the proposed modifications of pay review and arbitration machinery should be resumed, in the light of the First Secretary of State's report on his meeting with the Parliamentary Labour Party, at the next meeting of the Cabinet. Arrangements would be made for the Cabinet at an early meeting to have a full discussion of economic prospects and policies, in which the development of the prices and incomes policy could take its place particularly in relation to the achievement of a faster rate of industrial growth and higher productivity.

The Cabinet—

(1) Agreed that the First Secretary of State should inform the Parliamentary Labour Party at their meeting on 22nd June that the Government intended to proceed with the introduction of a Prices and Incomes Bill and should explain the Government's proposals in relation both to dividends and to penalties for offences under the Bill.

(2) Agreed to resume their discussion on the prices and incomes policy and of the Prices and Incomes Bill and pay review machinery at their meeting on 23rd June.

(3) Took note that the Prime Minister would arrange for an early meeting of the Cabinet for a wide-ranging review on the lines indicated in his summing up of their discussion.

Cabinet Office, S.W.1,
21 June, 1966
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 23rd June, 1966,
at 10 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P.,
First Secretary of State and Secretary
of State for Economic Affairs
The Right Hon. JAMES CALLAGHAN,
M.P., Chancellor of the Exchequer
The Right Hon. ARTHUR BOTTOMLEY,
M.P., Secretary of State for Commonwealth Relations
The Right Hon. WILLIAM ROSS, M.P,
Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P.,
President of the Board of Trade
The Right Hon. RICHARD CROSSMAN,
M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P.,
Minister of Labour
The Right Hon. FRED PEARL, M.P.,
Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDDYN HUGHES,
M.P., Secretary of State for Wales
The Right Hon. RICHARD MARSH, M.P.,
Minister of Power

The following were also present:

The Right Hon. KENNETH ROBISON,
M.P., Minister of Health (Item 3)
The Right Hon. SIR ELWIN JONES, Q.C.,
M.P., Attorney-General (Items 1–3)

The Right Hon. FREDERICK MULLEY,
M.P., Minister of Aviation (Items 1 and 2)

The Right Hon. EDWARD SHORT, M.P.,
Parliamentary Secretary, Treasury

Secretariat:

Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. R. T. ARMSTRONG

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

The Minister without Portfolio (Mr. Houghton) said that Dame Irene Ward's National Insurance (Further Provisions) Bill would receive a Second Reading on the Friday of that week. This was almost identical with the Bill introduced in the previous Parliament by Mr. Airey Neave which provided for the payment of retirement pensions to those who did not at present receive a pension because they were over the minimum pension age in 1948 and not then already insured. The Government were now in a stronger position than they had been when Mr. Airey Neave's Bill was introduced to demonstrate that they had made substantial improvements in the provision for old people and the Bill was unacceptable on grounds both of principle and cost. The Legislation Committee had concluded that the Second Reading of the Bill should be opposed and defeated on a vote.

The Cabinet—

Took note, with approval, of the statement by the Minister without Portfolio.

2. The Prime Minister said that he and the Minister of Labour had had a lengthy discussion the previous evening with the Finance and General Purposes Committee of the Trades Union Congress (TUC). He had told them that Lord Pearson, the Chairman of the Court of Inquiry, had now offered his good offices in helping to bring the two parties of the dispute together. The TUC had eventually agreed that their General Secretary should seek to persuade the Executive of the National Union of Seamen (NUS) to accept this offer, as the owners would be prepared to do. It appeared that there was increased willingness on the part of a number of members of the Executive of the NUS to end the strike if a face saving formula could be found; but it was unlikely that there would be a return to work solely on the basis of Lord Pearson undertaking the role of conciliator, acceptable though he was to both parties. After the meetings the previous Friday there had been no point in his seeing the NUS again, but had told the TUC that he was prepared to see them if they wished.

The Home Secretary said that the Ministerial Committee on Emergencies had considered the previous evening the further action which should be taken by the Government. They had agreed that the "Orcadia", a ship owned by the Secretary of State for Scotland, which was operating within the Orkney Islands with the acquiescence of the NUS, should now operate between the Orkneys and the mainland. It was hoped that the crew, who were local men, would
be prepared to continue to operate the ship, but the NUS might withdraw their acquiescence and it might prove necessary to use a Royal Navy crew. Consideration would also be given to the possibility of requisitioning two further ships to move goods between the Orkneys, the Shetlands and the mainland. Further measures might have to be taken shortly to improve the movement of goods between the mainland and the Scottish Islands generally and to enable children to return from school on the mainland at the end of the term.

The Committee had also discussed plans to use Royal Air Force (RAF) aircraft for transporting exports. In view of the risk that this might lead to a refusal by members of the Transport and General Workers Union to move goods to the airfields for this purpose, they had concluded that the decision whether or not to go ahead with the scheme at the present juncture was one which should be reserved for the Cabinet.

In discussion it was the general view that, since so far the capacity of the civil airlines to handle export freight had not been a limiting factor and it was therefore not necessary to use RAF aircraft at the present time for the movement of exports, it would be untimely to make a statement on the initiation of a scheme at present. Such a move might moreover well result in a strike by the employees of British European Airways which would more than offset direct gains from the scheme. Furthermore, the discussions between the TUC and the NUS and Lord Pearson’s offer of good offices provided opportunities for ending the strike that should not be prejudiced. It would, moreover, be desirable to postpone any statement until after the meeting the following Sunday of the Executive of the International Transport Workers Federation (ITF) in view of the importance of not prejudicing the prospect that the ITF would decline to assist the NUS in the strike.

The Prime Minister, summing up the discussion, said that the Ministerial Committee on Emergencies should consider what further action might be necessary to maintain the movement of goods to and from the Scottish Islands. As regards the announcement of plans for using RAF aircraft for transporting exports it was the general view that the initiation of the scheme in the course of the next few days might be prejudicial to the prospect of ending the strike. Further consideration should, if necessary, therefore be given to the proposal early in the following week. Meanwhile, it would be sufficient to state, if necessary, that the details of the plan had not yet been fully worked out.

The Cabinet—

(1) Took note of the statements by the Prime Minister and the Home Secretary.

(2) Agreed that no statement should be made at present of the Government’s plans to use RAF aircraft for transporting exports and that the matter should be further considered in the course of the following week.
3. The Cabinet resumed their consideration of memoranda by the First Secretary of State on prices and incomes policy (C (66) 81), on the draft Prices and Incomes Bill (C (66) 80) and on pay review machinery (C (66) 82), and of a memorandum by the Minister of Labour (C (66) 83) on arbitration and courts of inquiry.

The First Secretary of State said that in accordance with the Cabinet's conclusion at their previous meeting he had informed the Parliamentary Labour Party on 22nd June that the Government intended to proceed with the introduction of a Prices and Incomes Bill broadly on the lines that had already been made known. He had made the point that the Bill would include power to require compulsory notification of dividend increases and power to refer dividends to the National Board for Prices and Incomes (NBPI) and he had explained the Government's proposals about penalties for offences under the Bill, and for dealing with the problem of non-payment of fines. At the meeting the Government's proposals for productivity, prices and incomes had met with a wide measure of support, and those in favour of the policy and of the introduction of the Bill had considerably outnumbered those against. The view did not appear to be generally taken that the proposals in the Bill constituted an unacceptable encroachment upon the independence and the rights of the trades unions.

In discussion it was suggested that this general support for the policy had been qualified by criticism on various aspects, and notably on the absence of special provisions in respect of lower paid workers. The application of a percentage norm at all levels of income inevitably implied a widening gap in absolute terms between incomes at different levels; one suggestion was that the norm should be formulated in money terms rather than in percentage terms. It was suggested that Government supporters would look for an element of income redistribution in the working of the prices and incomes policy. It might be desirable that, when the Bill was introduced, other measures should be taken at the same time to create a favourable climate of opinion. For instance:

(i) The Government might take action to establish adequate minimum wages.

(ii) The Government should be able to show that there were sanctions that could be applied when recommendations by the NBPI were not accepted (as, for instance, in the case of the Road Haulage Association).

(iii) It should be made clear that the prices and incomes policy applied no less to dividends than to wages; if the Government were relying upon fiscal measures to restrain dividend increases, their ability and readiness to use such measures should be made manifest.

Further action on these lines might be combined with the introduction of a norm of nil, with exceptions strictly related to improvements in productivity, together with some public gesture of voluntary restraint or abatement of incomes by the more highly paid workers.
on the lines that had been suggested by the Chancellor of the Exchequer at the previous meeting.

It was pointed out, however, that much of what had been suggested would need considerable work before any decisions could be taken by the Government, still less before action could be put into effect. Some of what was proposed would be highly controversial and might have an adverse effect on the climate of opinion on prices and incomes policy.

The Prime Minister, summing up this part of the discussion, said that the Cabinet agreed in principle that the prices and incomes policy should continue to be developed on the lines that had been followed hitherto, and that the Prices and Incomes Bill should be introduced in July. He would discuss the exact timing of the introduction of the Bill with the First Secretary of State, the Lord President of the Council and other Ministers closely concerned. The introduction of the Bill should not wait for action on the suggestions that had been put forward in discussion, which should receive the further thought and examination they required before decisions could be taken. Moreover the Minister of Technology had made some new suggestions for action which could increase the effectiveness of prices and incomes policy, and would not be incompatible with the introduction of the Bill, although they might affect the extent to which it would be necessary to implement its provisions. It would be useful if these suggestions could be examined by the First Secretary of State and other Ministers concerned, with a view to their being further considered by the Cabinet at a meeting to be arranged in the near future, when he hoped that it would be possible to have the wide-ranging review of economic prospects and policies which had been suggested at the previous meeting.

The First Secretary of State said that in this field his general policy would be to strengthen the authority of the National Board for Prices and Incomes (NBPI); to avoid setting up new independent review bodies and to try to bring the existing bodies closer to the prices and incomes policy and to the NBPI; to establish as a general rule that courts and committees of inquiry should be required to take account of national economic considerations; and to seek the agreement of the Trades Union Congress (TUC) and the Confederation of British Industries (CBI) to a joint tripartite declaration that arbitrators should have regard to the national interest and specifically to the prices and incomes policy. He had set out in C (66) 82 detailed proposals for making progress on these lines.

The Minister of Labour said that he accepted the First Secretary's general objectives in respect of pay review machinery. He questioned, however, the wisdom of a tripartite declaration requiring arbitrators to have regard to prices and incomes policy. In his view the function of arbitration, at any rate in the private sector and perhaps also in the public sector, was to be an extension of the machinery of collective bargaining. Arbitration tribunals were not able to take a completely detached view de novo of a matter that was referred to them, as could the NBPI; their function was to settle disputes, and they inevitably operated within the limits of the particular cases with which they
were concerned. For instance, even if in a dispute an employer had offered more than could be justified in terms of the prices and incomes policy, an arbitration tribunal could hardly in practice make an award which offered less. For these reasons arbitration could not in his view be used as an overt instrument of incomes policy and any attempt so to use it was likely to diminish the confidence of the two sides of industry in arbitration and thus to diminish its value in dealing with industrial disputes. For these reasons he was unable to support the First Secretary's proposal for a tripartite declaration. He would prefer to rely on selection and careful briefing of arbitrators, and on the power to refer arbitration awards to the NBPI.

He agreed in principle with the First Secretary's proposals on courts and committees of inquiry, although in view of the circumstances in which such bodies were set up it was desirable to retain some flexibility in dealing with particular cases. On unilateral arbitration he would be holding further meetings with the TUC shortly. Though the TUC were anxious that a system of unilateral arbitration should be restored, it would not be easy to overcome the reluctance of the CBI.

In discussion there was considerable support for the misgivings expressed by the Minister of Labour about a tripartite declaration on arbitration. It was pointed out that, although the NBPI had recommended that the Franks Committee on Higher Civil Service Pay should be invited to have regard to considerations of prices and incomes policy, the Civil Service National Staff Side had been unwilling to co-operate in such an invitation, partly because they feared that, if they did so, they would be under pressure to agree that a similar invitation should be issued to the Civil Service Arbitration Tribunal. They had agreed, however, that the Franks Committee should be entitled to take into account anything which the Committee themselves thought relevant. There would be further approaches to the National Staff Side to pursue this matter. But their reaction suggested that a tripartite declaration on arbitration would be difficult to achieve; and, if the Government tried and failed to obtain agreement to a tripartite declaration, they would be able themselves to issue a declaration on their own responsibility only at the cost of great resentment. It might be better to rely upon the power to refer particular arbitration awards to the NBPI, and so to face resentment on a particular case rather than on the general principle. Another possibility might be to give the NBPI a general oversight of arbitration awards, which would entitle them to review any award they thought right without specific reference by the Government. This would be less invidious than relying on particular references; it would, however, breach the principle hitherto followed, that the Board considered matters only on specific reference by the Government (though they were free to suggest to the Government matters which they would like to have referred to them).

In further discussion the following main points were made:

(a) The Secretary of State for Education and Science said that the proposal that the pay of university teachers should be determined
by a panel of the NBPI rather than by an independent review body would not be popular with university teachers; none the less he agreed with the First Secretary's general objectives and was content to accept the particular suggestion of an NBPI panel, provided that it was made clear from the outset that the panel would be dealing with other questions of public service pay besides the pay of university teachers. It was suggested that the pay of the Higher Civil Service and the remuneration of doctors and dentists should also be brought within the scope of the NBPI panel from the outset; but it was pointed out that this was likely to be completely unacceptable to the staff interests concerned and that more progress was likely to be achieved if the Government moved towards this long-term objective by stages, beginning on the lines suggested by the First Secretary of State in his memorandum.

(b) The Secretary of State for Defence said that he was prepared to accept that the NBPI panel should deal with Forces pay, again if it were recognised from the start that the panel was going to deal with a range of public service pay questions. On the other hand the Ministry of Defence were developing proposals for dealing with Forces pay in a way which would avoid difficulties created by the Grigg formula. They would be discussing these proposals with the Department of Economic Affairs, the Treasury and the Ministry of Labour. In his view no irreversible decisions on the machinery for dealing with Forces pay should be taken until these proposals had been examined.

(c) The Minister of Health said that with some misgivings he was prepared to accept the First Secretary's proposals (in paragraph 3 of C (66) 82), in so far as they related to the Review Body on Doctors' and Dentists' Remuneration. He expected that the representatives of doctors and dentists could be brought to agree that the Kindersley Review Body should be invited to take account of the national interest and in particular of the general principles of prices and incomes policy; he foresaw some objection on the part of the professions to the proposal that a representative of the NBPI should be added to the secretariat of the Review Body; and he thought it likely that the professions would resist strongly proposals for common membership between the NBPI and the Review Body. In his view it would be important not to try to make progress in relation to the Kindersley Review Body ahead of progress in relation to the Franks Committee.

(d) It was suggested in discussion that, if arrangement were made for bringing the Franks Committee and the Kindersley Review Body into closer relation with the prices and incomes policy, on the lines suggested by the First Secretary of State, it would in practice be very difficult subsequently to refer their recommendations to the NBPI. This might in turn be reflected in arrangements for the rest of the Civil Service, which might be reluctant to accept that the NBPI should have general surveillance over awards of the Civil Service Arbitration Tribunal if recommendations by the Franks Committee and the Kindersley Review Body were in practice not referable to the NBPI.

The First Secretary of State, summing up this part of the discussion in the absence of the Prime Minister, said that he would

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like to consider further what his colleagues had said about the
difficulties of bringing arbitration machinery into a closer relationship
with the prices and incomes policy. He recognised the force of the
objections to a tripartite declaration, particularly in the private sector;
on the other hand, if there were to be no such declaration, the
Government's willingness and ability to intervene in disputes that
had been the subject of arbitration, and so to refer them to the NBPI,
would be critical to the success of the policy. To give the NBPI a
standing right to review arbitration awards would be to breach the
principle that it was for the Government to initiate references; it was
not clear that this was desirable. It had also to be recognised that
it would in practice be difficult, if not impossible, to secure that the
implementation of arbitration awards was delayed while they were
considered by the NBPI; reference of arbitration awards to the Board
was likely to be acceptable only on the basis that they were referred
for examination and comment after the event.

He recognised the theoretical difficulty of appearing to adopt
a different way of dealing with review bodies from that adopted for
dealing with arbitration awards, particularly in the public sector.
Nevertheless, these theoretical difficulties might not arise in practice,
if it were possible to associate the existing review bodies more closely
with the prices and incomes policy, by means of changes that would
broadly achieve the same effects as, even if they did not take the
exact form of, the proposals in paragraph 3 of C (66) 82. There was
general agreement that in the long term the general objective should
be to transfer the work of the existing review bodies to the NBPI (or
its proposed panel); but the Cabinet accepted that it would be
necessary to proceed to this objective by degrees, as circumstances
permitted, and endorsed the general lines of his proposals.

The next stage would be for the Ministerial Committee on Prices
and Incomes to agree detailed proposals for making progress in the
field of pay review machinery, in the light of the Cabinet's discussion.

The Cabinet—
(1) Agreed that the prices and incomes policy should be
developed on the lines which had emerged from their
discussion.
(2) Approved the draft Prices and Incomes Bill attached to
C (66) 80, for introduction in July 1966.
(3) Took note that the Prime Minister would discuss with the
First Secretary of State, the Lord President of the Council
and other Ministers concerned the timing of the
introduction of the Prices and Incomes Bill.
(4) Took note that the First Secretary of State would arrange
for the Ministerial Committee on Prices and Incomes to
consider detailed proposals for developing the prices and
incomes policy and for modifying pay review machinery
on the general lines suggested in C (66) 81 and 82, in the
(5) Invited the Secretary of State for Defence to arrange for officials of his Department to discuss with officials of the Treasury, the Department of Economic Affairs and the Ministry of Labour proposals for changes in the arrangements for dealing with pay of the Armed Forces, and to report to the Ministerial Committee on Prices and Incomes.

(6) Invited the Minister of Labour to consider further the implications and consequences of introducing legislation for a national minimum wage and to report to the Ministerial Committee on Prices and Incomes.

(7) Took note that the First Secretary of State would examine further the question of sanctions for non-compliance with recommendations of the National Board for Prices and Incomes, and in particular, in consultation with the Minister of Transport, would consider what further action the Government should take about the recent decision by the Road Haulage Association, despite the recommendations of the National Board for Prices and Incomes and remonstrations by the Minister of Transport, to recommend "blanket" increases of road haulage charges.

(8) Took note that the Prime Minister would arrange for the suggestions by the Minister of Technology for action to increase the effectiveness of productivity, prices and incomes policy to be further considered during the Cabinet's forthcoming discussion of economic prospects and policies.

Cabinet Office, S.W.1,
23rd June, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 28th June, 1966, at 10.30 a.m.

Present:

The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. ARTHUR BOTTOMLEY, M.P., Secretary of State for Commonwealth Relations
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade (Item 1)
The Right Hon. ANTHONY CROSSTON, M.P., Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLEWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. RICHARD MARSH, M.P., Minister of Power

The following were also present:
The Right Hon. FREDERICK MULLEY, M.P., Minister of Aviation (Item 1)
Mrs. SHIRLEY WILLIAMS, M.P., Parliamentary Secretary, Ministry of Labour (Item 1)

The Right Hon. HERBERT BOWDEN, M.P., Lord President of the Council
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M.P., Minister without Portfolio
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Overseas Development
The Right Hon. RICHARD CROSSMAN, M.P., Minister of Housing and Local Government
The Right Hon. FRANK COUSINS, M.P., Minister of Technology
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. FREDERICK LEE, M.P., Secretary of State for the Colonies

Secretariat:
Sir BURKE TREND
Mr. W. A. NIELD
Miss J. J. NUNN
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1. The Prime Minister said that, since the Cabinet's last discussion of the strike, the Trades Unions Congress (TUC) had persuaded the Executive of the National Union of Seamen (NUS) to agree to Lord Pearson mediating between themselves and the owners. The moderate members of the Executive had secured a vote of 31 to 11 in favour of resumed discussions. Under Lord Pearson's chairmanship the owners had made proposals for improved productivity, i.e., that essential work done on Bank Holidays at sea should fall within the normal monthly payment and not rank as overtime. This would justify a further 4½ days leave entitlement. The NUS had then made their own suggestion, justifying a further 4½ days leave for reducing deck watches on ships of over 2,500 gross registered tons from three men to two. These two proposals would together yield a cost saving of 1·8 per cent, equivalent to a further nine days leave entitlement. A settlement on this basis could be accepted as being in line with the prices and incomes policy. A resolution in the NUS Executive the preceding Saturday to end the strike on these terms had, however, been amended in order to make these proposals no more than a basis for further negotiation with the owners in a meeting starting that day, Tuesday, 28th June. In the meantime, the more militant members of the Union had taken the line that the Union should ask for further improvements; and branches of the NUS in a number of ports had passed resolutions demanding the full 40-hour week at once. The outcome of the resumed discussions was therefore uncertain; but the moderate section of the Union seemed now more likely to assert themselves, and the militant members had received a setback as a result of the response of the International Transport Workers Federation (ITF) to the NUS's request for support, since the ITF had limited their assistance to an appeal to help the NUS financially. Those who wished to end the strike were in the majority on the negotiating committee of the NUS; but the final decision lay with the full Executive of the Union and might be complicated by proposals for a ballot or for meetings of all local strike committees or possibly for a recall of the Conference of the Union.

In discussion it was suggested that the strike now seemed to be moving to a settlement on the basis of improvements in conditions accompanied by improvements in productivity, whereas at an earlier stage the Government had given the impression that they were not prepared to endorse such a settlement because of the policy on prices and incomes. Was it now proposed that the Government should deter the shipowners from accepting whatever settlement might now be agreed between them and the Union? On the other hand the Government's good offices in settling the strike on terms consistent with their policy had been used whenever opportunity offered. The Government had suggested that the most fruitful area for a settlement lay in a bargain such as that now under discussion, whereby improved leave conditions would be justified by increased productivity; and they had brought the parties together to discuss...
this possibility. The owners had initially resisted attempts to persuade them to accept the Pearson Report, to consider the possibility of a settlement based on increased productivity, and to any resumption of discussions with the Union under Lord Pearson's mediation; but the Government's pressure on them had been successful. Having been pressed so far, it was unlikely that they would be prepared to concede more than the additional nine days leave now contemplated. Indeed, several members of the Executive had told the owners that they regarded this as a basis for a settlement. The summary manner in which previous proposals for settlement—both those of the Court of Inquiry and of the Government—had been rejected after only a brief discussion showed that the strike had ceased to be concerned with conditions of work and had become a struggle for power within the Union.

The Home Secretary said that the Ministerial Committee on Emergencies had recurrently, during successive phases of the strike, postponed emergency action where it might have provoked an extension of the strike. At their meeting on the preceding Friday, the Committee had postponed until their meeting on Tuesday evening action to requisition two ships and to provide them with Royal Navy crews, in order to ensure essential supplies and services to the Orkneys and Shetlands. Now that further discussions between the NUS and the owners were taking place it was for consideration whether the action contemplated should be postponed still further.

In discussion it was agreed that it would be sufficient to postpone the decision for a further 24 hours, at the end of which time either the strike might be over and it would be possible to concert immediate arrangements with the NUS or if the strike was to continue, the case for action would be clear.

The Cabinet—
(1) Took note of the Prime Minister's report of developments in the strike.
(2) Invited the Secretary of State for the Home Department to arrange for postponement, for a further 24 hours, of a decision to requisition ships and to use Royal Navy personnel on services to the Orkneys and Shetlands.

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Reform of the House of Lords
2. The Cabinet considered a Memorandum by the Lord Chancellor and the Lord Privy Seal (C (66) 87).

The Cabinet's discussion and the conclusions reached are recorded separately in the Bound Volume of Most Confidential Records held by the Secretary of the Cabinet.

Cabinet Office, S.W.1,
28th June, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 30th June, 1966, at 10 a.m.

Present:
The Right Hon. HAROLD WILSON, M P, Prime Minister
The Right Hon. GEORGE BROWN, M P, First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. DENIS HEALEY, M P, Secretary of State for Defence (Items 1-3)
The Right Hon. ROY JENKINS, M P, Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M P, Minister without Portfolio
The Right Hon. ANTHONY GREENWOOD, M P, Minister of Overseas Development
The Right Hon. RICHARD CROSSMAN, M P, Minister of Housing and Local Government (Items 1-5)
The Right Hon. FRANK COUSINS, M P, Minister of Technology
The Right Hon. BARBARA CASTLE, M P, Minister of Transport
The Right Hon. FREDERICK LEE, M P, Secretary of State for the Colonies
The Right Hon. GEORGE THOMSON, M P, Attorney-General (Items 5 and 6)
The Right Hon. ANTHONY WEDGWOOD BENN, M P, Postmaster General (Item 7)
The Right Hon. JOHN DIAMOND, M P, Chief Secretary, Treasury (Items 4-7)
The Right Hon. EDWARD SHORT, M P, Parliamentary Secretary, Treasury

The following were also present:
The Right Hon. FREDERICK MULLEY, M P, Minister of Aviation (Items 3 and 5)
The Right Hon. GEORGE THOMSON, M P, Chancellor of the Duchy of Lancaster
The Right Hon. SIR ELWYN JONES, Q C, M P, Attorney-General (Items 5 and 6)
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The Cabinet were informed of the business to be taken in the House of Commons in the following week.

The Lord President said that, on present indications, the time required for the remainder of the Finance Bill and for the Selective Employment Payments Bill was likely to be such as to necessitate Parliament continuing to sit during the second week in August, unless discussion were restricted by the passing of a guillotine motion. On balance it was desirable for such a motion to be passed and this might allow a maximum of three days for the Committee stage of the Selective Employment Payments Bill. In order to ensure adequate debate of the more important clauses of the Bill it would also be desirable for the motion to allot the time available for various sections of the Bill, and for it to be introduced before the Committee stage.

In discussion it was urged that such limitation of the discussion of the Bill would be unwelcome to a number of members of both parties and that it would be preferable for Parliament to prolong its sitting until the second week in August. It was, however, the general view that a guillotine motion on the lines proposed by the Lord President would allow adequate time for discussion of the important features of the Bill and that the balance of advantage lay in such a motion being passed, so allowing Parliament to rise at the end of the first week of August in accordance with the present plan.

It was, however, suggested that since difficulties of this nature relating to important Bills arose every year shortly before the Summer Recess, because of the time taken for discussion of the Finance Bill, it would be desirable for the Finance Bill procedure to be reviewed. There was general agreement with this proposal.

The Cabinet—

(1) Invited the Lord President of the Council, in consultation with the Chancellor of the Exchequer and the Chief Whip, to introduce a motion for the guillotine procedure in respect of the remaining stages of the Finance Bill and of the Selective Employment Payments Bill, on the lines indicated in discussion.

(2) Took note that the Prime Minister would arrange for a Committee of the Ministers primarily concerned to examine the procedure for dealing with Finance Bills with a view to shortening the time required for their discussion on the floor of the House of Commons.
The Cabinet were informed of the provisions for compensation which were proposed for the nationalisation of iron and steel companies.

The Prime Minister said that in accordance with previous practice the initial discussion of the appropriate terms of compensation for the nationalisation of iron and steel companies had been confined to the Ministers immediately concerned.

The Minister of Power said that the Government's previous proposals for compensation were based on stock exchange values over the five years from October 1959 to October 1964. The total cost on this basis was approximately £550 million. This had been criticised at the time as over-generous; nevertheless, a clear and specific undertaking had been given by the Government. The Ministers immediately concerned had considered whether it would be appropriate to adopt a similar basis of compensation in the Iron and Steel Bill and, after discussing a number of possibilities, had concluded that the fairest and also the simplest method was merely to bring forward the five-year period which had previously been adopted, in the light of the time which had elapsed since the publication of the Government's original proposals. It was hence proposed to adopt the five-year period April 1961 to April 1966. The total cost would be approximately £484 million, since the adoption of this period did not involve taking into calculation a period of particularly high speculative values after the General Election of 1959. This proposal must be considered in the light of the valuation at approximately £967 million of the total assets of the companies concerned and its adoption would undoubtedly arouse strong criticism both in the United Kingdom and in financial circles overseas.

Discussion showed general approval for the proposals outlined by the Minister of Power.

The Cabinet—

Approved the basis of compensation for the nationalisation of iron and steel companies proposed by the Minister of Power.

The Prime Minister recalled that he had made a statement in the House of Commons on the preceding day, expressing the Government's regret at the United States bombing of the oil storage tanks at Hanoi and Haiphong. Press reports that there had been a recent hardening of the attitude of the United States Government in respect of negotiations to end the Vietnam conflict were, however, without foundation.

* Previously recorded in a Confidential Annex.
The Chancellor of the Duchy of Lancaster said that the recent Press report, based on his speech at the Western European Union, that the United Kingdom had decided in principle to seek entry into the Community, were also quite inaccurate and his speech had done no more than reflect the views on policy which had been expressed in earlier Ministerial statements.

The Chancellor of the Duchy of Lancaster said that consideration was being given to the proposal which had been put forward by U Thant, the Secretary-General of the United Nations, that a United Nations Mission should be sent to South Arabia: the balance of advantage was however difficult to determine and a decision had not yet been reached on the attitude which the United Kingdom Government should take.

The Prime Minister said that the informal talks between United Kingdom and Rhodesian officials in Salisbury were making no progress. There was some evidence that the leader of the illegal régime, Mr. Smith, took the view that we might be prepared to make concessions because of our economic difficulties arising from the seamen’s strike. It might be necessary to have a pause in the talks, during which time the continuance and, wherever possible, the strengthening of economic sanctions might be expected to have a growing effect on European opinion in Rhodesia.

The Cabinet—

Took note of these statements.

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4. The Cabinet had before them a memorandum by the Minister of Housing and Local Government (C (66) 92), a memorandum by the Secretary of State for Wales (C (66) 93) and a memorandum by the Chancellor of the Exchequer (C (66) 95) about the housing programme.

The Minister of Housing and Local Government said that, taking both the public and private sectors together, housing starts in 1965, 1966 and 1967 should total 392,000, 400,000 and between 435,000 and 450,000 respectively; and completions should number 382,000, 400,000 and 435,000 respectively. The vital issue was not to secure 400,000 completions in the current year but to ensure that the rate of completions rose from the virtually static level of the last three years towards the target of 500,000 for 1970. For this purpose decisions were necessary in the present year.

In July 1965 the Cabinet had agreed that public sector approvals should be restricted to 150,000 for 1965 and 1966 but had agreed that, if private sector performance lagged, public sector activity...
should be increased. When he had invoked this proviso in the following December the Cabinet had been advised that the deterioration in the private sector would be likely to be reversed and that private sector performance would increase by 10 per cent in 1966. They had therefore deferred a decision until the statistics gave a more certain indication. He had postponed a further submission to Cabinet for seven months; but it was now clear that private sector starts in 1966 would still be about 210,000 (i.e., no higher than in 1965) as compared with 247,000 in 1964 under the Conservative Government. It was now essential, therefore, to increase public sector approvals in order to make good the deficiency in the private sector; and he proposed that, for this purpose, the local authority housing programmes in England should be increased by 7,500 approvals for general needs in 1966 and by 7,100 approvals for miners' houses in 1967. These proposals were based on the assumption that new financial measures would be taken to restore private confidence in the private sector. Even so the Government could not rely on the private sector to restore the situation completely; and, if further financial stringency developed, even the more limited contribution from the private sector which he was now envisaging might not be realised.

The additional authorisations which he proposed for the public sector would have to be allocated to non-priority areas, because the programmes in priority areas were already using to the full the resources available. But the private sector shortfall was mainly concentrated in the South and Midlands; and since it was in these areas that the local authority programmes had been curtailed, some degree of reinstatement of the reductions could be justified. The proposed increase in approvals for miners' houses did not fall, strictly, within the programme; nor could these houses be regarded as falling in a priority category. But they could be justified by reference to broader considerations of policy connected with the future of the coalmining industry.

The Prime Minister said he had held a series of meetings with the Ministers concerned to give preliminary consideration to the problems now before Cabinet. In these meetings it had been recommended, the Chancellor of the Exchequer reserving his position, that the proposed increase of 7,500 in public sector authorisations for England in 1966 should be approved; and it had been unanimously agreed to recommend that the 7,100 authorisations for miners' houses for England in 1967 should also be accepted on the understanding that the latter should be included within whatever total of authorisations was agreed for the public sector for 1967. Since it was uniquely difficult to regulate the total housing programme in the light of the large private sector element which was not subject to control, the public sector should be used as a balancing factor in order to ensure that both sectors, taken together, reached the approved total target. It followed that the public sector programme should be subject to adjustment from time to time in the light of achievement in the private sector.
The Chancellor of the Exchequer said that the issue before the Cabinet was the extent to which the Government should use the public sector as a counterpoise to the private sector. Starts in the public sector had not yet matched the approvals already given and if the performance of the private sector revived demand could be over-stimulated, with a resultant excessive call on resources. The proposals before the Cabinet involved a considerable addition to the authorised total of public expenditure, which was already excessive in the light of the failure of the rate of economic growth to achieve its target. This would inevitably require either an increase in taxation or a reduction of departmental programmes of expenditure, which were already in excess of the planned 4½ per cent rate of increase. The Cabinet would shortly need to consider this situation and its implications. Meantime, there lay ahead a difficult problem of relating resources to programmes; and, if first priority were accorded to the objective of building 500,000 houses a year by 1970, there would have to be at least no increases, and more probably some early reductions, in other programmes.

At this point the Chancellor of the Exchequer had to leave the Cabinet.

In discussion it was suggested that the housing programme had been agreed by the Cabinet in the previous year on the basis that the demand on resources required to build one house was broadly the same in the public sector as in the private sector; a substitution of houses in one sector for houses in the other sector need not involve, therefore, any extra call on resources. The housing programme was now falling behind schedule; and, unless steps were now taken in the public sector to counter this tendency, there would be an increasingly serious shortfall in the total number of houses built. Moreover, the recommendations of the Ministerial Committee on Housing provided for a slowing down in the public sector at a later date, if it were found that the performance in the private sector was ceasing to lag behind schedule. Indeed, the facts that the housing programme fell broadly as to one-half into the public sector and one-half into the private sector and that the performance of the former could be relatively easily regulated were reasons for treating the housing programme differently from the other sectors of public expenditure.

On the other hand it was argued that, even if a decision to increase housebuilding in the public sector were necessary in the light of the prospects of the housing programme considered in isolation, such a decision should not be taken before the pending review of public expenditure, which would be bound to be a very critical one. The proposals under discussion would offset the decrease in privately financed housing by an increase in publicly financed housing; and in present circumstances, unless taxation were increased, this might well require a reduction in other publicly financed programmes. The argument that shortfalls in private sector housing could be made good by equivalent increases in public sector
housing without involving any additional call on resources was valid only on the assumption that the resources released by the shortfall had no other alternative use than public sector housing, whereas they were more likely to be absorbed by the demands of private consumption, e.g., in connection with the service industries. But this was not necessarily true. The resources in question might be used, for example, for the construction of local authority houses for sale; and the fact that such houses, as distinct from houses built for letting, were not included in the total of public sector housing illustrated the inadequacy of the existing arrangements for regulating the total housing programme. Moreover, if a failure of economic growth to reach its target were allowed to entail undue reductions in public sector programmes, these in turn might lead to a further shortfall in growth, and so provoke a damaging spiral of declining activity. From this point of view it would be desirable, in the forthcoming review of public expenditure, to give consideration to the techniques used in the review in order to ensure that the financial considerations involved were not allowed to distort the balance of advantage expressed in terms of real resources.

The Prime Minister, summing up the discussion, said that on balance the Cabinet endorsed the proposals of the Minister of Housing for an increase of 7,500 in authorisations in the local authority housing programme for England for 1966. The consequential addition of £31 million to public expenditure should not be included in the target for the public expenditure review in such a manner as to prejudice other parts of the public expenditure programme. The increase in authorisations was on the understanding that if, in later reviews of the housing programme, it were found that private building was no longer falling short of its target, public sector authorisations might then be reduced accordingly. Similarly the proposal for 7,100 authorisations for miners' houses for England for 1967 should be approved; but in any future reviews of the housing programme these authorisations should count against the total authorisations for the public sector for England for 1967. It would be necessary, during the forthcoming review of public expenditure, to give careful consideration to the question of the relationship between financial and real resources. In advance of that review the Treasury and the Ministry of Housing and Local Government should examine the comparative unit costs of public and private sector housebuilding, and should consider the position of local authority houses built for sale in relation to the review of public expenditure. The additional 1,000 houses for miners in Wales proposed by the Secretary of State for Wales in C (66) 93 raised rather more complex issues, which might require further consideration.

The Cabinet—

Took note, with approval, of the Prime Minister's summing up of their discussion.
5. The Cabinet considered memoranda by the Minister of Aviation (C (66) 88), the Secretary of State for Foreign Affairs (C (66) 89) and the Attorney-General (C (66) 90) on the Concord Project.

The Minister of Aviation said that the position on the Concord project was in essence little different from that when it was reviewed by the Government immediately on taking office. Further authorisations were now urgently needed if the development of the Concord was to continue; and a decision now would in effect commit the Government to completing the development unless some unforeseen major technical difficulty arose. Since the project was last considered, the estimate of the cost of development to certification of airworthiness had risen to £370 million, of which the United Kingdom’s share would be £185 million. Additional development after certification and provision for contingencies were likely to bring the total United Kingdom liability on development to £250 million. A decision now to authorise the remainder of the development programme up to certification would involve an expenditure of a further £145 million over the next five years. In addition, working capital for production would have to be provided by the two Governments; the sums outstanding were likely to reach a maximum of £75 million to £110 million for each country in about five or six years’ time, but this would be gradually reduced as aircraft were sold.

So far the development programme was going according to plan and was proving technically successful. There was no reason to suppose that the Concord could not fly in time to give the three to four years’ lead on the production of the United States supersonic transport which would be necessary to enable sales to be made in any quantity. Officials of the two Governments had estimated that sales might total 150 aircraft, and market studies carried out by United States companies to ascertain sales prospects for their own aircraft tended to confirm this estimate. Operating costs and sales prospects could however, be adversely affected if restrictions were imposed upon the use of Concord over inhabited areas because of the effects of sonic bang, on which it had not yet been possible to carry out substantial tests.

In all the circumstances, and in view of the legal advice and the political objections to withdrawing, it appeared necessary to authorise the remainder of the development programme of the Concord up to certification of airworthiness, even though other uses for the economic resources involved might well have proved to be more advantageous.

The Chancellor of the Duchy of Lancaster said that the Foreign Secretary and he saw no alternative to proceeding with the Concord project. The legal advice seemed to make it clear that it would cost the United Kingdom, in financial terms, nearly as much to withdraw.
as to stay in. From the political point of view a second attempt to withdraw from the Concord project could irreparably damage our reputation for reliability in joint projects of this kind.

The Attorney-General said that, having once again reviewed the United Kingdom's legal position, he could only confirm that there was no legally defensible way of withdrawing from our obligation under the agreement or of placing a limit on our financial liability under it. If we were to seek to withdraw from the treaty unilaterally, we should face the risk of proceedings in the International Court of Justice, which could order us to compensate the French for the additional cost of having to complete the project on their own.

In discussion there was general agreement that the economic case for withdrawing from the project was stronger than ever, but the consequences of unilateral withdrawal would be very serious and it would be much to be preferred that any decision on the future of the project should be taken in full association with the French Government. They had to face the same escalation of costs as we did, and there was reason to think that they were concerned about the rising financial commitment. Admittedly M. Pisani, the French Minister mainly concerned, had informed the Minister of Aviation that the French Government had none the less decided to go ahead, and any attempts to explore the French position would have to be conducted with great care. It might, however, be possible to work towards a joint position whereby co-operative efforts would by mutual agreement be concentrated on projects of greater intrinsic advantage than Concord. The first opportunity for talks at governmental level was likely to arise when the French Prime Minister, M. Pompidou, visited London in the first week of July, and it might be appropriate for the Prime Minister on that occasion, without giving M. Pompidou the impression that we were contemplating unilateral withdrawal, to suggest that the great cost of development (which might well be considerably greater even than the current estimates suggested), and the risk of restrictions on use because of the sonic bang, made it desirable to have a further technical and commercial reappraisal of the Concord project as a use of the two Governments' resources.

In further discussion the following points were made:

(a) The Report of the Anglo-French Committee of Officials, dated 13th May, 1966, made it impossible for the United Kingdom Government to argue that the technical viability of the project was at present open to question. The Government were at least to some extent committed by the views expressed by this Committee, which included United Kingdom officials. It was however argued that the details of their report did not support its conclusions. It was also suggested that the Committee of Officials was naturally concerned narrowly with the Concord project, and that it was desirable that United Kingdom officials on the Committee should be made more aware of the wider economic problems with which the project presented the Government and of the serious misgivings of Ministers about it. The agreement of officials to any future reports should have full regard to these considerations.
(b) It might be that the risk of our being taken to the 
International Court of Justice by the French Government, in the 
event of unilateral withdrawal, was being overstated. If we were 
going ahead with co-operative ventures in other fields (for instance, 
the Channel Tunnel, other Anglo-French aircraft projects and the 
European Launcher Development Organisation), it was unlikely that 
the French Government would in practice proceed to ultimate 
measures if we withdrew from Concord. Even if they were to do so, 
it could not necessarily be assumed that the costs which we might have 
to meet would be as great as those which we should face if we 
continued with the project.

(c) One major uncertainty in assessing the future of the Concord 
was the effect of sonic bangs. It was suggested that the Government 
would be exposed to considerable criticism and large claims for 
nuisance and damages if they undertook a testing programme which 
was inherently likely to damage property and perhaps even damage 
people, and would therefore be ill-advised to test the effects of sonic 
bang on large centres of population without legislation that would 
limit their liability for damages. On the other hand it was argued 
that low-flying Royal Air Force aircraft already on occasion broke 
the sound barrier, and that even without legislation the Ministry of 
Defence had not had to face undue claims for damages. Urgent 
consideration should be given to further studies of the effects of sonic 
bang on the operating costs and sales prospects of the Concord, and 
to the possibility of more extensive tests of the effects of the sonic bang 
in highly populated areas.

(d) It was suggested that if it were agreed not to withdraw 
unilaterally, and if it proved that the French Government were 
determined to continue with the project, it might be possible to 
raise with them the possibility of associating other European countries 
with the development in such a way as to spread the costs. On the 
other hand experience suggested that technical collaboration in 
projects of this nature between more than two nations was unlikely 
to prove efficient and on balance it was felt to be preferable not to 
pursue this proposal. A major consideration if the project were to 
be completed was that this should be done as rapidly as possible, 
since otherwise the prospect for sales would be gravely damaged.

The Prime Minister, summing up the discussion, said that the 
Cabinet remained seriously concerned about the Concord project. 
The consequences of unilateral withdrawal were, however, such that 
it was highly desirable that any decisions affecting future development 
of the project should be taken jointly with the French Government. 
The Government should therefore take such opportunities as might 
be open to them to discover more about the views of the French 
Government on the future of the project, and in particular about 
the extent to which the anxieties of the Cabinet about rising costs 
and commercial prospects were shared by French Ministers. He 
would himself seek an opportunity to raise this matter with 
M. Pompidou, when he came to London, in such a way as not to
arouse suspicion that we were once again seriously contemplating unilateral withdrawal. In particular he would endeavour to discover whether the French Government had taken sufficient account of the possible effects of restrictions on use on account of the sonic bang upon the operating costs and sales prospects of the Concord; and, if opportunity arose, he might be able to put into M. Pompidou’s mind the thought that a further joint appraisal of commercial prospects in the light of technical considerations and rising costs might be useful. In the meantime the Minister of Aviation should urgently consider how the consequences of the sonic bang could be more thoroughly tested and should re-examine the commercial prospects for the Concord in relation to technical considerations and rising costs, and particularly in relation to the probable consequences of restrictions on use because of the sonic bang. In reporting further to the Cabinet on these matters the Minister of Aviation would no doubt wish to clarify the position of the United Kingdom representatives on the Anglo-French Committee of Officials charged with the supervision of the Concord project. He should also consider in consultation with the Attorney-General whether the additional costs arising from the need to deal with the sonic bang could not properly be advanced as a technical drawback which would legally justify our withdrawal. The Cabinet would resume their consideration of the Concord project in the light of his talks with M. Pompidou and the further report from the Minister of Aviation.

The Cabinet—

(1) Took note that the Prime Minister would seek to raise the problem of the Concord project in his discussions with M. Pompidou, on the lines indicated in his summing up of their discussion.

(2) Invited the Minister of Aviation, in consultation as necessary with the Secretary of State for Defence and the Attorney-General, to consider how the consequences of sonic bang could be more thoroughly tested and to circulate as quickly as possible a further report on the commercial prospects for the Concord in relation to technical considerations (and particularly the sonic bang) and rising costs of development, including the question whether such considerations constituted a technical drawback which would legally justify our withdrawal.

(3) Agreed to resume discussion of the Concord project at a later meeting, in the light of the Prime Minister’s talks with M. Pompidou and of the further report by the Minister of Aviation.
6. The Cabinet considered a memorandum by the Ministry of Aviation (C (66) 91) on the European Launcher Development Organisation (ELDO).

The Minister of Aviation recalled that at their meeting on 9th June the Cabinet had authorised him to make clear to the ELDO Ministerial Conference our serious doubts about the viability of the Organisation, but to state that the Government would be prepared to reconsider their position if—

1. our future contribution were reduced to not more than 25 per cent;
2. the contribution were subject to an absolute limit of, say, £40 million; and
3. arrangements were agreed for an annual review of the programme and for safeguards against automatic commitments to escalating costs.

The Final Resolution of the Conference proposed, subject to the confirmation of Member Governments, a new scale of contributions from 1st January, 1967, and a limitation of the financial commitments of Member States to agreed annual amounts and agreed ceilings for individual programmes. The proposed United Kingdom contribution was 27 per cent, which was a rounding up of the contribution appropriate to our proportionate share, based on respective Gross National Products, of 26.55 per cent. This would involve an increase in our previously contemplated expenditure over the six years 1966–72 to £44.18 million. Since the Conference it had appeared that the French Government were concerned that the proposed French contribution of 25 per cent, as compared with the United Kingdom and German contributions of 27 per cent, would imply a position of inferiority on their part in the Organisation and be damaging to their national prestige; they might, therefore, wish to increase the French contribution to 26 per cent as part of a revision of contributions which would reduce the United Kingdom and German percentages to a similar amount. The third desideratum of the Cabinet had also been agreed in principle, but it now appeared that there was considerable dissension on the means by which legal effect should be given to it.

In these circumstances, he proposed at the next ELDO Ministerial Conference on 7th July to confirm continued United Kingdom participation in the ELDO-A programme and to agree to United Kingdom participation in the further programme (ELDO-PAS) on the basis of the proposed new scale of contributions from 1st January, 1967, subject to satisfactory arrangements being agreed for the review of programmes and for safeguards against escalating costs. The question of making a statement to that effect in a debate in the House of Commons (as proposed in his memorandum) would not now arise as the debate would not take place.
In discussion it was urged that, since it had proved impossible in negotiation to achieve in full the conditions which the Cabinet had laid down, the United Kingdom should now withdraw from further participation in the ELDO programmes, having regard to the absence of scientific, technological or economic justification for them. It was, however, the general view that for the reasons which had been developed in earlier Cabinet discussion such action would on balance be disadvantageous if it were based solely on the marginal increase in the United Kingdom percentage and total contributions, though every effort should be made to seek agreement to the reduction of our percentage contribution to 26 per cent (with a corresponding reduction in our total commitment of £1·25 million) in the light of the reported attitude of the French Government. Nevertheless, there was general agreement that it was of crucial importance that adequate legal provision should be made by amendments to the Convention or the Financial Protocol not only for the annual review of the cost of the ELDO programmes, but also for a number of appropriate break points which would permit the United Kingdom (and other Member Governments) to withdraw if costs rose to an unacceptable level.

In further discussion it was urged that we should support the location of the equatorial launching site in Australia rather than in French Guiana, but it was the general view that this was a matter which would require future consideration in the light of the discussion at the forthcoming ELDO Ministerial Conference.

The Prime Minister, summing up the discussion, said that the Cabinet were on balance agreed that at the forthcoming ELDO Ministerial Conference the Minister of Aviation should be authorised to confirm continued United Kingdom participation in the ELDO-A programme and participation in the further programme (ELDO-PAS) on the basis that, with effect from 1st January, 1967, the United Kingdom percentage contribution would be a maximum of 27 per cent and our total contribution a maximum of £44·18 million. The Minister of Aviation should nevertheless seek, on the basis of the reported attitude of the French Government, to reduce our contribution to 26 per cent, with a corresponding reduction in our total contribution. It would, however, be crucial to our agreement to continue on such terms that satisfactory amendments to the Convention or the Financial Protocol should be agreed whereby there would not only be annual reviews of the cost of the ELDO programmes but also provision for a number of break points at which the United Kingdom could withdraw from further participation in programmes if the Government judged this desirable because of increasing costs. Unless such provision were agreed, the United Kingdom would not be prepared to continue to participate.

The Cabinet—

Invited the Minister of Aviation to be guided at the ELDO Ministerial Conference on 7th July by the Prime Minister's summing up of their discussion.
7. The Cabinet considered a memorandum by the Postmaster-General (C (66) 94) on pirate broadcasting.

The Postmaster-General recalled that the Government were committed by an International Agreement to legislate against the pirate broadcasting stations but that it had not hitherto proved possible to find legislative time for a Bill to implement this undertaking. There had recently, however, been a number of developments which made the introduction of this legislation urgent. New pirate stations had been established and more were threatened, including one with political objectives, and there was increasing complaint from European countries of interference with their domestic services. In addition, there had been violence beyond the reach of police action, and gangsterism was developing: the Government’s will and ability to enforce law and order were now also at issue. There was damaging public and Press criticism of the Government’s inaction and there would consequently now be less political difficulty in introducing legislation: the passage of the Bill would be further assisted if his proposals for the provision of substitute sources of light music proved acceptable, but the publication of legislation against the pirate stations need not await decisions on these proposals. He accordingly sought the agreement of the Cabinet that such legislation should be introduced before the Summer Recess and its subsequent passage expedited. In the meantime he had under consideration the institution of proceedings under existing legislation against stations within territorial limits.

In discussion there was general agreement that legislation against the pirate stations should be introduced before the Recess and that its further stages should be taken in the autumn.

The Cabinet—

(1) Approved C (66) 94.

(2) Invited the Postmaster-General to bring before the Legislation Committee the Marine Broadcasting (Offences) Bill.

Cabinet Office, S.W.1,

30th June, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 7th July, 1966,
at 11.30 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. MICHAEL STEWART, M.P., Secretary of State for Foreign Affairs
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M.P., Minister without Portfolio
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. FREDERICK LEE, M.P., Secretary of State for the Colonies
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:
Mr. ROY MASON, M.P., Minister of State, Board of Trade (Item 3)
Mr. JULIAN SNOW, M.P., Parliamentary Secretary, Ministry of Aviation (Item 3)

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Miss J. J. NUNN

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

2. The Prime Minister said that little progress had been made in the informal talks between United Kingdom and Rhodesian officials. The Rhodesians had been less forthcoming than in the earlier talks in London and we had consequently considered it desirable to have a pause, during which time it was hoped that the continuing pressure of economic sanctions would induce a change of attitude on the part of the illegal régime. The action which we should take in the next phase was being considered by the Ministerial Committee concerned.

The Minister of Housing and Local Government said that he was concerned at the views expressed in the Foreign Secretary’s guidance telegram to oversea missions (No. 188 of 29th June) on our relations with Europe. These views did not appear to accord with those which had been taken by the Cabinet.

In discussion it was maintained that the telegram in question was in fact in full accord with the views publicly expressed by Ministers on the basis of the policy approved by the Cabinet. In the course of discussions earlier that day with the French Prime Minister, M. Pompidou, the Government’s position had been fully reserved in accordance with that policy. Detailed studies of the issues which would arise if the United Kingdom were to enter the Community were being prepared by officials and would shortly be considered by Ministers. Further discussion by the Cabinet of the issues of policy involved could best take place on the basis of the studies in question.

The Prime Minister said that a statement had been published that morning that he would visit Moscow on 16th to 18th July to see the British Trade Fair and that he would be the guest of the Soviet Premier, Mr. Kosygin. In the course of talks which he would have with the latter he would explore the possibility of an initiative which might lead to negotiations in respect of the conflict in Viet-Nam.

3. The Cabinet had before them a memorandum by the Minister of Transport (C (66) 97) to which was attached a draft of a White Paper on Transport Policy.

The Minister of Transport said that the draft White Paper had been very fully considered by the Ministerial Committee on Economic Development. The text had since been extensively
redrafted to take account of the comments made in these discussions. The issues of policy were now agreed and, whilst some few editorial changes remained to be made, none of them involved matters of substance. In view of the acknowledged long-standing need for a comprehensive account of transport policy, she was anxious to have the draft published as a White Paper on Tuesday, 19th July.

In discussion it was urged that, quite apart from the references to future legislation and future public expenditure, the publication of a comprehensive White Paper of this nature, setting out the shape of transport policy for several years ahead and inevitably overlapping with other fields of policy, might provoke demands for further White Papers in those fields, for which the White Paper itself would be a precedent. On the other hand, it was pointed out that, since a comprehensive statement of transport policy had been promised for some time and could not easily be further delayed, the White Paper would meet a clear need. Indeed, there might well be a substantial demand from the public, and particularly from the transport industry, for a popular version of the White Paper.

In discussion of the text a number of drafting amendments were noted and the following points made:

Chapter X. Summary

(a) Paragraph 1. Steps were being taken to strengthen the regional planning machinery in view of the increased strain which would be placed upon it by the execution of the policies set forth in the draft.

(b) Paragraph 3 committed the Government, or the local authorities, to financial responsibility for losses on railway services retained for social reasons. This should not prejudice the outcome of future discussions as to the pattern of public expenditure on this or other programmes. The paragraph could be accepted on that basis; the more so, as a major objective of the new transport policy was to reduce the size of the railways deficit, rather than transfer deficits from one authority to another.

(c) Paragraph 6. One object of the discussions envisaged in this paragraph was to secure the assent of the trade unions to a policy of “open terminals”.

(d) Paragraph 22. It would be inexpedient to commit all conurbation transport authorities to joint local authority control. The statement should be qualified by the insertion of the word “normally” before “under joint local authority control”; and by detailed reference in the main text of the White Paper to the position in Scotland, to be agreed between the Secretary of State for Scotland and the Minister of Transport. As regards the integration of public passenger transport services throughout the conurbations, it was the Minister’s intention that this should be done so far as possible on the basis of public ownership, the local authorities acquiring private passenger transport services. There was as yet, however, no legislative authority for this, and it was not therefore possible to go further than the statement in the draft. It should also be made clear that the integration of public passenger transport services through
the establishment of conurbation transport authorities could be encouraged without prejudice to the work of the Royal Commission on Local Government, and a sentence to that effect should be inserted at the end of paragraph 22.

(e) Paragraph 23, which also envisaged future legislation and increased public expenditure, was acceptable on the basis that it did not prejudge later decisions under either head. References to future legislation were necessary because it would be impossible in many respects to carry out the proposed policy until the necessary powers had been secured by the amendment of the Transport Act, 1962. It had been envisaged that a Bill for this purpose should be a feature of the legislation in the next Session. The paragraph should be amended to make it clear that financial help would be provided for “transport authorities” as appropriate, and not solely for local authorities.

(f) Paragraph 27. The total of financial commitments involved in port improvements should be that provided for in the National Plan (which should be explicitly referred to) and the period of the provision should be precisely stated.

(g) Paragraph 33. The first sentence should refer to the “local authorities and other appropriate bodies in the regions concerned” to make it clear that the views of all organisations concerned with the preservation of amenities could be heard and taken into account.

(h) It might be desirable for the Annex, setting out the Preamble and terms of reference for the Joint Steering Group and Expert Working Party, to include the names of the members of those bodies, in recognition of the considerable time they were giving to this study. Further consideration should be given to this in the light of precedents.

In further discussion it was suggested that the draft did not sufficiently bring out the part civil aviation should play in the planning of an integrated transport system, especially as regards airports and their communications, and that the sequence of chapters might be reordered; for example, by putting the section dealing with railway freight immediately after the section dealing with freight passenger traffic.

The Prime Minister, summing up the discussion, said that the Cabinet approved the draft White Paper for publication on 19th July subject to the amendments indicated in discussion and on the basis that general references to future legislation and public expenditure did not constitute any commitment on the timing of such measures, nor on their scope and form in relation to legislation and expenditure in other fields.

The Cabinet—

(1) Invited the Minister of Transport, in consultation with the other Ministers concerned, to arrange for the revision of the draft on the lines agreed in discussion and, in
4. The Cabinet considered a memorandum by the Lord Chancellor (C (66) 96) on the appointment of Justices of the Peace in England and Wales.

The Lord Chancellor recalled that the Cabinet had invited him to bring before them proposals for improving the arrangements for selecting Justices of the Peace in England and Wales. His proposals had been considered by the Home Affairs Committee, who, subject to certain minor qualifications, were in favour of them. For more than a century there had been complaint that the appointment of Justices was unfairly biased in favour of the predominant political party, and the methods of selection had been the subject of two Royal Commissions—those of 1910-11 and 1948-49. The first Royal Commission had expressed themselves strongly in favour of removing political opinions and services from the factors affecting selection: the paramount consideration should be the character, intelligence, repute and judicial temperament of the candidate, and the Bench should include people of all social classes and all shades of opinion. The second Royal Commission had endorsed these views and further recommended that the Advisory Committees, on whose advice Justices were appointed, should themselves represent a cross-section of the community without a preponderance of persons appointed because of their affiliation with political parties. Nevertheless, there was continuing criticism that an unduly high proportion of Justices was drawn from the relatively small body of people active in local politics, that political affiliations were still an important factor in selection, and in some areas the Bench was predominantly of one party. Given the increasing difficulty of the work of Justices, personal suitability must be a paramount consideration and, subject to this, it was more important that the Bench should be widely representative of all sections of society than that it should represent a balance of political opinions. The key to ensuring that Justices were in fact selected on this basis lay in reforming the Advisory Committees and in ensuring that suitable candidates for appointment to the Bench were not prevented from serving by considerations of financial loss. It was therefore proposed to reduce the political element in the Advisory Committees to one representative of each of the main parties, to draw the other members from a range of social backgrounds sufficient to ensure that the Committees had a wide personal knowledge of the community, to limit the period of service to six years, and, where appropriate, to appoint a person other than the Lord Lieutenant as chairman of County Committees. The Home Affairs Committee had already agreed that the allowance for financial
loss payable to Justices should be at the increased rate recently approved for members of local authorities, and that they should receive subsistence allowances whether or not they served less than three miles from home.

In the context of the improved selection and training of the main body of Justices, it would be anomalous to retain ex officio Justices who were not selected for their personal suitability and for the most part would not undergo training. The Cabinet had deferred a decision on proposals to abolish ex officio Justices pending consideration of improved methods of selection, and in the meantime there had been consultation with the associations representing local authorities, of whom the County Councils Association had agreed to abolition, but the associations representing Municipal Corporations and Urban and Rural District Councils had not, though they recognised that there should be restrictions on ex officio Justices sitting on the Bench if they did not undergo training.

In discussion there was general agreement that the objective should be to secure the appointment of Justices with suitable personal qualifications drawn from all sections of the community. The appropriate means of securing this would no doubt be the careful selection of the members of the Advisory Committees, but it was suggested that it could not be assumed that a reduction of the influence of political parties on the Advisory Committees and the substitution of professional persons, such as doctors, selected for their knowledge of the community, could be relied upon to secure the appointment of an adequate proportion of Justices from the lower income groups. In some areas it would remain true that pressure from the local Labour Party would be required to ensure the appointment of an adequate number of manual workers. On the other hand, it was urged that experience in cognate fields had shown that nomination by political organisations did not produce the most suitable people. Selection by a broadly based Advisory Committee would be likely to produce a better Bench from the point of view of the interests of lower income groups than selection on predominantly political grounds. Since, however, the difficulty of securing a proper diversity on the Bench might well lie partly in the fact that people well qualified to serve were not known to the Advisory Committees, or to those who submitted recommendations to them, it might be useful if the Committees consulted the local Member of Parliament who had a wide knowledge of the people in his constituency. They might also be asked to have regard to the desirability of drawing Justices from a wide variety of neighbourhoods: at present a high proportion of Justices appeared to live in the better-off residential areas.

The Prime Minister, summing up the discussion, said that the Cabinet agreed in principle that Justices should be selected for their personal qualifications and with the object of producing a Bench representative of all sections of the community. They also agreed that the Advisory Committees should be reformed on the lines
proposed; and in making his selection and in supervising the Committees’ work, the Lord Chancellor should have in mind the points raised in their discussion. Against the background of these new proposals the Cabinet agreed to the abolition of *ex officio* Justices in England and Wales, but, since Privy Councillors would be among those who would lose this status, the Lord Chancellor should inform The Queen of his proposals.

The Cabinet—

Approved the proposals in C (66) 96 for the reform of the arrangements for selecting Justices of the Peace and the abolition of *ex officio* Justices in England and Wales.

*Cabinet Office, S.W.1, 7th July, 1966.*
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Tuesday, 12th July, 1966, at 10.30 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P.,
First Secretary of State and Secretary
of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord
Chancellor
The Right Hon. MICHAEL STEWART,
M.P., Secretary of State for Foreign
Affairs
The Right Hon. ROY JENKINS, M.P.,
Secretary of State for the Home
Department
The Right Hon. DOUGLAS HOUGHTON,
M.P., Minister without Portfolio
The Right Hon. ANTHONY GREENWOOD,
M.P., Minister of Overseas Develop-
ment
The Right Hon. RICHARD CROSSMAN,
M.P., Minister of Housing and Local
Government
The Right Hon. FRED FEART, M.P.,
Minister of Agriculture, Fisheries and
Food
The Right Hon. FREDERICK LEE, M.P.,
Secretary of State for the Colonies

The Right Hon. ANTHONY WEDGWOOD BENN, M.P.,
Minister of Technology

The following were also present:
The Right Hon. LORD SHACKLETON, The Right Hon. JOHN SILKIN, M.P.,
Minister of Defence for the Royal
Air Force Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS & ASS.
Mr. W. A. NIELD
SECRET

THE ECONOMIC SITUATION
The Cabinet had before them memoranda by the Chancellor of the Exchequer (C (66) 103), the First Secretary of State and Secretary of State for Economic Affairs (C (66) 99), the President of the Board of Trade (C (66) 100 and C (66) 101), and the Minister of Technology (C (66) 102) describing the economic situation and the measures being taken or in hand to improve it.

There was general agreement that it was necessary to draw a distinction between the requirements of economic policy in the longer term and the exigencies which might affect policy in the short term. So far as longer term policy was concerned there was a substantial measure of agreement that the measures which the Government were taking were on the right lines. There could be no doubt that the essential longer term objective must be to improve productivity, exports and import substitution on the lines suggested in the memoranda before the Cabinet, although it would no doubt be possible from time to time to intensify and supplement these measures by others to the same end.

The difficulty in the longer term, therefore, was not that the policy being pursued was mistaken but that the improvement of the economy in the respects stated, and especially as regards productivity, must inevitably take more time to become fully effective than the Government had had at their command since assuming office. For example, a report on the machine tool industry showed that machine tool imports were rising not because the domestic industry was uncompetitive in terms of price or delivery dates but because the types of machine tools which our user industries required were not being made in the United Kingdom. This was clearly not a situation which could be put right in a year or two; in the meantime the imported tools must be admitted for the sake of the efficiency of the user industries.

Nor did the extensive and valuable work of the Economic Development Committees set out in the memoranda before the Cabinet disclose any pattern of improvement, going beyond general principles, which could be applied indiscriminately throughout industry. Thus, as the memoranda showed, a list could be drawn up of the industries, and of the sectors within individual industries, where the Government’s pressures for the improvement of productivity were already beginning to show results. But the techniques of such improvements varied from industry to industry; and, while better management and techniques of decision-making were essential, they were not the sole factor in improving productivity. Another essential factor was to relate earnings and productivity in wage bargaining between the two sides of industry. Both management and labour had proved reluctant to link pay, productivity and consultation; and the last of these factors was an essential element in wage settlements.

* Previously recorded in a Confidential Annex.
It was therefore important to increase the emphasis on the improvement of productivity. It was not true that the Government's policy to date had concentrated too much on the restraint of prices and incomes and too little on the stimulation of productivity. The former had attracted much more attention because it was more controversial than the latter. But it was essential that both public opinion and industry at all levels should be more conscious of the importance of increasing productivity. To that end it was essential to make the best use both of the Productivity Conference planned for the autumn, and of the educational opportunity provided by the spare television time which would be available until a University of the Air could be introduced.

As regards exports, there was general agreement that the improvement in performance over the past 18 months was very satisfactory. But Government pressure to increase exports must be maintained in order both to sustain the improvement already achieved and to help to offset the undue increase in imported goods which, despite the temporary import charge, had taken place over the same period. This increase was such as to make it necessary to place more emphasis in future policy on the encouragement of import substitution. This could not be developed quickly in relation to capital goods, as was demonstrated by the example of machine tools referred to earlier in the discussion. But there had also been an undue increase in the import of consumer goods of a less essential character.

While there was general agreement that the Government's longer term policies for the improvement of productivity and the balance of payments were on the right lines and, given time, were capable of further development, it would be wrong to take too complacent a view of long term prospects. Even if the immediate short term difficulties were ignored, a considerable effort would be required before the development of the Government's long term policies would be such as fully to restore the viability and stability of the economy. This effort would need to comprise, in particular, measures to ensure a more flexible redeployment of labour; the encouragement of occupational, as distinct from geographical, mobility; and the fostering, perhaps as part of the further presentational efforts that had been called for, of a conviction that improvement of productivity should be achieved not only by better machines and better methods but also by greater individual effort arising from a sense of social purpose. There was, however, general recognition that, whatever the prospects in the longer term, the immediate economic situation was grave and might call for measures some of which might not be easily reconciled with the Government's longer term policies.

The Chancellor of the Exchequer said, that when the Budget had been prepared in April, it had been expected that, in accordance with the pattern of preceding years, the increased level of consumer expenditure in the first quarter of the year in anticipation of additional taxation would be succeeded by a fall in demand in the...
succeeding quarter. The substantial increase in hire purchase restrictions which had been imposed in February had also been expected to have substantial effect in this latter period. These expectations had not been fulfilled; and the pressure on resources had persisted at an uncomfortably high level. The rate of unemployment, which broadly measured this pressure, remained at under 1¼ per cent; and the extreme shortage of labour was undoubtedly one of the main reasons for the continuance of a very rapid increase in wage and salary earnings during the previous year. This had resulted in a sharp increase of unit labour costs at a time when an improvement in the position of United Kingdom industry relative to its competitors was urgently required. The prospect for the domestic economy to the end of the following year was one of continued expansion in output at a moderate rate, with little easing of the inflationary pressure and a continuing rise in wages and prices at almost the rate in the preceding year. The deficit in our balance of payments was likely to be substantial not only in 1966 but also in 1967. The 1964 drawing from the International Monetary Fund and the Swiss loans amounting to £385 million were due for repayment before the end of 1967; and a substantial debt to other central banks also fell due for repayment by then. As a result, the resources available to the United Kingdom would be heavily strained. The Government's plans for an increase of 4⅞ per cent in public expenditure had been based on the estimate in the National Plan of a rise of 25 per cent by 1970 in the Gross National Product (GNP). Even at that level the growth of public expenditure would probably require higher taxation; but it was now apparent that the growth in GNP would be substantially below 25 per cent, while present proposals provided for an increase in public expenditure in the following year of no less than 11 per cent. Total public expenditure was growing at a faster rate than was consistent with the economic health of the country in present circumstances; and there could be no assurance that current economic policies would suffice to deal with the situation.

In further discussion differing views were expressed on the measures which the Government should take in these circumstances. On the one hand, it was urged that the Government should not compromise their political philosophy by adopting cuts in public expenditure, and especially in public expenditure on the social services, in the manner which had been adopted by the previous Administration. It would be preferable that private consumption should be curtailed by higher taxation and particularly by higher direct taxation which would entail a further redistribution of incomes. This could be justified on a comparison of the proportion of the United Kingdom national income taken in taxation relative to the proportion so taken in other highly industrialised countries. It might well be necessary also for the Government to adopt a sterner attitude towards wage negotiations and to insist that there should be no increase in wages which was not specifically justified by higher productivity. It might also be desirable to take further measures to
restrict our imports in total and to relate them more definitely to the country's social and industrial needs.

On the other hand these measures could be argued to be not directly relevant to the current situation. The continued growth of public expenditure (even in relation to the target of the National Plan of a 25 per cent increase in GNP by 1970), the increase in wages, prices and consumer expenditure and the virtual elimination of unemployment all showed clearly a degree of overstrain of our economic resources which could not continue without grave consequences. The lack of international confidence in our economic position was only a reflection of these facts. In such circumstances continued expansion of public expenditure and an increase of taxation, particularly of direct taxation, would not be calculated to improve the country's economic situation and would further impair public confidence at home and abroad. Nor, for example, would the yield from a restoration of earlier surtax rate, at some £45 million, be significant in relation to a possible increase of governmental expenditure of £800 million. The principal need was to check the pressure on demand and the rate of imports. In such circumstances it was suggested that it would be necessary to take such measures as a further substantial restriction on hire purchase which, it could be argued, was in any event at too high a level for the social health of the country; a cut in demand by further limitations in bank credit; and a reduction in tourist expenditure overseas, which alone was estimated to rise in the current year to a net adverse balance of over £100 million. This last item could not be justified in relation to restraints on the export of capital, which in the longer term would effect a substantial improvement in our invisible payments.

The Prime Minister, summing up the discussion, said that it was imperative that the strictest confidence should be observed regarding this exchange of views and any other Ministerial discussions on the economic situation. While there was some difference of view on the analysis of the immediate situation and on the effectiveness of the Government's longer term measures, there was broad agreement that the latter were rightly designed and should be continued and, where necessary, strengthened. There was also agreement on the seriousness of the current situation and a general acceptance that further action would be necessary to deal with it. There was, however, some divergence of view on the individual measures which would be most appropriate for this purpose. The balance of payments presented a most formidable problem, even if it were not further adversely affected by a lack of confidence at home or overseas. Although our exports had increased substantially during the Government's tenure of office in relation to previous rates of growth, further efforts were needed. It was also essential to strengthen substantially the measures which were being taken to produce in the United Kingdom manufactured and semi-manufactured goods which were at present imported. In this connection there might be advantage in a public campaign to "Buy British"; and greater preference might be given by Government...
Departments to the purchase of goods produced in the United Kingdom as distinct from imports. More specifically, the Ministry of Defence might be set a target for savings in expenditure both in terms of the Budget and of foreign exchange.

A sustained effort should be made by all Departments to increase industrial productivity; and to this end particular regard should be paid to the award of Government contracts. Further consideration should be given to the desirability of maintaining a high level of social benefits in relation to the level of taxation involved, on the lines indicated in discussion. We should also consider what measures were open to the Government to encourage an improvement in the general level of individual effort in industry. The possibility of utilising television facilities, including the University of the Air when this was established, for a sustained campaign of education and publicity on improvements in management and productivity should also be considered. There was a general readiness to accept restrictions on consumption in the private sector in the near future. It might also be necessary to prune severely programmes of public expenditure and to consider action designed to restrict these more closely to the planned rate of growth of 4½ per cent in accordance with the Government’s agreed policy. In considering the action to be taken to these ends it would be necessary to bear in mind the effect on international confidence in sterling of any measures for increased taxation or the restriction of imports. A number of proposals had also been put forward relating to the Government’s policy on prices and incomes; and these called for further consideration and discussion by the Cabinet on another occasion.

The economic Ministers should now consider further, in the light of the Cabinet’s discussions, the measures which should be taken to deal with the situation and should bring proposals before the Cabinet in due course.

The Cabinet—

Took note of the Prime Minister’s summing up and of the points made in discussion.

Cabinet Office, S.W.1.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 14th July, 1966, at 10 a.m.

Present:

The Right Hon. Harold Wilson, M.P., Prime Minister

The Right Hon. George Brown, M.P., First Secretary of State and Secretary of State for Economic Affairs (Items 1-3)

The Right Hon. Lord Gardiner, Lord Chancellor

The Right Hon. Michael Stewart, M.P., Secretary of State for Foreign Affairs

The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department

The Right Hon. Douglas Houghton, M.P., Minister without Portfolio

The Right Hon. Anthony Greenwood, M.P., Minister of Overseas Development

The Right Hon. Richard Crossman, M.P., Minister of Housing and Local Government (Items 1-3)

The Right Hon. Feed Peart, M.P., Minister of Agriculture, Fisheries and Food

The Right Hon. Cledwyn Hughes, M.P., Secretary of State for Wales

The Right Hon. Richard Marsh, M.P., Minister of Power

The Right Hon. Herbert Bowden, M.P., Lord President of the Council

The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer

The Right Hon. Arthur Bottomley, M.P., Secretary of State for Commonwealth Relations

The Right Hon. William Ross, M.P., Secretary of State for Scotland

The Right Hon. Douglas Jay, M.P., President of the Board of Trade

The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science

The Right Hon. The Earl of Longford, Lord Privy Seal

The Right Hon. Barbara Castle, M.P., Minister of Transport

The Right Hon. Frederick Lee, M.P., Secretary of State for the Colonies (Items 1-3)

The Right Hon. Anthony Wedgwood Benn, M.P., Minister of Technology

The following were also present:

The Right Hon. Edward Short, M.P., Postmaster-General (Item 4)

The Right Hon. Reginald Prentice, M.P., Minister of Public Building and Works (Items 3 and 4)

Mrs. Shirley Williams, M.P., Parliamentary Secretary, Ministry of Labour (Items 1-3)

The Right Hon. John Silk, M.P., Parliamentary Secretary, Treasury

Secretariat:

Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield

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

The Lord President said that, in view of pressure on Parliamentary time, it was for consideration whether it was necessary for the Selective Employment Payments Bill to go through all its remaining stages before the Summer Recess, or whether the Third Reading might be deferred until the House resumed in October.

The Parliamentary Secretary, Ministry of Labour, said that in view of the possibility of the Bill being amended in detail the necessary administrative preparations for its implementation, including the printing of the forms required, could not be begun before the Bill was passed. Delay until October would, therefore, entail substantial delay in making payments to industry under the provisions of the Bill.

In discussion there was general agreement that the Selective Employment Payments Bill (and also the Industrial Development Bill) should pass through all their remaining stages before the Summer Recess.

In further discussion reference was made to the proposed publication of the White Paper on Transport on Wednesday of the following week, on which day a statement was also due to be made about the rationalisation of Post Office tariffs and the future of the Post Office. It was suggested that there would be advantage if these took place on different days, but the general view was that, subject to the Cabinet's discussion on the last item of their agenda, the balance of advantage lay in maintaining existing plans. No Parliamentary statement need however be made in respect of the White Paper on Transport.

The Cabinet—

(1) Agreed that the remaining stages in Parliament of the Selective Employment Payments Bill and of the Industrial Development Bill should be taken before the Summer Recess.

(2) Agreed, subject to their conclusions on the last item of their agenda, that the statement on the Post Office and the publication of the White Paper on Transport should take place on Wednesday, 20th July.

2. The Foreign Secretary said that the recent meeting of the Indonesian Peoples' Consultative Assembly had not been wholly favourable to our interests. It had resulted in only a partial diminution of the powers of President Sukarno and in a failure to ratify the Bangkok Agreement on the ending of confrontation. It was clear that the Indonesian Foreign Minister, Mr. Malik, was anxious that the Agreement should be ratified as soon as possible, but General Suharto had so far not been prepared to enforce
President Sukarno’s agreement to that course. In discussions with the Indonesian Economic Mission he proposed to emphasise the importance of such ratification to any further improvement of relations between Indonesia and the United Kingdom. It was proposed that we should withdraw United Kingdom troops from Borneo as soon as possible after the implementation of the Agreement and the Secretary of State for Defence would, on his return from the Far East, propose a timetable for doing so. The discussions with the Indonesian Economic Mission had been friendly, but had so far made little progress. The Mission was seeking further United Kingdom aid and a rephasing of Indonesian debts to the United Kingdom, neither of which was acceptable to us. We for our part were pressing the Mission on United Kingdom claims for compensation in respect of the nationalisation of property owned by United Kingdom individuals and firms in Indonesia. He was hopeful that some progress might be made on this.

The United States Government had given a general welcome to the proposals put forward by the Indian Prime Minister, Mrs. Gandhi, for a peace initiative in respect of the conflict in Vietnam though they had some misgivings about the provision in that proposal for a time lag between the cessation of military activity by the United States on the one hand, and by the Viet Cong on the other. The Indian proposal had, however, not been favourably received by the Soviet Government during Mrs. Gandhi’s present visit to Moscow.

The Cambodian Government were pressing for an increase in the staff of the International Control Commission, coupled with a renewed international declaration on the integrity and neutrality of Cambodia. We were urging the Soviet Government, as the co-Chairman with ourselves of the Geneva Conference, to agree that we should seek acceptance of this proposal.

The judgment of the International Court of Justice on the position of the South African Government in relation to the mandate for South-West Africa would be published on 18th July. Although the South African Foreign Minister professed to be confident that the judgment would be favourable to South Africa, this was doubtful. If it were not and the South African Government did not comply with it, it was possible under the United Nations Charter for the matter to be brought before the Security Council, which had power to consider the taking of action to enforce compliance. The United States Government had proposed that we should make a joint démarche to the South African Government to seek their agreement in advance of publication to comply with the judgment. Our own view was that such an approach would have no effect but as soon as judgment was delivered we would consult with the United States and South African Governments and urge the latter to comply with it and seek meanwhile to avoid precipitate international action.

The discussions held during the previous week with the French Prime Minister and Foreign Minister had, as was expected, little concrete result. We had at least mitigated the French suspicion that our firm policy in NATO was motivated by hostility to the French Government and there had been further agreement in respect
of the construction of the Channel Tunnel in the sense which the Cabinet had previously approved. We had also attempted to persuade the French representatives of the desirability of reviewing the programme for the construction of the Concord, in view of the rapid increase of its cost, but it appeared that the French Government remained determined to continue with the project.

Our relations with the United States Government were passing through a difficult phase. They were for understandable reasons preoccupied with the conflict in Vietnam and, although our opposition to the bombing of the oil installations near Hanoi and Haiphong had been expected, there had been an adverse reaction to our public statement. Our position over the sale of arms which might be used in Vietnam had also been the cause of some friction. Although we must maintain our right to disagree from time to time with those aspects of United States policy of which we could not approve, it was important to our interests that there should be no major disagreement between us.

The Cabinet—

Took note of these statements.

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3. The Prime Minister said that, as had been agreed at the last meeting of Cabinet, he had now discussed the economic situation further with the Ministers principally concerned. It had been decided to increase Bank Rate to 7 per cent and to increase the call on the Clearing Banks for special deposits proportionately; and this action was being announced that morning. Sterling had recently been under serious pressure, which seemed to have begun at the time of the United States bombing of Hanoi and Haiphong and had been intensified after the announcement of the reserve figures for June, which reflected the effects of the seamen’s strike. Underlying these factors was a fundamental shortage of liquidity in Europe, as was shown by the rise in interest rates in other countries, which made it inevitable that after a certain point we should allow our own Bank Rate to rise. But it was necessary, in addition, to adopt a more fundamental approach to the solution of our economic problems, particularly since there seemed to be sufficient public realisation of our difficulties for the country to be prepared for firm and positive leadership by the Government. In particular the labour shortage was impeding the achievement of economic objectives and consumer expenditure on less essentials remained too high. He therefore proposed to make a statement in the House of Commons that afternoon, reinforcing the increase in Bank Rate by an announcement that the rate of Government expenditure overseas would be reduced to a 1967–68 level which would be £100 million less than at present, on the basis that half this saving might be

* Previously recorded in a Confidential Annex.
secured in the European and half in the Eastern theatres. The statement might also foreshadow further and more far-reaching decisions in about two or three weeks' time as a result of the major review of policy to which he had just referred.

It would not be possible for this further statement to be made forthwith because the measures which it would include would need further consideration. Moreover it would also be desirable, before the final decisions were made, to take account of any new factors which might emerge during his forthcoming visits to Moscow and Washington. The discussions in Washington would be particularly important, in view of the close links between the dollar and sterling.

Examples of the measures which might be included in the subsequent statement were:

(a) An extension of the restrictions on office building from London to the whole of the country, although with less severity in the development areas.

(b) A further intensification of building licensing by a reduction in the exemption limit from £100,000 to £50,000.

(c) A total freeze of wages and prices on the basis that, although it could not be made fully effective and some latitude might have to be permitted in the case of the lower paid workers, it would have to be rigidly applied in the public sector and especially on salaries over a prescribed limit. The freeze would have to be maintained for a full 12 months.

(d) Some reduction in public sector investment, which would be necessary both in itself and as a counterpart to the intensification of restrictions on construction in the private sector. Moreover, the less essential activities of the nationalised industries, e.g., the competitive advertising of the gas and electricity undertakings, should be reduced or eliminated.

(e) Measures to restrain imports and to promote exports; possibly on a selective and discriminatory basis. It would also be necessary to reduce the large and increasing deficit in respect of tourism.

These and any other appropriate proposals would have to be the subject of a considered report to the Cabinet before the further public statement could be made. It was for consideration, however, whether the initial statement which he proposed to make that afternoon should foreshadow the subsequent announcement. Against this it could be argued that this might lead to speculation and forestalling. On the other hand it was necessary, in order to sustain confidence in sterling, to avoid giving the impression that the increase in Bank Rate and the further call for special deposits represented the sum of the remedial measures which the Government had in mind. The balance of advantage seemed to lie in arranging for the initial statement that afternoon to include references not only to Bank Rate and special deposits but also to the proposed reduction in overseas expenditure and the intention to announce further measures in the near future, although no details of these proposals would be disclosed at this stage.
In discussion it was suggested that it would be unwise to include in the initial statement an undertaking to reduce the annual rate of Government expenditure overseas by a figure of £100 million by the end of the financial year. If a cut of this size were to be achieved, the greater part of the economies would have to fall upon our defence expenditure; and a reduction of the order of £70 or £80 million per annum in this category would necessarily involve a more or less complete withdrawal of forces from one of the three main theatres—Europe, the Middle East and the Far East—or some combination of partial withdrawals. Such a change in policy would be contrary to the commitments which we had indicated, when discussing the results of the Defence Review with our allies, that we would continue to discharge; and, if it were decided that the withdrawal of forces was to be largely from Germany, this would reverse the priorities decided upon in the Defence Review. Moreover, a decision to withdraw forces on this scale from any of these theatres could hardly fail to do incalculable harm to our international standing; and both the decisions and the damage would be irrevocable. There had not been sufficient time to work out precisely how reductions of this magnitude could be made; and, it was inequitable that there should be a firm decision in principle to reduce overseas expenditure before any comparable decision had been taken in relation to domestic expenditure. Moreover, an initial statement of the kind proposed, which would include, by way of reductions in expenditure only economies overseas and not at home, might well affect confidence in sterling adversely.

The Foreign Secretary and the Commonwealth Secretary said that, while they did not dissent from the proposal that an examination of both the possibilities and the implications of securing a reduction of £100 million in Government expenditure overseas should be undertaken, they regarded the potential consequences for our foreign policy as so serious that they must reserve the right to reopen the discussion of any decision to this effect if its results, when examined in detail, appeared unacceptable. It should be possible, however, to use the threat of such a reduction as a bargaining factor in the forthcoming discussions between the Chancellor of the Exchequer and the German financial authorities about the costs of United Kingdom troops in Germany, provided that a suitable form of words for this purpose was agreed interdepartmentally in advance.

On the other hand it was argued that it was impossible to restore our oversea account to balance without substantial reductions in Government expenditure overseas, for which, indeed, the figure of £100 million should be a minimum rather than a maximum. In general the Governments from whom we had received financial assistance did not view favourably the extent of our overseas commitments which their money was helping to finance. Moreover, it was essential to avoid a position vis-à-vis the United States in which the maintenance of our present level of international commitments and the consequential overseas expenditure might have
to be given such priority as to require a greater degree of severity in
domestic economies than would be consistent with the Government’s
social and economic objectives. We should be in a stronger position
in the forthcoming discussions with the United States Administration
if we had demonstrated to them, before the Prime Minister’s visit,
that adequate steps to restore our economic position had already
been taken and announced.

In further discussion it was suggested that, even if it were right
to take a decision in principle to effect substantial economies in
Government expenditure overseas, predominantly on defence, the
allocation of those economies had still to be considered. It would
not therefore be possible to announce at this stage more than the
total of the savings to be achieved, and even this might not be
advisable unless some corresponding announcement could be made
about economics at home. There was a considerable measure of
agreement that, if an initial statement had to be made that afternoon,
it should not include any figure for the total reduction to be made
in Government expenditure overseas but should rather foreshadow
at an early date a further statement in which economies, both at
home and abroad, would be announced as additional reinforcement
of the Government’s economic policy for restoring the stability of
the economy and the strength of the pound.

Alternatively, it might be possible to dispense with an initial
statement that afternoon and, instead, to advance the major
statement. On the other hand before a wide-ranging statement on
the lines indicated by the Prime Minister could be made it might be
necessary to have at least some consultation with leaders of both
sides of industry. Moreover, it could not be taken for granted that
events would wait upon our convenience; and there was little doubt
that in order to maintain confidence in sterling an initial statement
should not be deferred.

*The Prime Minister,* summing up the discussion, emphasised the
great importance of preserving complete secrecy about the Cabinet’s
discussions on economic policy until final decisions had been taken
and announced.

The general view of the Cabinet was that an initial statement
should be made that afternoon in the House of Commons, which
would refer to the increase in Bank Rate and to the further call for
special deposits, would emphasise the determination of the
Government to take any action necessary to restore the strength of
sterling and stability of the economy and would indicate that to this
end it would be necessary both to achieve substantial economies in
Government expenditure overseas and to restrain domestic demand.
No details of the savings to be achieved should be given at this stage;
but interdepartmental study of measures to restore the economic
situation, on the lines considered in the discussion, should now be
put in hand and should be completed in time to enable the Cabinet
to consider the policy and presentation of the proposed further
statement in the early part of the week beginning 25th July, before
his forthcoming visit to Washington. It was also the general view of the Cabinet that measures should be taken to reduce the annual rate of Government expenditure overseas by £100 million by the beginning of the financial year 1967–68, on the understanding that the Ministers of the External Departments must not be taken as endorsing economies on this scale until their implications had been examined in detail. In the meantime the Foreign Secretary and the Chancellor of the Exchequer should agree the terms in which the Federal German Government should be informed that unless they relieved us of the foreign exchange costs of our troops in Germany we should have no alternative but to withdraw them to the extent necessary to provide us with the economies which we judged necessary.

The Cabinet—

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

CONFIDENTIAL

4. The Cabinet considered a memorandum by the First Secretary of State (C (66) 105) on the reorganisation of the Post Office.

The Postmaster-General said that before the last election the Ministerial Committee on Economic Development had come to the conclusion in principle that the Post Office should be reorganised on the lines of a nationalised industry, but that further consideration was required of the structure of the new organisation and of the position of the staff before a decision could be taken. These issues had since been further considered by the Committee which had now concluded that the case had been made for changing the status of the Post Office to that of a public corporation, primarily because as such it should be able to develop its managerial and technological efficiency more effectively. Such a change would also facilitate an improvement in the competitive efficiency of the electronics industry. In some respects the corporation would be unlike the existing nationalised industries, in particular because of the need for a closer relationship with the Government in respect of the agency services which it provided for them. It was important to provide by legislation that the reorganised Post Office would continue to have a responsibility for comprehensive national telecommunications and postal services, so as to avoid public and Parliamentary fears that the change in status was a prelude to a reduction of services, particularly in outlying areas, in the name of efficiency and viability. The Committee favoured the establishment of a single corporation responsible for telecommunications and postal services and for the day-to-day management of the savings and banking services as the agent of the Treasury. It would be particularly important to give a
substantially greater degree of independence to the telecommunications services and to the postal services in relation to each other than they possessed at present.

The change of status should be acceptable to the staff associations concerned, though they would no doubt seek assurances that they would retain at least the pay and conditions of service which they now enjoyed. It was proposed that this change should not itself be something to be negotiated with the staff: there would thus be no price to be paid for union acceptance of it. The new corporation would be subject to the same restraints as other nationalised industries in subsequently negotiating pay and conditions, but they might in practice well find themselves obliged to pay higher rates of salaries in the senior posts in the interest of efficient management, and this would have repercussions on the pay of junior staff.

The new corporation would manage the savings and banking services on the Treasury’s behalf, the latter remaining responsible for financial policy. The Government would retain the power to require the new corporation to provide other agency services to the Government at cost. It was envisaged that the Ministry of Public Building and Works would continue to provide building services to the Post Office as at present and the Committee had taken the view that this arrangement could be safeguarded by an administrative agreement that neither the new corporation nor the Government would do anything that would result in any substantial amount of the work concerned ceasing to be done by the Ministry without adequate notice and full consultation. The Minister of Public Building and Works had, however, taken the view that the position should be safeguarded by means of a reserve statutory power to give directions to the corporation on this matter and had in the Committee reserved his position.

Subject to the Cabinet’s approval, he proposed to announce on 20th July a decision to make these changes on the lines of the draft attached to C (66) 105 and at the same time to publish his Annual Report and Accounts and his proposals for Post Office tariff rationalisation.

The Chancellor of the Exchequer said that while it might be stated that the change of status was not of itself negotiable with the Staff Associations concerned, there would in practice be heavy pressure from them for consequential increases in pay and improvements in conditions of service: it should be on record that Ministers were agreed that the change of status should be effected without additional expenditure. As regards the banking services of the Post Office it was essential to the Treasury’s control of a unified monetary policy that they should be able in practice to exercise full control over the operation of these services. It might be that the specific power of Ministerial direction which was proposed would not be adequate for this purpose and further consideration should be given to this detailed aspect of the change in due course. This need not, however, delay the statement that the proposal was in principle approved.
Discussion showed general agreement with the proposals before the Cabinet. The following points were also made:

(a) In view of the present close Parliamentary interest in the work of the Post Office it would be essential to the effectiveness of the change of status that Parliamentary concern with its affairs should thereafter be strictly limited in precisely the same manner as in respect of other nationalised industries, since otherwise one of the important objectives of the change would not be achieved.

(b) The policy of the new corporation should have regard to political considerations arising from our long-standing close links with Commonwealth countries in postal and telecommunication matters.

The Cabinet—

(1) Approved C (66) 105.

(2) Invited the Postmaster-General to make a statement in the House of Commons on 20th July on the lines of the draft attached to C (66) 105, subject to further consultation with the Chancellor of the Exchequer in respect of the need to provide for adequate Treasury control of the financial policy of the savings and banking services of the new corporation.

Cabinet Office, S.W.1,
14th July, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 19th July, 1966, at 5 p.m.

Present:

The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. George Brown, M.P.,
First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. Lord Gardiner,
Lord Chancellor
The Right Hon. Michael Stewart,
M.P., Secretary of State for Foreign Affairs
The Right Hon. Arthur Bottomley,
M.P., Secretary of State for Commonwealth Relations
The Right Hon. William Ross,
M.P., Secretary of State for Scotland
The Right Hon. Douglas Jay,
M.P., President of the Board of Trade
The Right Hon. Anhont Crosland,
M.P., Secretary of State for Education and Science
The Right Hon. The Earl of Longford,
Lord Privy Seal
The Right Hon. Fred Peart,
M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Cledwyn Hughes,
M.P., Secretary of State for Wales
The Right Hon. Richard Marsh,
M.P., Minister of Power

The following were also present:

The Right Hon. Kenneth Robinson,
M.P., Minister of Health
The Right Hon. Frederick Mulley,
M.P., Minister of Aviation
The Right Hon. Reginald Prentice,
M.P., Minister of Public Building and Works

The Right Hon. Herbert Bowden,
M.P., Lord President of the Council
The Right Hon. James Callaghan,
M.P., Chancellor of the Exchequer
The Right Hon. Denis Healey,
M.P., Secretary of State for Defence
The Right Hon. Roy Jenkins,
M.P., Secretary of State for the Home Department
The Right Hon. Douglas Houghton,
M.P., Minister without Portfolio
The Right Hon. Anthony Greenwood,
M.P., Minister of Overseas Development
The Right Hon. Richard Crossman,
M.P., Minister of Housing and Local Government
The Right Hon. R. J. Gunter,
M.P., Minister of Labour
The Right Hon. Barbara Castle,
M.P., Minister of Transport
The Right Hon. Frederick Lee,
M.P., Secretary of State for the Colonies
The Right Hon. Anthony Wedgwood Benn,
M.P., Minister of Technology

The Right Hon. Margaret Herbison,
M.P., Minister of Pensions and National Insurance
The Right Hon. Edward Short,
M.P., Postmaster-General
The Right Hon. John Silkin,
M.P., Parliamentary Secretary, Treasury

Secretariat:

Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
Mr. D. S. Laskey
Mr. R. T. Armstrong
Subject

THE ECONOMIC SITUATION
The Cabinet had before them Notes by the Secretary of the Cabinet (C (66) 106, 107, 108, 109, 110, 111, 112, 113, 114 and 115) on the economic situation.

The Cabinet’s discussion and the conclusions reached are recorded separately in the bound volume of Most Confidential Record held by the Secretary of the Cabinet.

Cabinet Office, S.W.1,
20th July, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Wednesday, 20th July, 1966, at 9 a.m.

Present:

The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. MICHAEL STEWART, M.P., Secretary of State for Foreign Affairs
The Right Hon. ARTHUR BOTTOMLEY, M.P., Secretary of State for Commonwealth Relations
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLLEDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. RICHARD MARSH, M.P., Minister of Power

The following were also present:

The Right Hon. KENNETH ROBINSON, M.P., Minister of Health
The Right Hon. FREDERICK MULLEY, M.P., Minister of Aviation
The Right Hon. REGINALD PRESCOTT, M.P., Minister of Public Building and Works
The Right Hon. HERBERT BOWDEN, M.P., Lord President of the Council
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. DENIS HEALY, M.P., Secretary of State for Defence
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M.P., Minister without Portfolio
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Overseas Development
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. FREDERICK LEE, M.P., Secretary of State for the Colonies
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The Right Hon. MARGARET HERBISON, M.P., Minister of Pensions and National Insurance
The Right Hon. EDWARD SHORT, M.P., Postmaster-General
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury
SECRET

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
Mr. D. S. Laskey
Mr. R. T. Armstrong

Subject
THE ECONOMIC SITUATION
The Cabinet resumed their discussion of Notes by the Secretary of the Cabinet (C (66) 106, 107, 108, 109, 110, 111, 112, 113, 114 and 115) on the economic situation.

The Prime Minister suggested that the Cabinet should now proceed to take decisions on the detailed measures to be included in the statement which he would be making later in the day.

**Prices and incomes standstill (C (66) 114)**

In discussion the following points were made:

(a) It was suggested that the statement should propose a complete standstill on increases of prices and incomes for six months, followed by a further six months of severe restraint. The standstill would rely largely on the voluntary co-operation of those concerned, although there would be some lengthening of the periods of standstill prescribed in the Prices and Incomes Bill.

(b) It was for consideration whether the statement should indicate that pay increases justified by improvements of productivity, or pay increases for workers whose earnings were substantially below the national average, were not ruled out. It was argued, however, that exceptions of this kind would weaken the effectiveness and credibility of the standstill and would tend to have the effect that the standstill penalised the public services (where it could be rigidly enforced) more stringently than the private sector. This would be contrary to the pledges which the Government had given. Exceptions for proved improvements of productivity might also work inequitably in the private sector, since improvements in the productivity of those directly engaged on a manufacturing process and paid by results (who would benefit) could also create additional work for those not directly engaged on the process and paid on time rates (who would not necessarily benefit). It would be preferable, therefore, that agreements for wage increases based on improvements in productivity should not come into operation until the end of the standstill period.

(c) It was proposed that the statement should indicate that there should be a standstill on wage increases, including existing commitments, for six months from the date upon which they were due to come into effect. This, however, might bear hardly upon groups for which increases had already been agreed to come into effect at some future date, since they would have to wait for six months from that date, not for six months from the beginning of the standstill. On the other hand other groups due to receive increases retrospectively would be aggrieved if they were now asked to wait until the end of the standstill period before receiving their increases. It was suggested that there would be a series of difficult cases of this kind and that the statement should therefore leave some room for dealing with individual cases in negotiation and should not purport to pronounce a final and indiscriminate decision. The way in which the policy was executed would have to depend partly upon the degree
of co-operation on the part of management and unions. It was agreed that the statement should merely indicate that the standstill would be for a period of six months and should not specify whether the six months ran for all concerned from the date on which the standstill was introduced or for each group from the date upon which individual increases were due: this would be for negotiation between the Ministers concerned and the leaders of both sides of industry.

(d) There would be other difficult problems on which negotiations would have to take place. For instance, the standstill should, strictly speaking, apply to increases under sliding scale cost-of-living agreements; but, if it were enforced in relation to increases of this kind, there would be a danger of losing the co-operation of unions who had hitherto accepted the prices and incomes policy.

(e) It was proposed that the statement should include an exhortation to companies to stabilise their dividends. It was agreed that the invitation should be to hold down, rather than merely to stabilise, dividends and that it was for consideration whether it should be couched in the terms of a requirement, even though it was not proposed to seek a statutory sanction for the limitation. Dividends were in any case expected on average to be lower than last year.

(f) It might be desirable that the statement should include an indication that employers would be expected not to increase the remuneration of directors or fees of various kinds. It would be necessary to be ready to use the powers of the Prices and Incomes Bill to reinforce an indication of this kind. The proposed new Companies Bill would require more extensive disclosure of directors' remuneration; and companies should be asked to behave in accordance with the provisions of the Bill pending its entry into force.

(g) It was likely that the National Board for Prices and Incomes would need to be strengthened; it might be necessary to rely more extensively on part-time appointments to the Board to deal with a large volume of cases.

(h) In discussion of the Parliamentary timetable for the Prices and Incomes Bill it was suggested that it might be desirable that all stages of the Bill should be completed, at least in the House of Commons, before Parliament adjourned for the summer Recess. On the other hand the effectiveness of the standstill and of the Bill did not depend upon the Bill's receiving the Royal Assent earlier rather than later. It was agreed that the Committee Stage of the Bill should be taken upstairs, not on the floor of the House and that every effort should be made to achieve as much progress as possible before the Recess. Final decisions on the timetable, however, would have to be taken in the light of the reaction to the Prime Minister's statement that afternoon.

(i) The Trades Union Congress and the Confederation of British Industries should be informed about the proposal for a standstill, if possible shortly before the statement was made in the House of Commons.
(f) It was suggested that the appeal for a standstill on prices and incomes would be reinforced if Ministers voluntarily undertook to forgo part of their salaries. There was a considerable measure of support for such a gesture, provided that it was not made the basis for an appeal for reductions in wages and salaries elsewhere in the public services or in the private sector. On the other hand a voluntary gesture of this kind would not necessarily carry conviction; and the proposed increase in surtax would be a more effective demonstration of the Government's determination to ensure that sacrifices should be made by those who could bear them. The proposal for a voluntary reduction of Ministerial salaries need not, therefore, be pursued.

The Prime Minister, summing up this part of the discussion, said that there was general agreement that his statement should include proposals for a prices and incomes standstill on the lines which had now emerged. In preparing his statement he would take into account the points made in discussion.

The Cabinet—

(I) Agreed that the Government should call for a standstill for six months on increases of prices and incomes of every description and for a further period of six months of severe restraint thereafter, on the lines and subject to the points agreed in discussion.

Government expenditure overseas (C (66) 107)

The Foreign Secretary said that the memorandum by officials (C (66) 107) listed the main categories of Government expenditure overseas. Some of these, such as pensions, could not be reduced. It should be possible, however, by accelerating the redeployment decided in the Defence Review, to achieve gross savings of £46 million a year in the foreign exchange expenditure on our forces outside Europe. If we secured an increased contribution from Hong Kong the total might amount to £50 million. Against this, however, must be set some additional payments and terminal charges arising from an acceleration of the programme; and it would therefore be imprudent to count on a net saving of more than £40 million in 1967–68 as compared with 1966–67. As regards expenditure on our forces in Germany the Chancellor of the Exchequer would be discussing the issues involved with the Federal Government later in the week in Bonn. It was essential that any proposal to withdraw our forces should be in the context of the procedures prescribed by the North Atlantic Treaty Organisation (NATO) and Western European Union (WEU), which required us to secure the agreement of a majority of our allies in WEU. If we withdrew forces unilaterally, it must be expected that the Federal German Government would exercise the right to reduce their offset payments, the agreement governing these being due to expire next year. As a result we might achieve no net saving in foreign exchange unless we withdrew from NATO altogether. The consequences of any major withdrawal of forces from Germany
would be serious not only for Anglo/German relations but also for our relations with our other NATO allies, on whom we depended for support both in our European policy and for the maintenance of sterling. It should be possible, however, by a combination of some withdrawal of forces and some increase in German payments, to meet an additional £20 million of our foreign exchange costs in Germany.

The memorandum proposed annual savings of £5 million in military aid and of £1 million in the cost of our diplomatic representation and information services overseas. It also set out the implications of securing annual savings of either £10 million or £20 million in our programmes of economic aid. Such savings would be difficult to achieve; but, even at the higher level, they would represent only about one-tenth of the aid programme, compared to the defence economies proposed, which represented about one-sixth of oversea defence expenditure. On this basis the total savings would still fall short of the target figure of £100 million; but, even so, they would cause considerable political difficulties. The defence programme would then include no allowance for contingencies; and larger reductions could not be made without a radical and irrevocable change in our foreign and defence policies in the Middle East and Far East.

The Secretary of State for Defence said that the figure of £46 million should be reduced by £3 million, since we should have to maintain the stockpile in Cyprus in order to fulfil our commitment to Libya until longer-range transport aircraft came into service in 1968. The accelerated redeployment of our forces, in addition to the political difficulties mentioned by the Foreign Secretary, could have serious effects on Service morale and recruitment. The total savings envisaged should however be capable of achievement, although the figures suggested for individual theatres might be subject to some variation in practice. The proposals assumed that Indonesian confrontation against Malaysia would be ended by 1st January, 1967, at latest. This might not be an unreasonable assumption; but the Bangkok Agreement had not yet been ratified and the outcome of the struggle for power between President Sukarno and the more moderate faction within the Indonesian Government was not yet certain. It was therefore important that we should not announce our intention to withdraw forces from the Far East regardless of an effective termination of confrontation, since this would strengthen President Sukarno's hand in opposing ratification of the Bangkok Agreement. The redeployment of our forces would present formidable physical problems, involving the movement of thousands of men and of large quantities of stores. It could not therefore in any case be complete by 1st April, 1967; and it would be some time after that date before the full rate of saving could be achieved.

His recent visit to Hong Kong had convinced him that we could reasonably ask for a larger contribution than had been envisaged in the Defence Review. The national income of Hong Kong was £550 million a year and was increasing at an annual rate of 6 or 7 per
The total expenditure of the Colony's Government was £110 million a year; and it should not be impossible for them to make a defence contribution of £10 million. This would involve an increase of £8½ million over their existing contribution of £1 million. It would also be reasonable to look to Libya and Brunei to pay the cost of any British forces stationed there, since both States enjoyed large and increasing oil revenues. This might produce a further saving of about £5 million. On this basis the total of defence savings, if additional payments and terminal charges were excluded, would amount to about £55 million. It would be reasonable that a proportion of the total savings required should be obtained from the aid programmes, since defence changes were irreversible whereas reductions in aid could more easily be restored when resources permitted.

Defence

In discussion it was suggested that it would be unreasonable to expect a contribution from Hong Kong which would be twice as large as that envisaged in the Defence Review; this would mean increasing local taxation by 11 per cent. It was nevertheless the general view that, given the economic situation, we should be justified in pressing for a total contribution of £10 million if we were to keep our forces, all of which should in fact be counted as internal security forces, at their present level in Hong Kong.

Economic aid

The Minister of Overseas Development said that a reduction of £10 million in our programmes of economic aid could with difficulty be secured. But it would leave no provision for contingencies; and the aid programmes did not allow for rising prices. For both these reasons the reduction would involve a significant curtailment of existing and planned aid programmes. The gap between the developed and developing countries was increasing; and we were under greater pressure to increase our aid contribution. It had been expected that in the immediate future and, in particular, during the next financial year there would be a substantial increase in the aid programmes, although subsequently they might level off. Account should also be taken of the effect on industry in the United Kingdom, since a large proportion of our aid was tied to United Kingdom exports. The memorandum set out the difficulties involved in any reduction; and a reduction of £20 million would have disproportionately more serious consequences. The fact that it might subsequently be possible to restore the reductions in the aid programme would not necessarily mitigate the damage that would be done meanwhile.

In discussion it was pointed out that there was inevitably a discrepancy between the total aid programme each year and the amount actually spent. If, as was suggested, actual disbursements in 1966–67 were likely to be $180 million, the estimated disbursements
of £215 million in 1967-68, even allowing for a cut in the programme of £10 million, would still show an increase in expenditure. It should therefore be possible to achieve a further saving of £10 million by slowing down the programme to some extent and thus increasing the “estimating adjustment”.

Germany

It was agreed that the Chancellor of the Exchequer should inform the Federal German Government, during his visit to Bonn on the following day, that, if they could not make an additional contribution to cover the whole of the foreign exchange costs of our forces in Germany in 1967-68, we should have to propose, through the prescribed NATO and WEU procedure, that substantial numbers of troops should be withdrawn. This should also be made clear in the Prime Minister’s Parliamentary statement that afternoon. It was for consideration, however, whether the statement should include any figure for the additional contribution which we hoped to obtain from the Federal Government. If a figure were given, it could obviously not be less than the amount of £50 million for which the Chancellor of the Exchequer would be asking. On the other hand the Federal Government might not agree to contribute the full amount; and, if we had committed ourselves publicly, we should then have to implement the threat to withdraw forces. In that event the Federal Government might then refuse to renew the current Offset Agreement under which we obtained some £40 million a year; and we should then be left with no alternative, if we wished to eliminate the foreign exchange costs involved, but to withdraw virtually the whole of our forces from Germany. There was also a danger that, if we exerted too much pressure under the NATO and WEU procedures, we might precipitate an overall review of military costs in Europe, in which we should be required to count £40 million spent by the United States and Canadian forces in the United Kingdom against the cost of our forces in Germany. In spite of these risks, however, public opinion would not accept that we should continue to make a large contribution across the exchanges to the Federal German Government in respect of our troops in Germany; but tactically it would be wiser not to commit ourselves in public at this stage by mentioning in the Prime Minister’s Parliamentary statement the figure of £50 million as the Federal contribution which was our ideal objective.

In discussion the view was expressed that the implications of withdrawing forces from Germany to the United Kingdom would need further study before final decisions could be reached. If the forces were not to be disbanded, the provision of additional accommodation would throw a heavy additional burden on the construction industry; and the budgetary cost of maintaining them in the United Kingdom might well be higher than the saving in foreign exchange obtained by withdrawing them from Germany.

In further discussion it was generally agreed that the Prime Minister’s statement should contain only a total figure for the savings
to be obtained from Government overseas expenditure. This figure could not be less than £100 million if sufficient impact were to be made on the balance of payments deficit and on confidence, and if the internal measures of economy to be announced in the statement were to be accepted by public opinion as tolerable. The savings already agreed in discussion, provided that they were secured, would contribute about £50 million towards the objective of £100 million; and an additional contribution of £20 million from the Federal German Republic would suffice to meet the balance. On the other hand, it would be unwise to mention a figure above £100 million in the Prime Minister's statement, since this might be interpreted as implying that we intended to enforce defence reductions going beyond those envisaged in the Defence Review and this would be liable to undermine confidence in the territories concerned and amongst our allies.

The Prime Minister, summing up this part of the discussion, said that the figure of £55 million for defence reductions was agreed on the basis indicated in the discussion. The precise way in which this saving should be secured would require to be worked out in detail, on the understanding that there would have to be some flexibility as between the economies attributed to individual theatres in the official memorandum. The Defence and Oversea Policy Committee would discuss the problem of Hong Kong; but it was agreed in principle that we should seek an increased contribution from the Hong Kong Government above that proposed in the Defence Review. Savings of £5 million in military aid and £1 million in the cost of our diplomatic representation and overseas information services were also agreed. As regards economic aid it was agreed that there should be a reduction of £10 million on the lines proposed in the official memorandum; but a further £10 million should also be obtained by slowing down the programmes and thus decreasing actual disbursements during 1967-68. On this basis he would indicate in his Parliamentary statement that the Government had "decided on firm programmes which will reduce Government expenditure overseas, military and civil, by at least £100 million". The statement would also make it clear that a substantial withdrawal of forces from the Far East would take place once it was clear that confrontation was ended. But it would not include any itemisation of the total figure which would indicate the proportion as between military and civil savings or the economies to be obtained in individual areas, whether Germany or elsewhere.

The Cabinet—

(2) Agreed that Government expenditure overseas should be reduced by at least £100 million, on the lines agreed in discussion.

Exchange control measures (C (66) 113)

The Chancellor of the Exchequer said that he had considered whether a travel allowance could be introduced for travel within the
sterling area. Such a measure could not be made effective unless a general exchange control was introduced upon current transactions within the sterling area; and this was neither practicable nor desirable. It would be possible to exclude certain countries from the scheduled territories for the purposes of the Exchange Control Act, in order to make it possible to impose a travel allowance for travel to those countries; but there would be considerable political and administrative difficulties about that. In his view, for the purposes of the present measures the travel allowance could be introduced only for travel outside the sterling area.

In discussion it was argued that the allowance should be fixed at £60; but it was pointed out that average expenditure on tourism was about £45 a head (excluding fares). The Cabinet agreed, therefore, that the allowance should be fixed at £50 for 12 months from 1st November, 1966, for travel outside the sterling area and approved the transitional arrangements and consequential changes set out in C (66) 113. They also endorsed the changes proposed in respect of emigrants' remittances.

The regulator (C (66) 108)

In discussion it was suggested that the imposition of the regulator on the tobacco duty would help to reduce expenditure on imports. On the other hand there was some danger that tobacco had reached the limit of taxable capacity; and an increase of 10 per cent in the tobacco duty would increase the retail index price by nearly a whole point.

The Cabinet agreed that the regulator should be introduced at 10 per cent on spirits, beer and wine duties, on hydro-carbon oil duties and on purchase tax, but not on tobacco and betting and on other minor duties.

The Cabinet also agreed that there should be a rebate of the increase in the hydro-carbon oil duty for public passenger transport operators.

Building control (C (66) 106)

The Cabinet agreed that the limit for the purpose of the building licensing control should be reduced from £100,000 to £50,000. It was desirable that the Prime Minister's statement should emphasise that building control did not apply in development areas. An order reducing the limit should be introduced immediately the Building Control Bill received the Royal Assent.

Office control (C (66) 110)

The Cabinet agreed that the control of office building should be extended to the East and West Midlands Regions and to the rest of the South-East Region of England.

Hire-purchase (C (66) 111)

It was argued that, since the regulator would increase the purchase tax on motor cars, an increase in the minimum down-payment on cars to 50 per cent would be likely seriously to prejudice output and employment in the motor industry.
The Cabinet agreed that hire-purchase restrictions should be introduced at the levels proposed in the second paragraph of the memorandum before them.

**Public sector investment (C (66) 109)**

In discussion the following points were made:

(a) The *Minister of Power* said that reductions in the investment programmes of the electricity and gas supply industries would be liable to increase the risk of industrial dislocation in the winter of 1967–68. It would be little short of disastrous to defer a start on the Hinckley B nuclear power station. But it should be possible to reduce the investment programme of the Electricity Council in 1967–68 by £20 million and the programmes of the National Coal Board and Gas Council by £10 million in each case in 1967–68.

(b) The *Postmaster-General* said that reductions in his programme would have to fall upon telecommunications investment. A reduction of £20 million in 1967–68 would be intolerably severe. A reduction of £13 million should be practicable, although this was likely to increase waiting lists for telephones to 250,000. It would help to reduce the effect on waiting lists if demand were restrained by requiring a year’s rental to be paid in advance of installation of a telephone.

(c) The *Secretary of State for Scotland* said that it should be possible to reduce the investment programmes of the Scottish Electricity Boards in 1967–68 by £4 million.

(d) The *Minister of Aviation* said that the investment programme of the British Airports Authority, British European Airways (BEA) and British Overseas Airways Corporation (BOAC) could be reduced by £5 million in 1967–68. The investment programme for BEA for 1967–68 included £20 million for re-equipment, on the assumption that they re-equipped with United Kingdom aircraft. If they re-equipped with United States aircraft, no expenditure in 1967–68 would arise. If Ministers were to decide that BEA should re-equip with United Kingdom aircraft and no provision were made in the 1967–68 programme, re-equipment would be deferred and BEA earnings of foreign currency would be likely to suffer. It would be possible, however, to save £5 million if re-equipment for internal routes only were deferred, though at some loss of efficiency.

(e) The *Minister of Transport* said that the investment programme of the British Railways Board might be reduced by £10 million in 1967–68 provided that this economy was not necessarily achieved at the expense of the specific projects referred to in the memorandum before the Cabinet. The London Transport Board’s investment programme might be reduced by £2 million in 1967–68. The investment programme of the Transport Holding Company (THC) could be reduced by £2 million in 1967–68, by deferring fleet replacements and other measures; but it was not realistic to stipulate that the THC should be allowed to make no new acquisitions.
Investment expenditure on docks (including non-nationalised docks as well as the British Transport Docks Board) might be reduced by £10 million in 1967–68; but, if so, this would include a decision not to proceed with the Portbury project, which it was proposed to announce in the forthcoming Transport Policy White Paper.

(f) The Minister of Technology indicated that some reduction could be made in the civil research and development programme of the Atomic Energy Authority, although it was not possible at this stage to indicate a precise figure. It was suggested that a sum of £2 million might be achieved in this field.

(g) The Minister of Housing and Local Government said that the proposals in the note before the Cabinet for reducing investment by local authorities on swimming baths, offices and town centre redevelopment should be capable of being realised. The reduction of expenditure on offices could be related to the desirability of avoiding new development while the structure of local government was under consideration by the Royal Commission. Water and sewerage programmes, however, were related to housebuilding and it would be difficult to achieve a reduction of as much as the £11 million proposed. On the first three items, together with water and sewerage programmes, a reduction of £28 million might be secured in 1967–68.

(h) The Minister of Transport said that it should be possible to secure a reduction of £12 million in expenditure on the roads programme in 1967–68, although this would mean the postponement of some £60 million worth of work. The Secretaries of State for Scotland and Wales agreed that the Scottish and Welsh road programmes should be reduced by a total of £2 million together in 1967–68.

(i) The Minister of Agriculture, Fisheries and Food said that it should be possible to save £5 million in 1967–68 by postponing the move of Covent Garden Market. It would be preferable not to defer making schemes on farm structure under the Agriculture Bill; but in the light of the slowing down of the programme a reduction of £1 million in 1967–68 could be accepted without damage to the scheme.

(j) The Minister of Public Building and Works said that, since the note before the Cabinet had been prepared, it had emerged that an additional £750,000 would be needed in 1967–68 for starting new Government training centres. Nevertheless, it should be possible to secure a reduction of £1½ million in his Departmental programme for 1967–68.

(k) The Minister of Health accepted a reduction of £3 million in investment on local health and welfare in 1967–68, notwithstanding the fact that the largest share of this would be secured at the expense of old peoples’ homes.

(l) The Home Secretary said that it should be possible to secure a reduction of £1½ million in Home Office investment programmes for
1967–68, although preferably in relation to services other than the police and prisons services.

(m) The Secretary of State for Education and Science said that the only field of higher and further education in which investment expenditure could be saved in 1967–68 appeared to be the programme of technical colleges. It might be thought preferable to make reductions in current expenditure within the education service, perhaps by increasing the charges for school meals and milk. It was pointed out, however, that the current public expenditure programme would be further considered by the Public Expenditure Committee; and an increase at this time in the charges for school meals and milk would be difficult to reconcile with the proposed standstill on prices and incomes. The Cabinet agreed that there should be no reduction in the investment programme for higher and further education in 1967–68.

The Prime Minister, summing up this part of the discussion, said that the Cabinet had now approved reductions in programmes for 1967–68 totalling £150 million as follows:

<table>
<thead>
<tr>
<th>Nationalised industries</th>
<th>£ million in 1967–68</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity Council</td>
<td>20</td>
</tr>
<tr>
<td>Gas Board</td>
<td>10</td>
</tr>
<tr>
<td>National Coal Board</td>
<td>10</td>
</tr>
<tr>
<td>Scottish Electricity Boards</td>
<td>4</td>
</tr>
<tr>
<td>Post Office</td>
<td>13</td>
</tr>
<tr>
<td>BOAC, BFA and British Airports Authority</td>
<td>10</td>
</tr>
<tr>
<td>British Railways Board</td>
<td>10</td>
</tr>
<tr>
<td>London Transport Board</td>
<td>2</td>
</tr>
<tr>
<td>Transport Holding Company</td>
<td>2</td>
</tr>
<tr>
<td>Docks (BTDB and non-nationalised)</td>
<td>10</td>
</tr>
<tr>
<td>AEA, say</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total, nationalised industries</strong></td>
<td><strong>95</strong></td>
</tr>
</tbody>
</table>

**Central and Local Government**

<table>
<thead>
<tr>
<th>Local Government, England and Wales (Water and sewerage, swimming baths, Local Government offices, town centre redevelopment)</th>
<th>28</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Government, Scotland</td>
<td>2</td>
</tr>
<tr>
<td>Roads (England)</td>
<td>12</td>
</tr>
<tr>
<td>Roads (Scotland and Wales)</td>
<td>2</td>
</tr>
<tr>
<td>Covent Garden Market</td>
<td>5</td>
</tr>
<tr>
<td>Farm structure payments</td>
<td>1</td>
</tr>
</tbody>
</table>
| Public building and works                                                                                        | 1
| Local health and welfare                                                                                        | 3  |
| Home Office services                                                                                             | 1
| **Total, Central and Local Government**                                                                          | **56** |

SECRET
In his statement he would indicate that nationalised industries investment programmes were to be reduced by £95 million in 1967–68 and Central and Local Government investment programmes by £55 million in 1967–68, and that these reductions would begin to have some effect in the present financial year.

Postal charges

The Cabinet agreed that the Prime Minister should include in his statement an announcement of the proposed increases in postal charges which the Cabinet had already approved, and that the Postmaster-General should make an announcement at a rather later date about the proposed changes in the status and organisation of the Post Office, which had also been approved by the Cabinet.

Surtax

The Cabinet agreed that a surcharge of 10 per cent should be imposed upon surtax payments for the tax year 1965–66. Legislation for this proposal would be included in next year's Finance Bill.

Public expenditure

The Chancellor of the Exchequer said that at their meeting on 18th July, the Public Expenditure Committee and the departmental Ministers who had been invited to attend the meeting had accepted that the increase in the public expenditure programme in 1967–68 as compared with 1966–67 would have to be kept within a considerably lower figure than the 10.9 per cent which would result from the basic and additional programmes as they stood. If the increase were limited to 5 per cent, programmes for 1967–68 would have to be reduced by £726 million; if the increase were limited to 4½ per cent, the reduction would be £819 million. It was for consideration whether the Prime Minister should indicate in his statement that the current estimates of public expenditure programmes for 1967–68 would be reduced by £726 million or £819 million.

In discussion it was suggested that an alternative might be for the Prime Minister to say that the increase in public expenditure from 1966–67 to 1967–68 would be limited to 4½ per cent. On balance, however, the Cabinet agreed that there should be no reference to the public expenditure programmes for 1967–68 in the statement. But the Chancellor of the Exchequer might let it be known that the estimates for 1967–68 would be sharply scrutinised and reduced, without giving any figures in absolute or percentage terms.

Liner trains

The Cabinet agreed that any reference in the statement to liner trains would have to be carefully worded if it were not to have an adverse effect upon negotiations on the opening of liner train terminals to private road hauliers. The Prime Minister might say, however, that the Government had indicated their determination...
that the liner train programme should proceed on the basis of open terminals and, if questioned further, that negotiations to this end were in hand.

*Import controls (C (66) 115)*

The Prime Minister said that it was for consideration whether the statement on the economic situation, which he proposed to make in the House of Commons that afternoon, should include an indication that we should wish to discuss with our partners in the European Free Trade Association (EFTA) the imposition of selective import controls on certain classes of imports, notably machinery, timber and paper. It appeared, however, that it would be impossible to make such controls retrospective to the date of announcement (and so to prevent forestalling), and that there would also be grave risk of retaliation. In these circumstances it might be preferable that no reference to import controls should be included in his statement but that the Cabinet should take a decision in principle to introduce quantitative restrictions at an early date, when the temporary import surcharge expired. The Cabinet might also wish to consider bringing forward the date of expiry of the surcharge and its replacement by quantitative restrictions.

A number of Ministers favoured the introduction of quantitative import restrictions as soon as possible. It was argued that, to the extent to which imports were directly restricted, it would be possible to rely less heavily on restrictions on domestic demand to ease the balance of payments; and it was suggested that the inclusion in the Prime Minister’s statement of an indication that we intended to introduce direct import controls would greatly increase the impact of the statement on overseas opinion.

On the other hand Ministers had stated in public more than once in recent weeks, both at home and overseas, that the Government had no intention of replacing the temporary import surcharge, when it expired, by quantitative restrictions on imports. To introduce quantitative restrictions immediately upon expiry of the surcharge, and particularly to bring forward the date upon which the surcharge expired and immediately thereupon to introduce quantitative restrictions, would therefore be a considerable shock to overseas opinion and would be likely to antagonise Governments who might otherwise welcome the proposed statement. If there were signs that imports were rising significantly after the end of the surcharge it might be necessary to introduce quantitative restrictions; and this could be done, without a breach of our international obligations, if we could show that we were in serious balance of payments difficulties. But it would be necessary to allow some period to elapse after the expiry of the surcharge in order that the rising trend in imports could be demonstrated. In the meantime any indication that the Government were contemplating the introduction of quantitative restrictions could lead to heavy forestalling. In answer to questions,
therefore, the Government would have no alternative but to maintain that there was no intention of replacing the surcharge, when it expired, by quantitative restrictions.

There was general agreement on the need to pursue, urgently and by all possible means, opportunities for economising in the use of imported goods and materials and for substituting domestic production for imports.

*The Prime Minister,* summing up this part of the discussion, said that there was general agreement that there should be no reference to import controls in his forthcoming Parliamentary statement and that in answer to questions it would be necessary, in order to avoid forestalling, to continue to state that the Government had no intention of replacing the surcharge by quantitative restrictions. It was clear, however, that, if it appeared after the end of the surcharge that the level of imports was rising (apart from the immediate but temporary increase which could reasonably be expected to follow the withdrawal of the surcharge), the Cabinet would need to be in a position to introduce quantitative restrictions, if necessary, without delay. Preparations should be put in hand accordingly. In addition the Ministers concerned should put in hand a detailed study of the types of machinery being imported and should consider urgently how to ensure that a larger proportion of the requirement might be met from domestic production.

**Export incentives (C (66) 112)**

In further discussion it was suggested that it would be desirable to include in the Prime Minister’s statement some indication of positive and constructive action in relation to export incentives. It might, for instance, be possible to revive a proposal that firms who observed an agreed code of practice in relation to prices and incomes, productivity, export promotion and import substitution might receive favourable tax treatment. On the other hand a great deal of Governmental action had already been taken in order to encourage exports; and proposals for a new form of indirect taxation (the value-added tax) and the institution of a central export corporation seemed to offer better prospect of progress than suggestions for discriminatory tax treatment, which would be clearly contrary to our international obligations. In the meantime it would be preferable to include no reference to export incentives in the Prime Minister’s statement than to mention aspirations which would not match well with the firm decisions already taken on the other measures to be included in the statement.

**The Cabinet—**

(3) Agreed that no reference should be included in the Parliamentary statement to be made by the Prime Minister later that day to the possibility that the Government might introduce either quantitative restrictions on imports or special incentives to exports.

(4) Invited the First Secretary of State, in consultation with the President of the Board of Trade and other Ministers
concerned, to ensure that preparations were made for the introduction of import controls if it became necessary to implement the Cabinet's decision in principle to this effect shortly after the removal of the import surcharge in the autumn.

(5) Invited the First Secretary of State, in consultation with the Minister of Technology and other Ministers concerned, to give further consideration to possible means of ensuring economy in the use of imported goods and substituting domestic production for imports, particularly in relation to machinery.

**Summing up and conclusions**

_The Prime Minister_, summing up the main discussion, said that the Cabinet had now approved a series of measures relating to demand in the private and public sectors which should reduce the pressure on domestic resources by over £500 million. The reduction of domestic demand would itself help to relieve the balance of payments by curtailing the demand for imports and releasing capacity for production for export. In addition, direct action on Government expenditure overseas, on travel allowances and on emigrants' remittances should improve the balance of payments by at least £150 million. In the situation which faced the Government, where the restoration of confidence was one of the prime objectives, the presentation of the measures to be introduced was no less significant than their real impact upon domestic demand and the balance of payments. The measures constituted a determined attack on the excess of domestic demand and on the deficit in the balance of payments; and in his Parliamentary statement, which would take account of the points made in the Cabinet's discussion, he would seek to present the proposals as not only of substantial significance in their economic impact but also as convincing indications of the Government's resolution to deal with the economic problems which confronted the country.

The Cabinet—

(6) Agreed that a travel allowance of £50 on travel outside the sterling area should be introduced for 12 months from 1st November, 1966.

(7) Approved the transitional provisions and consequential changes set out in paragraphs 7 and 10 of the Note attached to C (66) 113.

(8) Approved the change in the arrangements for emigrants' remittances set out in paragraphs 12 to 19 of the Note attached to C (66) 113.

(9) Agreed that the regulator should be applied at 10 per cent with effect from midnight on 20th/21st July, 1966, on Customs and Excise duties on spirits, beer and wine and hydrocarbon oil and on purchase tax.
(10) Agreed that legislation should be introduced at an appropriate opportunity to refund the surcharge on hydrocarbon oil duties to public passenger transport operators.

(11) Agreed that the limit for exemption from building control should be reduced from £100,000 to £50,000 by an Order to be introduced as soon as the Building Control Bill received the Royal Assent.

(12) Agreed that the control of office building should be extended to the East and West Midlands Regions and to the rest of the South-East Region of England.

(13) Agreed that minimum down-payments on hire-purchase should be increased on cars to 40 per cent, on domestic appliances to 33 1/3 per cent and on furniture to 20 per cent and that the maximum period of repayment should be fixed at 24 months for each of these groups of articles—all with effect from midnight on 20th/21st July, 1966.

(14) Approved reductions totalling some £95 million in 1967-68 in nationalised industries' investment programmes and some £55 million in 1967-68 in Central and Local Government investment programmes, as agreed in discussion.

(15) Agreed that a year's rental should henceforward be required in advance of installation of a telephone.

(16) Agreed that a surcharge of 10 per cent should be imposed in relation to surtax for the year 1965-66.

(17) Took note that the Prime Minister would announce the measures to be taken in a statement to be made later that day in the House of Commons.

Cabinet Office, S.W.1,
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 21st July, 1966, at 10 a.m.

Present:

The Right Hon. HAROLD WILSON, M P, Prime Minister
The Right Hon. GEORGE BROWN, M P, First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. DENIS HEALEY, M P, Secretary of State for Defence
The Right Hon. ROY JENKINS, M P, Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M P, Minister without Portfolio
The Right Hon. ANTHONY GREENWOOD, M P, Minister of Overseas Development
The Right Hon. RICHARD CROSSMAN, M P, Minister of Housing and Local Government (Items 1–4)
The Right Hon. FRED PEARL, M P, Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWYN HUGHES, M P, Secretary of State for Wales
The Right Hon. RICHARD MARSH, M P, Minister of Power
The Right Hon. GEORGE BROWNE, M P, Lord President of the Council
The Right Hon. MICHAEL STEWART, M P, Secretary of State for Foreign Affairs
The Right Hon. ARTHUR BOTTOMLEY, M P, Secretary of State for Commonwealth Relations
The Right Hon. WILLIAM ROSS, M P, Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M P, President of the Board of Trade
The Right Hon. ANTHONY CROSLAND, M P, Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. BARBARA CASTLE, M P, Minister of Transport
The Right Hon. FREDERICK LEE, M P, Secretary of State for the Colonies
The Right Hon. ANTHONY WEDGWOOD BENN, M P, Minister of Technology

The following were also present:

The Right Hon. FREDERICK MULLEY, M P, Minister of Aviation (Items 4 and 5)
The Right Hon. SIR ELWYN JONES, O C, M P, Attorney-General (Items 4 and 5)
The Right Hon. JOHN DIAMOND, M P, Chief Secretary, Treasury
The Right Hon. JOHN SILKIN, M P, Parliamentary Secretary, Treasury

Secretariat:

SIR BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
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SECRET
1. The Cabinet were informed of the business to be taken in the House of Commons in the following week.

2. The Cabinet considered the arrangements to be made for the future conduct of economic policy in the light of the measures which had been announced in the Prime Minister's statement in the House of Commons on the previous day. These measures would inevitably attract criticism, particularly as regards the proposed intensification of the Government's policy in relation to prices and incomes. It was therefore important that developments in the economic situation should be kept under regular review and that Ministers should be enabled to consider collectively, as appropriate, the consequential action which might be necessary.

Work should be pressed forward to give effect to the reductions in Government expenditure at home and abroad as rapidly as possible. It would be important that Ministers' own actions should be seen to be in conformity with the spirit of the measures announced in the Prime Minister's statement; and this implied, among other things, that they should both reconsider any proposed oversea visits to which they were already committed and adopt a more stringent attitude to future journeys of this kind. Henceforward, Ministerial visits abroad should be curtailed; and only in exceptional cases should Ministers expect to be accompanied by their wives.

3. The Foreign Secretary said that further discussions had taken place the previous week between United Kingdom and Spanish officials regarding the dispute over Gibraltar. Our proposals for a basis on which a settlement might be reached would now be reported by the Spanish officials to their Government, but they had indicated that the reply would certainly be unfavourable. It had also been hinted that the Spanish Government might withdraw permission for overflights by United Kingdom military aircraft. The next stage would be for us to propose the submission of the dispute to the International Court of Justice.

The Secretary of State for Defence said that the withdrawal of permission for military training overflights, which were at present those primarily in question, would not have serious consequences for our interests, nor would the withdrawal of permission for the overflight of all military aircraft unless the French Government similarly withdrew permission.

The Prime Minister said that his discussions over the previous weekend with the Soviet Prime Minister, Mr. Kosygin, had been very frank. It was apparent that the Soviet Government wished to use the United Kingdom as an intermediary in any discussions with
the United States Government, in view of the political difficulty in present circumstances of conducting such discussions direct. As regards Vietnam they would clearly welcome any means, including the calling of a conference, by which the conflict might be brought to an end, but they were not in a position to take any overt action going beyond what would be acceptable to the North Vietnamese Government, in view of their own difficulties in relation to the People's Republic of China. Nor had they proved willing to accept any joint Anglo-Soviet move in respect of Cambodia. He had made it clear that, if the North Vietnamese were to execute the United States pilots who had been shot down after the recent bombing raids, this would gravely inflame opinion in the United States, alienate any sympathy in the Western world for North Vietnam and risk further escalation of the conflict.

He had discussed with Mr. Kosygin a possible approach to a joint East-West declaration which might help to ease international tensions and it appeared that the Soviet Government might be prepared to consider such a proposal favourably. Mr. Kosygin agreed, however, that the most useful practical results were most likely to flow from bilateral discussions between the nations primarily concerned. It was also possible that the Soviet Government might be willing to consider discussions with a view to agreed reductions in force levels on either side of the East-West frontier in Western Europe.

The Cabinet—

Took note of these statements.

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4. The Cabinet considered a memorandum by the Minister of Aviation (C (66) 116) on the future of the Concord.

The Minister of Aviation recalled that the Cabinet had invited him to circulate a further report on the commercial prospects of the Concord, with particular regard to the effect of the sonic bang. The Attorney-General's advice, a copy of which was attached to his memorandum, was that the problems relating to the sonic bang did not constitute a technical drawback which would legally justify our withdrawal from the project.

So far about £45 million had been irrevocably committed and a continuation of the existing contracts, covering the construction of two prototypes, would entail a commitment of about £60 million by the end of the year. The continuation of the programme, however, also implied new contractual commitments which would bring the total up to some £65–70 million by that time. The commercial prospects for the aircraft had been more fully considered in the light of the Cabinet's discussion and a note, based on extensive work by United Kingdom and French officials, was attached to his memorandum. It appeared unlikely that the Government would obtain a return on their development expenditure, but the sales of
the Concord might be about 150, with a sale of spare parts to a value equivalent to this number of aircraft. The United Kingdom share of these sales could improve our balance of payments by some £1,000 million over the decade 1970-80, but this gain in foreign exchange would be at the cost of substantially higher United Kingdom expenditure, perhaps of the order of 25 per cent. The profitability of the aircraft to airlines could hardly be doubted in its initial phase, when it was likely to operate with a high average complement of passengers. Even in later years, with passenger loadings at a more normal level, profitable operation could still be expected.

The consequences for our aircraft industry of cancellation would be extremely serious, the more especially since this would undoubtedly entail the cancellation by the French Government of all our current Anglo-French collaborative aircraft projects. To the cost of cancellation if we were taken to the International Court of Justice by the French (which might entail a penalty of up to £200 million) would therefore have to be added the extra cost of acquiring from elsewhere the military aircraft involved in the remainder of our collaborative programme.

In these circumstances, however mistaken the original decision to start the aircraft might have been, there appeared to be no reasonable alternative now to completing its development.

The Prime Minister said that in accordance with previous Cabinet discussion he had raised the future of the Concord in his recent talks with the French Prime Minister and Foreign Minister. It was, however, clear that they were not prepared to concede any possibility of cancellation, though they had agreed that there should be a joint study of the commercial prospects of the project. This suggestion might well be pursued before we gave any further indication to the French Government of our intention to go ahead with the next phase of development.

In discussion there was general recognition that it would be impracticable for us to withdraw unilaterally from the project. It was suggested that the deliberations of the joint committee might be deliberately prolonged and that work on the aircraft might in consequence be delayed indefinitely, so mitigating the cost involved. It was, however, pointed out that if we were to proceed with the aircraft at all it was important to do so as quickly as possible, since otherwise we should forfeit the major advantage which we at present held in relation to the United States development of a supersonic civil transport aircraft, in that the Concord would be available some years earlier. Delay would involve a heavy loss of prospective sales in the face of the attractiveness of the higher speed and capacity of the United States aircraft. In these circumstances it was clear that the only alternative to agreement to cancel the aircraft was to press ahead with its development.

In further discussion it was suggested that in the light of the proposed joint commercial survey we might seek the agreement of
the French Government to setting a maximum cost of development and an understanding that, if the prospective cost appeared at a later stage to be approaching this figure, either side should be entitled to reconsider its decision to participate. There was general agreement with this proposal.

The point was also made that it might be desirable to seek to reconsider the relative priority of our other collaborative aircraft projects with the French Government. The Cabinet were, however, informed that these priorities were kept under constant review by the Ministers primarily concerned, in consultation with the French Government. Some of the projects were very promising, but the present estimated cost of the Anglo-French variable geometry aircraft gave cause for concern. All these projects, however, had appropriate break clauses so that we could withdraw from participation if at any time this were in accord with our interest.

The Prime Minister, summing up the discussion, said that the Cabinet were agreed that we could not withdraw unilaterally from our participation in the development of the Concord. It was, however, desirable that we should seek any means open to us to do so in agreement with the French Government. To that end we should now pursue the suggestion which had been accepted by the French Prime Minister for the appointment of an Anglo-French committee to consider the commercial prospects of the Concord. This committee should be enjoined to report in not more than two months. Meanwhile, work on the development of the Concord should proceed as planned on the understanding that this involved expenditure in that period of the order of £2 million to £3 million. There should, however, be no new announcement about the Government's intention to proceed and no final commitment to new contracts involving heavy expenditure, though discussions on such contracts could be started. Other processes, including, if necessary, the publication of the revised estimates, should continue in the normal way.

The Cabinet—

(1) Invited the Minister of Aviation to be guided by Prime Minister's summing up of their discussion in authorising the further development of the Concord.

(2) Invited the Minister of Aviation, in consultation with the Foreign Secretary and the Chief Secretary, Treasury, to consider the arrangements required for the appointment of an Anglo-French committee to consider and report within two months on the commercial prospects of the Concord.

(3) Invited the Foreign Secretary, subject to Conclusion (2), to seek the agreement of the French Government to the appointment of such a committee.
5. The Cabinet considered a note by the Minister of Aviation (C (66) 118), to which was attached a report from the Chairman of the Official Committee on Technology on the Black Arrow programme for the development of a small launcher.

The Minister of Aviation recalled that in December 1965 when the Cabinet had decided that we should work towards terminating our commitment to the European Launcher Development Organisation (ELDO), Ministers had been disposed to approve the Black Arrow programme. Now that, in consequence of the revision of both the technical and financial aspects of the ELDO programme, the Cabinet had decided that we should continue to participate, it was for consideration whether the development of Black Arrow should be completed. To equip ourselves to play a part in international space activity we must clearly maintain some national capability. Our present work, apart from Black Arrow, was limited to a modest programme, largely financed by the Science Research Council, of firing sounding rockets. This did not provide the launcher necessary to test satellite components in space during their development and unless we proceeded with Black Arrow we should have to buy launchers from the United States. This would be unsatisfactory technologically. The development of the Black Arrow launcher itself was estimated to cost £9 ½ million, of which £6 ½ million had already been spent, and a commitment of £600,000 authorised up to 30th September. The balance of the programme proposed was for satellite development, a field which was rapidly expanding and likely to grow in commercial and technological importance.

In our present grave economic position it was nevertheless difficult to contemplate expenditure of the order proposed over the next two years but, in order to maintain our technological capacity in this field, officials should be instructed to explore urgently the possibility of devising a more modest means of keeping in being the design teams concerned. The Black Arrow programme should be considered together with the proposals which had been made for the co-operative development of an experimental communications satellite on a European basis. If approved, the latter would involve United Kingdom expenditure of the order of £1.5 million a year for the next four years: the issue would come before Ministers shortly.

In discussion it was urged that, since the Government was now committed to continue its participation in ELDO, and in view both of the increase since the previous December of the cost of the Black Arrow programme from £25 million to £32 million and of the absence of any present economic justification for it, the right course would be to cancel it forthwith. The programme was of no scientific interest and no evidence was available to justify continued expenditure on it.

On the other hand it was urged that space technology was a rapidly expanding field, the potentiality of which was necessarily unknown at this stage. Its nature was such that certainty could never
be achieved on the economic prospects of programmes comparable with the precise calculations which could be made in some industrial fields. It would be undesirable for the United Kingdom to abandon all possibility of future participation in work of this nature and we should retain the option of doing so should new developments show this to be justified. In particular, it would be contrary to our interests to take a step which might contribute to the further replacement by the United States of the hitherto prominent part played by the United Kingdom in providing international communications.

In further discussion there was general agreement that the desirability of a modified programme for launchers and satellite development on the lines proposed by the Minister of Aviation should be considered in relation to the priorities which should attach to United Kingdom expenditure and use of skilled manpower in other fields of technology. In the first instance, this should be reviewed by a committee of officials and then considered by Ministers on the basis of their report.

The Cabinet—

(1) Took note of C (66) 118

(2) Took note that the Prime Minister would arrange for officials to prepare for the consideration of Ministers a report on the priority to be attached to United Kingdom Government expenditure on the development of space technology, in relation to expenditure on other technological developments.

Cabinet Office, S.W.1,
22nd July, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 28th July, 1966, at 9.45 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. MICHAEL STEWART, M.P., Secretary of State for Foreign Affairs
The Right Hon. ARTHUR BOTTOMLEY, M.P., Secretary of State for Commonwealth Relations
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. ANTHONY CORSLAND, M.P., Secretary of State for Education and Science (Items 1 and 2)
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal (Items 1 and 2)
The Right Hon. FRED PEARL, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. RICHARD MARSH, M.P., Minister of Power
The Right Hon. HERBERT BOWDEN, M.P., Lord President of the Council
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence (Items 1 and 2)
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. RICHARD CROSSMAN, M.P., Minister of Housing and Local Government (Items 1 and 2)
The Right Hon. FREDERICK LEE, M.P., Minister of Overseas Development
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Overseas Development
The Right Hon. KENNETH ROBINSON, M.P., Minister of Health (Items 1 and 2)
The Right Hon. Sir ELWYN JONES, Q.C., M.P., Attorney-General (Items 1-3)
The following were also present:
The Right Hon. EDWARD SHORT, M.P., Postmaster General (Items 1 and 2)
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretarial:
Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. R. T. ARMSTRONG
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1. The Foreign Secretary said that there had been a general recognition overseas of the severity of and the sacrifices entailed by the Government's economic measures. The first reaction in Governmental circles had been cordial, but the measures had been less warmly received in financial and industrial circles and the subsequent reaction of Governments had in consequence been more hesitant. The main concern overseas was in respect of the effectiveness of the proposed standstill of prices and wages: there was also concern at what the trade figures for the next few months might prove to be. In general, there was some scepticism about whether the measures had been taken in time and, in some quarters, concern that severe though they were, they might still not be severe enough to meet the present need. Nevertheless, the general feeling was that the measures would give us a breathing space and an opportunity to solve our longer-term economic problems: in these circumstances, it would be regarded as reasonable that we should draw upon the Basle credits for the next few months to tide us over immediate difficulties. In the constituent countries of the European Free Trade Association there was widespread relief that we had not, as it were, exported our economic difficulties by placing further restrictions upon our trade.

The new Indonesian Cabinet had now been formed. It was considerably smaller than its predecessor and all but one of the main supporters of President Sukarno had been dropped from it. The new Minister of Finance was expected to be more effective than his predecessor in dealing with the country's economic problems and was also known to be sympathetic to the view that compensation should be paid for the assets of United Kingdom firms in Indonesia which had been nationalised. In sum, the new appointments represented a further setback to President Sukarno, but the outcome was still uncertain.

The Cabinet—

Took note of these statements.

2. The Cabinet considered a memorandum by the First Secretary of State and Secretary of State for Economic Affairs (C (66) 122), to which was attached a draft White Paper on the standstill for prices and incomes and a note on the new clauses which it was proposed to add to the Prices and Incomes Bill. The Cabinet also had before them the text of proposed additions to the Prices and Incomes Bill.

The First Secretary of State said that the representatives of the Confederation of British Industries (CBI) had indicated to him that they would advise their Grand Council to support the standstill for prices and incomes and to be ready to give advice to members on
its working. They were, however, insisting as a condition of their support that there should be no exceptions from the standstill on incomes, except for scale and age pay increments. He had taken note of their views. The General Council of the Trades Union Congress (TUC) had decided to acquiesce in the standstill, but were pressing for provisions which would allow at least increases of incomes for lower-paid workers and increases related to productivity agreements even during the period of the standstill.

The Cabinet might wish to direct their attention mainly to the nature of the new powers which it was proposed to add to the Prices and Incomes Bill, to the arrangements for bringing those powers into effect, and to the manner in which existing commitments should be treated under the incomes standstill. They might wish then to consider the draft White Paper in detail. It was proposed to publish the White Paper during the course of the morning of 29th July, and to table amendments to the Prices and Incomes Bill shortly before the House of Commons rose on that same day.

In discussion the view was expressed that the proposed additions to the Prices and Incomes Bill were considerably more drastic than might have been expected from the references to “strengthening the Prices and Incomes Bill” in previous Cabinet discussion and in the Prime Minister’s statement of 20th July, and it was suggested that in the form proposed they had alarming implications. Employers were to be placed under legal obligations not to pay increased wages, and a trade unionist who sought to bring pressure to bear upon employers to pay increased wages despite these obligations would render himself liable to the payment of a fine; if he refused to pay a fine he could be committed to prison. The Cabinet had accepted arrangements of this kind in relation to Part II of the Bill, but it was another matter to contemplate the extension of these arrangements in the much wider context covered by Part IV of the Bill. It was argued that the provision would in practice be unenforceable: if a union leader were determined to force a challenge to the standstill and laid himself open to the penalties, the Government could hardly do otherwise than prosecute him, and there was a danger that a successful prosecution in these circumstances would lead to widespread official or unofficial industrial action. It could be argued that the Government should not take powers which it was hardly conceivable that they should wish to exercise. In addition, the introduction of these powers could jeopardise the acquiescence of the TUC General Council in the standstill; even if the General Council’s acquiescence were confirmed, there would be a danger of adverse votes at the TUC Annual Congress and at the Annual Conference of the Labour Party, which would seriously undermine not only the credibility of the standstill policy but also confidence in sterling and even the authority of the Government.

A number of suggestions for avoiding or minimising these dangers were considered. It was suggested, for example, that the Government should take powers to enforce only a standstill on prices, relying upon the psychological impact and upon the pressure
which such a standstill would put upon employers to ensure that this led to an effective standstill on wages and salaries. In this event the Government would have to be prepared to stand out against strike action in pursuance of wage claims, and would be unable to exercise any conciliation functions. The objection to this was that over a wide range of goods a rigid standstill on prices could not in practice be enforced, though it could be applied in relation to certain basic commodities such as bread and coal. It was likely that employers would not stand up to demands for wage increases, and the standstill would break down. It was also suggested that the Government might take powers to enforce a standstill on prices and also to require employers not to pay increases, but refrain from taking powers to prosecute union leaders for bringing pressure on employers to pay in spite of their legal obligations to do so. To this it was objected that Part IV of the Bill so amended would seem to opinion both at home and overseas to be one-sided in its impact; this would both be grossly unfair and would reduce its credibility. It would put employers in an intolerably difficult position, where many of them would prefer to concede wage increases and risk a fine. In the circumstances fines imposed by the courts might well be derisory. Moreover, it was pointed out that, if the clause providing for a specific sanction on trade unionists were removed, trade unionists who sought by pressure upon or collusion with employers to secure wage increases would render themselves liable to prosecution for criminal conspiracy: this would frustrate the object of the change and could lead to industrial chaos. The provision included in Part II of the Bill (Clause 16 (4)), which it was now proposed to extend to Part IV, had been designed specifically to avoid this difficulty, and it was hardly possible to withdraw that provision at this stage.

If it were accepted that none of these suggestions should be adopted, the choice would lie between introducing amendments to the Bill on the lines of the draft before the Cabinet or dropping the proposal to strengthen the Bill and relying on voluntary co-operation. While the second alternative would avoid many difficulties, it would seriously diminish the credibility of the standstill, and it would manifestly fail to fulfil the Prime Minister's pledge to prevent the selfish from taking advantage of the co-operation of the rest.

It was further suggested that, if it were decided to proceed with the additions to the Bill on the lines proposed, some of the potential embarrassment might be avoided by making the operation of the sanctions upon trade unionists, or the operation of the whole of Part IV, subject to affirmative resolution in both Houses of Parliament. As drafted, Part IV of the Bill enabled the First Secretary of State to introduce Orders applying the section to particular prices or incomes; these Orders were to be subject to negative resolution, in order that there should be no delay in becoming effective. It would not be desirable to make only the sanctions on trade unionists applicable by Order subject to affirmative resolution, leaving the remaining sections of Part IV applicable by
Order subject to negative resolution. But if the Bill were altered so that Part IV came into effect only upon introduction of an Order subject to affirmative resolution, this would give point to the Government's declared intention of proceeding in the first instance by voluntary means. It was to be expected that the Government would in due course need to have recourse to statutory powers, but it might be possible to defer the making of an Order bringing Part IV into effect until later in the year, relying upon voluntary co-operation in the meantime. One major difficulty about this was that Part IV included provisions enabling employers to withhold increases of remuneration which had been conceded but not paid, without rendering themselves liable to be sued for breach of contract. This would be likely to mean that deferment of existing commitments could not be operated in the private sector, even though it was being operated in the public sector, until such time as Part IV became operative.

It was for consideration, if it were decided that Part IV of the Bill should become operative only upon laying an Order subject to affirmative resolution, whether those resolutions should be required to be passed within 28 sitting days or 28 calendar days. If the resolutions had to be passed within 28 sitting days, the Government would be able to introduce an Order at any time during the Recess without recalling Parliament. On the other hand it was suggested that it would be preferable for the resolutions to be required within 28 calendar days. This would make it clear that the Government regarded the introduction of Part IV of the Bill as being a matter of such moment that, if it were required in the middle of the Recess, Parliament should be recalled. This might help to allay misgivings about the nature of the powers to be taken.

In discussion of the treatment of existing commitments it was strongly urged that firm settlements concluded before 20th July for increases with an operative date on or before 20th July should be allowed to stand. On this basis less than 10 per cent of those covered by existing commitments would escape the standstill. If on the other hand cases of this kind were to be caught by the standstill, the effect would be particularly severe in the public sector: the increases for doctors would be deferred (though not those for dentists, since they were already in payment); and so would increases for a number of National Health Service classes, including nursing tutors and dispensing assistants, and increases for manual workers in the gas supply industry and municipal busmen. The increases for multiple bakers would also be caught; but there was a real danger that the baking employers would pay these increases before the Bill became law in any event.

The Minister of Health pointed out that he, and indeed the Government, were committed by firm pledges to the payment of the first instalment of the increases to the doctors. Deferment would affect not only the general practitioners but also the hospital doctors, including the house officers (whose increases had been generally approved) and the middle grade hospital doctors. There would be a serious danger that many of the younger hospital doctors would...
emigrate, and that a large number of general practitioners would resign from the National Health Service and seek their fortunes in private practice through Independent Medical Services Limited, a private insurance scheme sponsored by the British Medical Association. In the case not only of the doctors but also of the other National Health Service grades, the reason why the increases were not already in payment was the delay in the issue of instructions to paying offices, for which the Government was responsible. It would be hard to justify enforcing a deferment of implementation in these circumstances.

It was also pointed out that there were some groups of workers where increases were already being paid to some members of the group but not to others. In these cases it would be indefensible to withhold the increase from those members of the group who had not yet received it.

It was further suggested that in view of the difficulty of deferring existing commitments the best solution might be to authorise payment of all the increases agreed before 20th July with effective dates before 20th July. It was pointed out, however, that an exception as large as this from the standstill would make it difficult for the Government to resist pressure for other exemptions (such as increases for lower-paid workers and increases related to productivity agreements), and might jeopardise readiness to acquiesce in the standstill, particularly among those groups with existing commitments for increases to come into effect after 20th July. If it was desirable to have no exceptions to the policy, then the Government should stand fast on the deferment of existing commitments. It might be that a particular difficulty arose in the case of the doctors, but it also had to be recognised that the increases agreed for doctors had been particularly contentious. It was accepted that, if as a result of the decision to defer existing commitments the first instalment of the increases for doctors were deferred, it should be made clear that the second instalment, due on 1st April, 1967, would be paid on the due date.

In discussion of the draft White Paper the following points were made:

Section II

(a) The Minister of Agriculture, Fisheries and Food would agree with the First Secretary of State upon the treatment of the early warning and constant watch arrangements applicable to commodities in the food sector.

(b) The limit in paragraph 8 (b) should be 100 workers.

(c) It might be desirable to strengthen paragraph 9 in the light of the powers which the Government were proposing to take.

(d) Paragraph 10 should include the proposed additional sentences, save for that in which it was stated that the imposition of a general standstill would be inappropriate. It should be made clear that the paragraph applied to rent increases already announced, but
not yet put into effect. The final decision on increases of public sector rents should remain with local authorities, but words should be inserted to make it clear that local authorities would be expected to consult, and make a case to, the Minister of Housing and Local Government or the Secretary of State for Scotland.

(c) Paragraph 12 should be included as drafted, with the words “and other” inserted after “agriculture”.

(i) The proposed paragraphs 13 and 14 on prices of houses and loan charges were so inconclusive that they would be better omitted.

Section III

(g) Paragraphs 5–7 would need to be recast in the light of the Cabinet’s decision on the treatment of existing commitments.

(h) It would be desirable to include in paragraph 11, or at some other appropriate point, a reference to the strengthening of the National Board for Prices and Incomes.

(i) It should be made clear in paragraph 15 that the standstill applied in principle not only to salaries of company directors and senior executives but to all executives in industry and commerce.

(j) The section on profits and dividends should be redrafted so as to make it clear that as a result of fiscal measures already taken it was expected that there would not be an increase in average dividends in the succeeding 12 months. It would be necessary to retain the footnote making it clear that distributions by “closely controlled companies” might have to be excluded from the standstill. The White Paper should not recognise in terms that there might be other cases in which it would be in accordance with the national interest to permit an increased distribution, but it should be made clear that any company which contemplated an increased distribution should inform the Government.

(k) Paragraph 17 should refer to “the scales of charges and fees” rather than to “the incomes” of self-employed persons.

(l) It was agreed that it would not be appropriate to include in this White Paper a reference to the economic case for profitability, though occasion might arise in speeches for such a reference.

Section IV

(m) An amendment to paragraph 3 proposed by the Minister of Transport was accepted.

Section VI

(n) This section of the White Paper would need to be redrafted in the light of the Cabinet’s decision on the arrangements for bringing Part IV of the Prices and Incomes Bill into operation.

The Prime Minister, summing up the discussion, said that the balance of view in the Cabinet was in favour of introducing into the Prices and Incomes Bill the additional Part IV as proposed in the draft amendments before them. It was, however, the Cabinet’s view
that Part IV of the Bill should come into operation only on the introduction of an Order, which would come into effect immediately it was laid but would lapse unless it was confirmed by resolution of both Houses of Parliament within 28 calendar days. No course open to the Government was free from difficulty or risk of embarrassment, but this would enable the additional provisions to be presented as a balanced combination of powers bearing upon both employers and employees, and as a demonstration of the Government’s preference for proceeding by voluntary means and of their determination to enforce the standstill by statutory powers if voluntary means broke down. On existing commitments in the incomes field, the general principle in the Cabinet view should be that payment should be deferred for six months from 20th July or from the operative date, whichever was the later, and that no restrospection should be paid in respect of the six months’ delay due to the standstill. This meant that:

(a) In the case of firm commitments entered into on or before 20th July for increases to become operative on or before 20th July:

(i) where increases were already in payment to some members of a group of workers they should not be withheld from others;

(ii) where increases were not yet in payment for any members of a group of workers, the operative date of the increases should be deferred for six months and no payments should be made until the end of the first six months of the standstill period.

(b) In the case of firm commitments entered into on or before 20th July for increases to become operative from a date after 20th July, the increases should become operative and could be paid from a date six months after the agreed operative date. Increases due under contractual commitments entered into before 20th July to become operative after the end of the six months period of standstill should be operative and payable from the agreed date.

The draft White Paper should be revised in accordance with these decisions and in the light of other points made in discussion, and should be published as soon as possible on 29th July. The draft amendments to the Prices and Incomes Bill should be revised to take account of the Cabinet’s decision on the arrangements for bringing them into operation, and tabled in the House of Commons on 29th July.

The Cabinet—

(1) Agreed that the proposed Part IV of the Prices and Incomes Bill should be on the lines of the draft amendments before them, save that provision should be included whereby Part IV of the Bill would be brought into operation by an Order which would come into effect upon its being laid but would lapse unless confirmed by affirmative resolutions of both Houses of Parliament within 28 calendar days of being laid.
(2) Agreed that, in the case of firm commitments entered into on or before 20th July, 1966, for pay increases to be operative from a date on or before 20th July, 1966:

(a) where an increase was already in payment to some members of a group concerned, it should not be withheld from the remainder;

(b) where an increase was not yet in payment for any of those concerned, the operative date should be deferred for six months and no payments should be made until the end of the six months' period of standstill.

(3) Agreed that, in the case of firm commitments entered into on or before 20th July, 1966, for pay increases to be operative from a date during the standstill period of six months from 20th July, 1966, the operative date should be deferred for six months.

(4) Agreed that, in the case of firm commitments entered into on or before 20th July, 1966, for pay increases to be operative from a date after the end of the standstill period of six months from 20th July, 1966, the increases should be operative and payable from the agreed operative date.

(5) Invited the First Secretary of State to revise the draft White Paper attached to his memorandum (C (66) 122) to accord with these decisions and with other points made in discussion, and to arrange for publication as indicated in the Prime Minister's summing up.

(6) Invited the First Secretary of State to arrange for the draft amendments to the Prices and Incomes Bill to be revised to accord with the decision at (1), and to table the amendments so revised in the House of Commons on 29th July.

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

In discussion it was agreed that the amendments to the Prices and Incomes Bill which had been approved by the Cabinet under the previous item of their agenda might now be handed to the Opposition. Unless agreement could then be reached with the latter on an acceptable time-table for dealing with all the further stages of the Bill a guillotine motion in respect of it should be tabled for debate on the following Monday.

In further discussion the Cabinet were informed that while it was still uncertain when Parliament would rise for the Summer Recess, this would probably be on Friday, 12th August. Parliament would resume after the Summer Recess on Tuesday, 18th October.
4. The Cabinet had before them a memorandum by the First Secretary of State and Secretary of State for Economic Affairs (C (66) 119) on the aircraft industry.

The First Secretary said that Cabinet might wish to consider the last two issues set out in the memorandum, namely the proposed merger of the aero-engine interests of Rolls-Royce and Bristol Siddeley, and the reorganisation of the airframe industry at a later meeting. The Minister of Aviation, however, had to make an announcement about the future equipment of British Overseas Airways Corporation (BOAC) (which had already been decided) and of British European Airways (BEA) in the early part of the following week. It would, therefore be desirable to come to a decision on the latter question at their present meeting. After a full discussion of this question the Ministerial Committee on Economic Development had unanimously come to the conclusions set out in his memorandum, namely that despite the economic and financial disadvantages, it would be right to require BEA to buy United Kingdom aircraft in re-equipping their fleet. Coming on top of the purchase of long-haul United States aircraft already authorised by BOAC, a similar purchase by BEA would not only involve a substantial cost in foreign exchange, but would also seriously, and perhaps irreparably, damage the prospects of the United Kingdom aircraft industry in the medium-haul civil airline field. The Committee accepted that if BEA were required to buy United Kingdom aircraft, they would have to be given an assurance that the Government would be willing in principle to assist them to deal with the problems with which this decision would present them; and had recommended that there should be further study of the problems which would be raised and the means by which assistance would be given.

The Cabinet—

(1) Invited the Minister of Aviation to inform BEA of their decision that their fleet should be re-equipped with United Kingdom aircraft, and in consultation with the Chancellor of the Exchequer, to assure them that the Government were willing in principle to assist them to deal with the problems with which this decision would present them.

(2) Invited the Minister of Aviation to make an announcement to that effect in Parliament in the early part of the following week, and to concert the terms of the announcement with the First Secretary of State, the Chancellor of the Exchequer, the President of the Board of Trade and the Minister of Technology.

(3) Invited the First Secretary of State, in consultation with the Minister of Aviation, to arrange for a further study to be
made of the means by which assistance should be given to BEA, of the size, constitution and timing of BEA orders and of the implications of postponing re-equipment for domestic routes.

(4) Agreed to resume their discussion of C(66) 119 at a subsequent meeting.

Cabinet Office, S.W.1,
28th July, 1966
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Tuesday, 2nd August, 1966,
at 10 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. HERBERT BOWDEN, M.P., Lord President of the Council
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M.P., Minister without Portfolio
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Overseas Development
The Right Hon. RICHARD CROSSMAN, M.P., Minister of Housing and Local Government (Items 1-5)
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:
The Right Hon. FREDERICK MULLEY, M.P., Minister of Aviation (Item 6)
Mr. AUSTEN ALBU, M.P., Minister of State, Department of Economic Affairs (Items 5 and 6)
The Right Hon. Sir ELWYN JONES, Q.C., M.P., Attorney-General (Item 7)
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Item 5)
Mrs. JUDITH HART, M.P., Minister of State for Commonwealth Affairs (Item 5)
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury
Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
Miss J. J. Nunn
Mr. D. S. Laskey
Mr. R. T. Armstrong

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1. The Lord President reported that the Opposition had decided to substitute for the Supply Debate arranged for Wednesday, 8th August, a Motion to transfer consideration of the Prices and Incomes Bill from Standing Committee B to a Committee of the whole House. This change was devised to permit a Second Reading Debate on the new clauses of the Bill providing powers to enforce the standstill on wages and prices; and the Debate should be conducted on that basis. It would not necessarily be to the Government’s disadvantage.

2. The Minister of Housing and Local Government said that it would be important, both in the debate on the Bill and subsequently, to try to ensure that the standstill on wages and prices should become effective by means of voluntary co-operation. It was open to question how far the standstill could in fact be enforced by the statutory means provided in the Bill; and contingency plans should be prepared for the action to be taken if the voluntary standstill proved abortive, in order that the Cabinet might be able to consider the implications in advance.

In discussion there was some support for this view. The Government’s intention had been to try to ensure the success of the standstill by voluntary methods and not to resort to compulsion until these had been seen to fail. Moreover, if, as seemed likely, the Trades Union Congress decided on the following day to support the standstill, this would be an additional reason for preferring the course of voluntary co-operation.

On the other hand it would be wrong to exaggerate the prospect that a standstill could be achieved by voluntary means. The Government, as employer, would be able to enforce a standstill in the very large public sector; but this would be liable to provoke considerable resentment if the standstill were seen to be only partially effective in the private sector. It would be unfortunate, therefore, to give employees in the public sector any reason to suppose that in the private sector voluntary methods would be attempted in the initial period and that only if these failed would compulsion be invoked. From this point of view it might be preferable to be ready to implement the compulsory powers in Part IV of the Bill at an early stage in order to demonstrate the Government’s determination to hold the balance evenly as between the public and the private sectors and to deter any attempts by the latter to frustrate the standstill. Indeed, some private employers might need the protection of Part IV of the Bill to indemnify them in relation to contracts made before 20th July.

The Prime Minister recalled that at their previous discussion on the standstill of wages and prices the Cabinet had agreed that the procedure envisaged by Part IV of the Bill, whereby its provisions
Oversea Affairs
South Arabia
(Previous Reference: CC (66) 33rd Conclusions, Minute 3)

would become operative only on the introduction of an Affirmative Order lapsing unless confirmed by both Houses within 28 calendar days, would demonstrate the Government’s preference for proceeding by voluntary means but also their determination to enforce the standstill by statutory powers if voluntary means broke down. The Cabinet would need to adhere closely to this collective decision; and it might be advisable for a form of words, based upon it, to be agreed for use in the debate. Thereafter, however, it would be necessary to see how the situation developed before further decisions were taken. If, as now appeared possible, there was a general and voluntary acceptance of the standstill, pressures by one or two recalcitrant groups could be dealt with ad hoc, if necessary, by use of the reversion powers over wages and prices in Part IV of the Bill. But, if the standstill were infringed more widely, other action would be required; and it might be advisable for the Cabinet to give some thought, in advance, to its implications. In any event the Affirmative Order giving effect to the powers in Part IV of the Bill would not be introduced without prior discussion and decision by the Cabinet.

The Cabinet—

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

(2) Took note that the Prime Minister would arrange for the Cabinet to consider the implications of the action which might be required if it became necessary to enforce a statutory standstill of prices and wages.

The Foreign Secretary said that a village in Beihan had been raided the previous day by two aircraft from the Yemen which were almost certainly Egyptian. 75 houses had been hit and three children wounded. The raid had been widely interpreted as action designed both to discredit our ability to defend South Arabia and to destroy the cohesion of the Federal Government. The latter had asked that we should both make a formal protest to the Government of the United Arab Republic (UAR) and also retaliate on Egyptian targets in the Yemen. The Canadian and United States Governments, which were the protecting powers in the UAR and the Yemen respectively during the period in which we did not maintain diplomatic relations with either country, had been asked to make strong protests to the two Governments: we were in addition seeking to call a meeting of the Security Council. While such diplomatic action was being taken we could not simultaneously retaliate, but if that action failed to produce any result we might have to consider retaliation. Alternatively, it might be possible to obtain agreement to a United Nations investigation of the incident on the spot.

In discussion it was pointed out that, since the Yemeni side of the border in question was occupied by the royalists, the raid could
not plausibly have been made in retaliation for raids from Beihan on areas under the control of the Yemeni Government. We were taking such military precautions as were possible to deal with further raids of this nature.

The Commonwealth Secretary said that there had been a further mutiny in Nigeria and that Major-General Ironsi, the Head of State, had been kidnapped and possibly killed. A Lieutenant-Colonel Yakubu Gowon, who was a Hausa from the Northern Region, had assumed charge of the Government, with the support of the Supreme Council. He had been strongly advised by both our own High Commissioner and the United States Ambassador against promoting the secession of the North from the Federation. So far there had been no anti-European feeling, although two Europeans had by accident been killed in cross fire between two bodies of troops.

The Cabinet—

Took note of these statements.

SECRET

4. The Prime Minister informed the Cabinet of the outcome of his recent discussions with the President of the United States, President Johnson, in Washington.

The Cabinet's discussion and the conclusions reached are recorded separately in the bound volume of Most Confidential Records held by the Secretary of the Cabinet.

SECRET

5. The Cabinet considered a note by the Commonwealth Secretary (C (66) 120) covering a memorandum by the Minister of State for Commonwealth Affairs about the intensification of sanctions against Rhodesia by Zambia; and a note by the President of the Board of Trade (C (66) 121) on the effects on the United Kingdom of an interruption in Zambian copper supplies.

The Minister of State for Commonwealth Affairs said that our policy required the intensification of sanctions against Rhodesia if we were to secure a negotiated settlement on our terms within a reasonable period. We also needed to keep up the momentum if international support for sanctions were to be sustained. Apart from the oil supplies reaching Rhodesia from South Africa and Mozambique, which we were unable to prevent, Zambian trade with Rhodesia now constituted the major gap in sanctions. Zambian imports from Rhodesia had already been reduced by about 30 per cent compared with the level before the illegal declaration of independence (i.d.i.); if in co-operation with us the Zambian Government were now to impose a phased cut-off, reducing their
imports by a total of 80 per cent from the level before i.d.L, this would have a major effect on Rhodesian earnings of foreign exchange and on employment in Rhodesia. An agreement on these lines would also help to restore Zambian confidence in the United Kingdom Government and might prevent a decision by Zambia at the Commonwealth Prime Ministers' Meeting in September to leave the Commonwealth or sever relations with us, either of which courses could lead to a break-up of the Commonwealth. In her negotiations with the Zambian Government she had been authorised to offer a total of £6.85 million to be spent in the rest of 1966 on approved projects for developing alternative supply routes and local coal supplies, together with a review of the situation in December 1966 if the emergency had not ended by then. This offer had been rejected by the Zambian Government, partly because of their lack of confidence in the policy of the United Kingdom Government and partly because they regarded it as an inadequate commitment by the United Kingdom to carry through the projects which Zambia wished to undertake. We could not give an unlimited commitment, as the Zambians wished, but it might be possible to reach agreement if we brought forward the review promised for the end of the year and agreed now on the amount of continuing assistance which we could offer for the first half of 1967. She therefore proposed that we should maintain our offer of £6.85 million for expenditure on agreed projects in 1966 and offer a further £7 million for the continuation of agreed projects during the first half of 1967. Our assistance would be discontinued if there were a return to constitutional rule in Rhodesia or to normal communications between Rhodesia and Zambia. Our offer would also be subject to reconsideration if Zambia left the Commonwealth or broke off relations with the United Kingdom.

The President of the Board of Trade said that any substantial reduction in copper exports from Zambia from the normal rate of 60,000 tons a month would increase the price of our copper imports and add to the burden on our balance of payments. This was illustrated by the recent movement in copper prices which had fallen by nearly £100 a ton, to just under £500 a ton, owing to the Zambian Government's decision to permit the resumption of copper exports through Rhodesia provided that the freight charges in Rhodesia were paid by the purchasers. If Zambian copper exports were in the range of 20,000 to 38,000 tons a month this would impose an additional burden on our balance of payments, owing to higher copper prices, of £3.4 million to £7.4 million a month. If the level of Zambian exports fell below 38,000 tons a month there was likely to be a physical shortage of copper which would further affect our manufacturing industry and hence our exports. There was therefore a strong case for trying to reach an agreement with Zambia which would increase the capacity of alternative routes for the export of copper from the present level of 20,000 tons a month to a potential level of 38,000 tons a month, and which might also reduce the risk of unilateral action by Zambia to restrict copper exports.
The Chancellor of the Exchequer said that the Zambian Government were seeking an unlimited commitment of support by the United Kingdom: it therefore seemed doubtful whether they would accept an offer of an additional £7 million since this still set a limit to our aid, even if a higher one. It seemed even more doubtful whether this offer would re-establish Zambian confidence in the United Kingdom Government to such an extent as to alter their whole attitude and induce them to adopt the policy we advocated for Zambian trade with Rhodesia. Copper exports from Zambia were now moving again through Rhodesia and United Kingdom companies were able to purchase supplies through Swiss firms without the need for any alteration in our exchange control regulations against Rhodesia. The Zambian Government would still be in a position to take unilateral action to restrict copper exports and it seemed unlikely that increased aid from the United Kingdom would seriously inhibit them from doing so if they so wished. If the additional offer of £7 million could be found within the ceiling for our economic aid, he would nevertheless not object to it; but in our present economic situation there could be no justification for any increase in the total aid expenditure.

In discussion it was agreed that three main aspects of the problem required consideration; the effect in Rhodesia of more stringent sanctions by Zambia; the degree to which an increased offer of aid might influence Zambia's attitude at the forthcoming Commonwealth Prime Ministers' Meeting; and the extent to which agreement with Zambia would safeguard our supplies of Zambian copper.

As regards the first point, sanctions were already having a considerable economic effect in Rhodesia, and this would be substantially increased if there were a phased reduction of Zambian trade on the lines we had in mind. This would also help to sustain international support for the policy of voluntary sanctions against Rhodesia. On the other hand sanctions had so far had little political effect in Rhodesia itself and even if their economic effects became more severe it was arguable that this might only increase the determination of the régime and of the hard core of the European community not to surrender. Moreover there seemed little prospects of any large scale liberal move against the régime. Nevertheless sanctions could still bring about a change of policy on the part of the régime, although it might well take a considerable time to achieve this: the effective sanction on sales of tobacco was particularly important in this context. The Government were committed to bringing the rebellion to an end and must in honour maintain the policy of sanctions even if this policy would still take a considerable time to show its full effect and the ultimate result could not be regarded as certain.

The Rhodesian situation had had serious political effects in Zambia, but, although the Zambian economy had suffered certain limited damage, Zambian foreign exchange reserves had increased.
considerably, owing to the higher price of copper, and the revenues of the Zambian Government had gained considerably and were relatively substantial. Zambian distrust of the United Kingdom Government was due to political rather than economic causes and specifically to suspicion about the informal talks with the régime in Salisbury. It was doubtful whether an increased offer of aid would substantially affect Zambia's attitude at the Commonwealth Prime Ministers’ Meeting but the consequences of Zambia leaving the Commonwealth, particularly if this led to a more extensive break-up of the Commonwealth, would be so serious, both politically and economically, that it would be worth paying the £7 million if this avoided such an outcome. If the offer were rejected by Zambia we should be no worse off and, the offer having been made, our position with other Members at the Commonwealth Prime Ministers’ Meeting would be stronger. If the offer were accepted it would be reasonable to stipulate, as was proposed, that the position would be subject to reconsideration should Zambia leave the Commonwealth. In fact, however, we might wish even in this eventuality to maintain the offer if it would help significantly to safeguard our copper supplies.

An agreement with Zambia would not of itself necessarily prevent the Zambian Government from seeking to restrict copper exports. We could however make it clear that our assistance would be terminated if such action were taken and that this must be a condition of our offer. Even if the total amount of our aid to Zambia of some £14 million were regarded as an insurance for continued copper supplies, the premium would not be unduly high since a heavy reduction of supplies could cost us as much as an additional £100 million a year on the balance of payments.

In further discussion it was pointed out that it had been agreed that the £6.85 million which we had already offered should be additional to the total agreed expenditure on aid. It was argued that neither this amount nor the additional £7 million could properly be regarded as aid or found within the aid budget. During the current financial year our aid was fully committed up to the agreed ceiling. In the year 1967–68 there would be a cut of £20 million as a result of the announcement made on 20th July and there would in practice have to be a further cut of £10 million to provide for contingencies.

The Prime Minister, summing up the discussion, said that the balance of opinion was in favour of making a further offer to Zambia on the lines proposed by the Minister of State for Commonwealth Affairs. In addition to the conditions suggested in the memorandum it should be made clear that the offer was conditional on the Zambian Government imposing no restrictions on copper exports. We should in any case be under great pressure at the Commonwealth Prime Ministers’ Meeting and subsequently at the United Nations for the imposition of mandatory sanctions against Rhodesia. It was doubtful whether these could be confined to oil sanctions and they could well lead to an economic embargo against the whole of Southern Africa, which would have disastrous consequences for the United Kingdom economy. There would
also be strong pressure for military action against Rhodesia either by the United Kingdom alone or by a United Nations force. It might be suggested that, since we could not be certain that sanctions would be effective, the question of using military force should be reconsidered. This had however been studied in detail and the difficulties of a military operation and the objections to the use of force, not only in regard to Rhodesia itself but for the whole of Central Africa and indeed for the economic and strategic position of the United Kingdom, had been shown to be decisive. It was arguable that the cost of our aid to Zambia could be regarded as part of a war operation rather than as part of our normal aid programme but further consideration should be given to the manner in which the cost should be borne. In view of the difficulty of making provision for it within any existing departmental budget and since it would be to some extent an insurance for maintaining the supply of Zambian copper to the United Kingdom this consideration should include the possibility of providing the money by means of a levy on imports of copper.

The Cabinet—

(1) Approved C (66) 120, subject to the points made by the Prime Minister in his summing up of their discussion.

(2) Invited the President of the Board of Trade, in consultation with the Chancellor of the Exchequer and the Minister of State, Department of Economic Affairs, to consider the possibility of recovering the cost of our aid to Zambia by means of a levy on imports of copper.

(3) Subject to Conclusion (2), invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Defence, the Commonwealth Secretary and the Minister of Overseas Development, to consider further in the light of the discussion how the cost of aid to Zambia should be met.

6. The Cabinet resumed their consideration of a memorandum by the First Secretary of State and Secretary of State for Economic Affairs (C (66) 119) on the aircraft industry.

The Minister of State, Department of Economic Affairs, recalled that at their previous meeting the Cabinet had invited the Minister of Aviation to inform British European Airways (BEA) of the Government's decision that their fleet should be re-equipped with United Kingdom aircraft, and had invited the First Secretary of State, in consultation with the Minister of Aviation, to arrange for a further study to be made of the means by which assistance should be given to BEA to deal with the problems with which this decision would present them, of the size, constitution and timing of BEA orders and of the implications of postponing re-equipment for
Proposed Merger of Rolls-Royce, Limited, and Bristol Siddeley Engines, Limited

domestic routes. The First Secretary of State took the view that the study of these matters should be remitted to the Sub-Committee which it was proposed should consider the reorganisation of the airframe industry.

The Cabinet were now invited to endorse the further conclusions reached by the Ministerial Committee on Economic Development, that Rolls-Royce, Limited, and Bristol Siddeley Engines, Limited, should be told that the Government saw no objection in principle to the proposed merger of their aero-engine interests, and that no decision should be taken for the time being on the reorganisation of the airframe industry, while the matter was further studied by a Sub-Committee of Ministers.

The Minister of Aviation said that he had informed BEA of the Government's decision that they should re-equip with United Kingdom aircraft. BEA had taken this decision badly, and an unfortunate speech by the Chairman of BEA at a lunch at which the Press were represented had led to premature reports in the Press. He would be making a statement in the House of Commons later in the day on the Government's decision. It had been suggested that he should not indicate in that statement that BEA would themselves from a commercial point of view have preferred to buy United States aircraft; but BEA had strongly urged that he should do so and, if he did not, they would certainly make it publicly known themselves. He questioned whether it was appropriate for further study of the questions arising on BEA re-equipment to be undertaken by the Sub-Committee which would be considering the future of the airframe industry, but he supported the conclusions suggested by the First Secretary of State on the aero-engine merger and on further study of the reorganisation of the airframe industry.

In discussion the following points were made:

(a) A key question for the proposed Sub-Committee on the future of the airframe industry would be the future load on the industry. The re-equipment of BEA was an integral part of this, and questions arising on the size, make-up and timing of BEA orders could appropriately be considered by the same Sub-Committee. It might not be appropriate, however, to invite the Sub-Committee to consider the wider question of the future of the Air Traffic Licensing Board and its procedures.

(b) It was suggested that relationships between BEA and the aircraft industry would be improved if BEA were represented on the boards of directors of companies in the industry. On the other hand it was pointed out that this relationship could make for difficulties, and there was no evidence that it would have any substantial practical value.

(c) While a Government statement on the future of the airframe industry during the Recess need not be ruled out, it was suggested that it would be better to defer a final decision until some of the uncertainties about demand on the industry were resolved, even though this might mean postponing an announcement until the autumn.

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The Prime Minister, summing up the discussion, said that the Cabinet in general endorsed Conclusions (4) and (5) in paragraph 9 of (C(66) 119). He would give further thought to the composition and terms of reference of the proposed Sub-Committee.

The Cabinet—
(1) Agreed that Rolls-Royce and Bristol Siddeley should be told that the Government saw no objection in principle to the proposed merger of their aero-engine interests.
(2) Agreed that no decision should be taken for the time being on the reorganisation of the airframe industry, while the matter was further studied by a Sub-Committee of Ministers.
(3) Took note that the Prime Minister would arrange for the constitution of a Sub-Committee for this purpose, and would consider how far it was appropriate to remit to that Sub-Committee questions arising from the decision to require BEA to re-equip with United Kingdom aircraft.

7. The Cabinet considered a memorandum by the Lord Chancellor (C (66) 123) proposing the appointment of a Royal Commission on Assizes and Quarter Sessions outside London.

The Lord Chancellor said that there had long been criticism of the wastefulness and inefficiency of the circuit system which required Assize Judges to sit twice a year for hearing civil and criminal cases in each of 61 Assize towns, many of which provided inadequate business or were visited for too short a time to hear the occasional long case, while large centres of population had no Assize of their own. These arrangements resulted in serious delays in hearing civil cases and in accused persons having to travel long distances for trial. The system had not been examined since the Royal Commission on the Dispatch of Business at Common Law (the Peel Commission) of 1936, and there was a strong case for a far-reaching inquiry by an authoritative Royal Commission which could consider not only the reorganisation of the Assize system, but the desirability of establishing district High Courts outside London; the case for extending Crown Courts similar to those at Liverpool and Manchester; the administration of criminal justice at Quarter Sessions which were now so overloaded that it was difficult to find suitable persons to serve as Recorder or Chairman of Quarter Sessions; and the ownership and use of court accommodation, the scarcity of which played a disproportionate part in determining the pattern of the court system. There might now be less local opposition to reform of the system than had been the case in the past, because many local authorities were finding the cost of supporting an Assize a heavy financial burden, and an early
inquiry was likely to be welcome. The Home Affairs Committee
had approved in principle the proposal to recommend the
appointment of a Royal Commission. It was proposed, after
consultation with the other Ministers concerned, that the terms of
reference should be: "To enquire into the present arrangements
for the administration of justice at Assizes and at Quarter Sessions
outside Greater London, and to report what reforms should be
made for the more convenient, economic and efficient disposal of
the civil and criminal business at present dealt with by those
courts ".

In discussion there was general agreement that an inquiry was
necessary and that it was of sufficient importance to be undertaken
by a Royal Commission. The chairman should be a layman with
wide administrative experience, and it would be important that the
financial aspects of the system of Assizes and Quarter Sessions and
the desirability of the State acquiring court premises outside
London should be carefully considered.

The Cabinet—

(1) Agreed that it was desirable that an inquiry should be
undertaken into the system of Assizes and Quarter
Sessions outside London on the lines proposed in
C (66) 123.

(2) Took note that the Prime Minister would submit to The
Queen proposals for the appointment of a Royal
Commission on Assizes and Quarter Sessions.

*Cabinet Office, S.W.1,
2nd August, 1966.*
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 4th August, 1966, at 10 a.m.

Present:

The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. Herbert Bowden, M.P., Lord President of the Council
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. Douglas Houghton, M.P., Minister without Portfolio
The Right Hon. Anthony Greenwood, M.P., Minister of Overseas Development
The Right Hon. Richard Crossman, M.P., Minister of Housing and Local Government
The Right Hon. R. J. Gunter, M.P., Minister of Labour
The Right Hon. Barbara Castle, M.P., Minister of Transport
The Right Hon. Anthony Wedgwood Benn, M.P., Minister of Technology

The following were also present:

The Right Hon. Edward Short, M.P., Postmaster-General (Item 6)
Mr. Austen Albu, M.P., Minister of State, Department of Economic Affairs (Items 3-6)
The Right Hon. John Silkin, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Miss J. J. Nunn
Mr. L. Errington
Mr. R. T. Armstrong

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

   The Lord President said that if further difficulties arose in completing the remaining stages of the Prices and Incomes Bill it might be necessary to defer the Second Reading of the Industrial Reorganisation Corporation Bill until after the Summer Recess.

2. The Foreign Secretary said that there had been a number of recent developments in Indonesia, some of which were contrary to our interests, but on balance the general trend of events appeared to be favourable to us. There had been a further incident in Sarawak in which a Gurkha soldier had been wounded and it appeared that Indonesian soldiers had been involved. We had agreed with the Malaysian Government how publicity for this incident should be handled and it was hoped that it would not result in any delay in the ratification of the Bangkok Agreement on the ending of confrontation. We were also discussing with the Malaysian Government how thereafter they should take over full military responsibility in the Borneo territories on the withdrawal of United Kingdom forces. President Sukarno had made a violent speech reaffirming confrontation on the swearing in of the new Cabinet on 28th July, but in the upshot this had redounded to our advantage in that it had led to sharp reactions in the Indonesian Press. It was also noteworthy that General Suharto, rather than President Sukarno, had taken the chair when the Cabinet subsequently met. The Foreign Minister, Mr. Malik, was still confident that the Bangkok Agreement would be ratified.

   Four of the leading members of the Government of the People’s Republic of China had recently been removed from office, while President Mao Tse-tung, who had been ill for some time, appeared now to have fully recovered his health, and retained his dominant position. These changes were part of a cultural revolution which had started the previous September. It did not appear that this would involve any change in China’s external policy and the stress which was laid on the part to be played by the army in industry and agriculture suggested that there was no intention of their undertaking a military commitment in Vietnam.

   The Prime Minister said that the Ministers primarily concerned with Rhodesia had met the previous day to consider the handling of the next stage of events, with particular reference to the Meeting of Commonwealth Prime Ministers in September. Developments of any importance would, when worked out in detail, be brought before the Cabinet. Meanwhile, he proposed to make a statement in the House of Commons the following Monday on the resumption of talks between United Kingdom and Rhodesian officials in Salisbury. His statement would make it clear that the next round of talks would be devoted primarily to discussion of the fifth of the six principles which
the Government had laid down for a settlement of the dispute (the fifth principle related to the acceptability of any new Constitution to the people of Rhodesia as a whole) and to the return to constitutional rule as a precursor to any formal negotiations. He would also state that no irrevocable step would be taken by the Government in respect of the Rhodesian situation except in circumstances when this could be considered by Parliament; if necessary Parliament would be recalled during the Recess to enable this to be done. The Zambian Government would be informed of this statement and the timing of the talks would be related to the resumption of negotiations with the Zambian Government on further United Kingdom aid.

The Cabinet—

Took note of these statements.

3. The Cabinet resumed their discussion of the economic situation.

The Cabinet's discussion and the conclusions reached are recorded separately in the bound volume of Most Confidential Records held by the Secretary of the Cabinet.

4. The Cabinet considered a memorandum by the President of the Board of Trade (C(66) 126) on the reorganisation of the shipbuilding industry.

*The President of the Board of Trade* said that the Report of the Shipbuilding Inquiry Committee under the chairmanship of Mr. R. Geddes, which was published in March, had recommended a radical reorganisation of the shipbuilding industry and the abandonment of restrictive practices, with the creation of an independent Shipbuilding Industry Board with powers to make loans and grants out of public funds up to a total of £37½ million over five years in order to facilitate the concentration of the existing 27 major yards into four or five large groups. An essential part of the Geddes Committee's proposals had been a timetable for their implementation, giving the two sides of industry three months to work out their considered reactions and providing for Government decisions shortly thereafter.

The Ministerial Committee on Productivity had broadly agreed that the Government should accept the recommendations of the Geddes Report, and a place had been kept in the current year's legislative programme for the necessary legislation. Some members of the Committee had, however, taken the view that an announcement at the present time might be interpreted as being inconsistent with the Government's recent economic measures and could therefore be damaging to confidence in sterling. On the other hand, if an announcement of the Government's decision were delayed, the sense
of urgency in the industry would be lost, the fresh start in industrial relations which the industry had been trying to make would falter, and confidence in the industry's future would be sapped. The reorganisation of the shipbuilding industry could make a valuable contribution to economic recovery, and a Government announcement in this sense should not be damaging to confidence. The expenditure involved over the next one and a half to two years would be small, and there was no need at this stage for the Government to commit themselves to any particular figure of expenditure during this period. He therefore sought authority to announce before the Summer Recess that the Government had decided to set up the proposed Shipbuilding Industry Board and to provide the finance proposed by the Geddes Committee over a period of five years; that the necessary legislation would be introduced in the current session; that the Government would be putting into effect the concession on indirect taxation for which legislative powers had already been taken; and that the Government would be prepared to use naval procurement orders for the purpose of facilitating and encouraging reorganisation.

In discussion it was pointed out that a decision to go ahead with the Geddes proposals involved a judgment on priorities in public expenditure before the latter could be considered as a whole. None the less there was general agreement that Government decisions, broadly in the sense described by the President of the Board of Trade, should be announced before the Summer Recess, with an emphasis on their relevance to economic recovery. The announcement should stress the measures which were being taken on both sides of industry to follow up the Geddes Report, and in particular the agreement on demarcation recently concluded by the unions which should be valuable in avoiding strikes on this score in future. It should also stress that governmental assistance would be devoted to industrial groups which would be fully viable.

There was also general agreement that, while the Government should be prepared to use their procurement powers in pursuit of wider objectives, the implications of doing so in this case needed further consideration. There was a danger that the concentration of naval orders on three particular yards would deprive other yards (including Fairfields) of business which was the foundation of valuable export orders; nor could it be accepted without further consideration that a policy which \textit{ex hypothesi} involved not accepting the lowest tender was necessarily conducive to industrial efficiency, quite apart from its implications for governmental expenditure. There was furthermore a danger that a statement on the use of Government procurement orders made in too positive or minatory a form could prejudice the readiness of the industry to co-operate in the changes required to reorganise and rationalise the industry. While the President's statement should retain a reference to the possibility of the Government using their procurement powers, the form of words so far agreed went too far, and a new form of words should be agreed which would constitute a less positive commitment and would avoid the dangers that would arise from the statement hitherto envisaged.
The Prime Minister, summing up the discussion, said that there was general agreement that the President of the Board of Trade should announce governmental decisions on the reorganisation of the shipbuilding industry on the lines of the proposals in the Geddes Report. The form of words to be adopted on the use of procurement powers should be agreed between the Ministers concerned. The announcement should be made in a statement in the House of Commons before the Summer Recess; its precise timing would be a matter for discussion with the Lord President of the Council.

The Cabinet invited the President of the Board of Trade—

(1) To announce before the Summer Recess the Government's decision broadly to accept the proposals in the Geddes Report, to set up a Shipbuilding Industry Board, to provide finance on the lines proposed in the Geddes Report for assistance to the industry over a period of years, to introduce the necessary legislation in the current Session, and to put into effect the concession on indirect taxation for which powers had been taken in this year's Finance Bill.

(2) To agree with the Chancellor of the Exchequer, the Secretary of State for Defence and the Minister of Technology a form of words to be adopted on the possibility of the use of Government's procurement powers for the purpose of promoting rationalisation, taking account of the points made in discussion.

(3) To agree the timing of his statement with the Lord President of the Council.

The Cabinet considered a memorandum by the Home Secretary (C (66) 124) on proposals for a Criminal Justice Bill.

The Home Secretary said that a place was reserved for a Criminal Justice Bill in the legislative programme for the current Session and there would be advantage in introducing a major reforming measure which made no demands on the country's resources. The Cabinet had already approved his predecessor's proposals for the release of prisoners on licence, subject to conditions, after serving a third of their sentence, and for the substitution for the preventive detention of persistent offenders of longer sentences of imprisonment. He now proposed measures to reduce the number of short sentences, which tended to blunt the deterrent effect of imprisonment by acclimatising offenders to it. It was proposed:

(a) to require the courts to suspend sentences of six months or less for offences other than violence or sexual assault where the offender had not previously had a custodial sentence, and to permit them to suspend sentences of up to two years. The requirement to suspend short sentences would not be welcome to all sentencing authorities, but objection should be reduced by the exception for the offences of personal violence;
(b) to take power to provide by order, as soon as adequate institutions for treating drunkenness were available, that the offence of being drunk and disorderly should no longer be punishable with imprisonment;

(c) to enable the courts to attach earnings for the satisfaction of fines and to restrict their powers to commit defaulters to prison. Further consideration was being given to these proposals in the light of the possibility that offenders under the Prices and Incomes Bill who had the means to pay in court but refused to do so might be committed to prison;

(d) to restrict the power of the courts to remand in custody persons accused of minor offences.

An essential part of the proposals, which might be criticised in some quarters as being lenient to offenders, would be the introduction of majority verdicts of 10 to 2 in criminal cases. There was reason to think that persons responsible for the organisation of major criminal conspiracies were securing acquittal by the subornation of jurors. The judges were unanimously in favour of the majority verdict, which was likely to be acceptable to public opinion also. As a safeguard against unconsidered verdicts, it was proposed to provide that a majority verdict should not be returned after less than two hours' discussion, and the system would be further strengthened by implementing the recommendation of the Committee on Jury Service (the Morris Committee) that persons convicted of serious crime should be disqualified from jury service; those who had been sentenced to five years' imprisonment or more would be disqualified for life.

The Bill would give effect to the recommendations of the Committee on Legal Aid in Criminal Proceedings (the Widgery Committee) that the availability of legal advice in criminal cases should be extended and that persons given legal aid should be required to make a contribution appropriate to their means. Other recommendations of the Committee could be implemented by the courts awarding legal aid more freely within their present powers, and it was proposed to emphasise to them the importance of viewing the Committee's recommendations as part of a single scheme so that additional expenditure did not arise before the arrangements for securing contributions came into effect.

The Government were already committed to legislation to permit a limited use of written evidence in committal proceedings and to restrict the reporting of those proceedings. There was now, however, considerable support for more far-reaching changes, and it was proposed that committal proceedings should be held only if the prosecution or defence wanted witnesses' evidence to be given at that stage orally, other evidence taking the form of written statements. In this context it seemed right that, if the defence wished the proceedings to be reported, the restrictions on publication should not apply. It was also proposed that accused persons should be required to give notice before trial of a defence of alibi, to prevent the
prosecution being deprived of the opportunity to investigate the evidence, and to make minor amendments in court procedure which would prevent persons charged with trivial offences being arrested if they failed to appear in court. The Prison Act, 1952, would be amended to abolish corporal punishment for disciplinary offences in prison; maximum fines now out of date because of changes in the value of money would be increased; and provision would be made to extend a magistrates' court's powers to order the taking of fingerprints and apply them to palmprints. Other minor and technical amendments would be made in the law on probation and after-care, and on the administration of criminal justice.

In discussion the following principal points were made:

(a) While suspended sentences were an advance on the merely negative recourse to short terms of imprisonment, they were not in themselves a constructive form of treatment and might be criticised on the ground that the offenders concerned were not to be made subject to supervision. It would be important to continue to build up the constructive forces within the penal system.

(b) The Trades Union Congress had abandoned their previous opposition to the attachment of earnings other than as a means of collecting maintenance. In their evidence to the Committee on Civil Debt they had advocated attachment as a means of collecting debts, and they had specifically confirmed that they were prepared to see this method used for the enforcement of fines.

(c) If juries were enabled to return majority verdicts there might be a risk that, particularly in motoring cases or those involving offences with a political element, a majority of the jury would be prejudiced, and that only the insistence of a conscientious minority would ensure a just verdict. There was some safeguard against this in the proposal of the Morris Committee that the basis of jury service should be broadened by replacing the property qualification by a qualification based on the electoral register (which, since it applied to civil as well as to criminal juries, would be implemented in separate legislation), and in the provisions of the Road Safety Bill for offences involving alcohol to be proved by the use of scientific tests.

(d) The mounting cost of the legal aid scheme gave cause for anxiety, and it was desirable that the Ministers concerned should examine the way in which the scheme was now developing.

(e) The proposal to abolish corporal punishment in prisons would be opposed by the Prison Officers' Association and was likely to be controversial. Corporal punishment was, however, an antiquated method of punishment which many countries no longer found necessary in their prisons, and prison governors were in favour of its abolition.

(f) The proposed Bill would not apply to Scotland, though there might be pressure for similar arrangements to be adopted there. The proposals would not, however, be entirely acceptable in Scotland, in particular the compulsory suspension of short sentences of imprisonment and the restriction of the powers of the courts to commit for non-payment of fines and to remand in custody.
The Prime Minister, summing up the discussion, said that the Cabinet were in general in agreement with the Home Secretary's proposals. Further consideration should be given, in consultation with the First Secretary of State and the Attorney-General, to the problem of the enforcement of fines for offences under the Prices and Incomes Bill, and if a solution could not be found the matter might have to be submitted to the Cabinet again. The Home Secretary should also consider, in consultation with the Chancellor of the Exchequer and other Ministers concerned, the development and rising cost of the legal aid system.

The Cabinet—

(1) Invited the Home Secretary to consider further, in consultation with the First Secretary of State and the Attorney-General, the powers proposed to be conferred on the courts for the enforcement of fines.

(2) Invited the Home Secretary, in consultation with the Lord Chancellor, the Chancellor of the Exchequer and the Attorney-General, to consider the development of the legal aid scheme, with particular reference to its cost.

(3) Subject to Conclusion (1) above, approved the proposals in C (66) 124 for a Criminal Justice Bill to be introduced in the current Session of Parliament.

6. The Cabinet considered a memorandum by the Lord President of the Council (C (66) 125) to which was attached a draft White Paper on broadcasting policy.

The Lord President recalled that on taking office in 1964 the Government had been met with a request from the British Broadcasting Corporation (BBC) to increase the licence fee from £4 to £6 in order to finance their expenditure until 1970. The Government had subsequently agreed to an interim increase of £1, pending the outcome of their review of broadcasting policy. Following discussion of the proposals which the Ministerial Committee on Broadcasting put forward in February 1966, the Cabinet had decided that Exchequer subvention should be rejected as a means of financing the BBC, and that the licence should remain the sole source of finance, in view of the strong objection offered by the Corporation to advertising. The Prime Minister had seen the Vice-Chairman of the Board of Governors of the BBC and Director-General and made it clear that the Government could not agree to an early increase in the licence fee and could not accept that the fee should automatically be increased to meet the whole of the BBC's deficit. The BBC had then offered, subject to certain conditions, to cut their expenditure so as to dispense with the need for an increase in the licence fee until April 1968. The Ministerial Committee had examined the implications of the BBC's proposals and were now satisfied after taking account of the effect of the Selective Employment Tax on the
BBC, that the Corporation could make the necessary economies in order to enable an increase in the licence fee to be deferred until the beginning of 1968 at the earliest, without any significant effect on services to the public. Whether they might manage a little longer would depend on the effect of the administrative and legislative measures which the Government were taking to reduce licence evasion. The proposals now put forward in the draft White Paper had been framed with the object of limiting additional expenditure on broadcasting as far as possible in view of the current economic situation and therefore departed from the proposals which had been put forward earlier in the year. The Ministerial Committee had concluded that there should at present be no increase in the hours of broadcasting, that a fourth television network should not be established for the time being and that progress with local sound broadcasting should be limited to an experiment to be conducted by the BBC. The publication of the Bill to suppress the pirate radio stations had created a need to provide a substitute programme, and the Committee had concluded that this could be done in time, and without substantially increased expenditure, only if the BBC were authorised to broadcast a continuous music programme on the wavelength at present used for the Light Programme. It had been announced during debate in Parliament that the Government were considering the establishment of a National Broadcasting Commission, but the BBC and the Independent Television Authority (ITA) had raised strong objection since they feared that such a Commission would threaten their authority and responsibility, and the Ministerial Committee had concluded that the proposal should not be pursued. The White Paper, however, referred to the development of machinery for consultation between the two corporations on common matters of policy.

There was strong pressure for the publication of the Government's review of broadcasting, particularly since the publication of the legislation to suppress the pirate stations, as it was known that the Government were considering the possibility of providing a substitute service. He sought the Cabinet's agreement to the publication of the draft White Paper, preferably towards the end of August, when it would be likely to receive considerable publicity.

In discussion of the White Paper, the following principal points were made:

(a) Broadcasting developments. A reference should be made in paragraph 4 to the development of stereophonic sound broadcasting.

(b) BBC finance. The statement in paragraph 10, that there should be no change at present in the arrangements for financing the BBC, would prompt questions on arrangements in the longer term. It was suggested that it would be necessary to undertake a fundamental review of the problems of financing public service broadcasting, since it seemed unlikely that the BBC, in competition with commercial broadcasting, could continue to be financed entirely from licence revenue and that this examination should extend to the role which advertising ought to play in BBC finance. It was agreed that the word "January" should be omitted from the final sentence of paragraph 10.
(c) Licence evasion. Introduction of the Government's legislation against evasion was now urgent and the White Paper should say that a Bill would be introduced in the autumn. It might be desirable to indicate that the Government proposed to provide that no receiver should be installed until a licence had been issued, a matter on which negotiations were currently being held with the retailers.

(d) Fourth network. The passage in square brackets in paragraph 17 was intended to avoid any implication that proposals for the University of the Air had been abandoned. It was, however, undesirable that this should be associated with the section of the White Paper on the fourth television network, and the passage should find a place elsewhere in the White Paper.

(e) Local sound broadcasting. It was suggested that an experiment was required to establish whether there was sufficient demand for local sound broadcasting, and whether sufficient local material would be available, to justify the establishment of a system of local stations over the country as a whole. The BBC should be used for the experiment, since they had the facilities to conduct it without substantial additional capital expenditure and because any new local corporations set up for the purpose would probably have to rely largely, if not entirely, on advertising, which was open to objection. It was desirable that an early experiment should be undertaken if the strong pressure from commercial interests to establish themselves in this field were to be resisted. The proposed establishment of local broadcasting councils in connection with the experiment would ensure a local character for the programmes. On the other hand, it was argued that the outcome of the experiment would be prejudiced by using the BBC, who were unlikely to provide programmes with popular local appeal; and that once the BBC were established in this field it would be very difficult to refuse to allow them to continue when the experiment was completed; that the experiment would further increase their expenditure and the need for a higher licence fee; and that it was wrong in principle that the cost of a local service should be financed from a national licence. Since the pirate radio stations operated to some extent as local stations, consideration ought to be given to the possibility of using local stations, financed from advertising, to broadcast popular music programmes in substitution for those at present provided by the pirate stations. Such stations would meet widespread popular demand at no cost to public funds and would be a source of revenue through the taxation of advertising. Local stations would have to broadcast on very high frequency (VHF); this might lead to an increase in the imports of foreign sets since VHF transistor receivers were not widely manufactured in this country, but might on the other hand stimulate domestic manufacture of such sets.

(f) Continuous music service. It was suggested that the essential need was to provide, without substantial additional capital expenditure, a substitute for the service provided by the pirate stations, which could be introduced when these were suppressed early in 1967. The establishment of a new corporation, financed
from advertising, and using the present BBC wavelength of 247 metres to broadcast a continuous music programme, might take two years and cost over £2 million, since it would be necessary for such a corporation to build its own transmitting stations. The BBC transmitters could not be made available if the medium wave coverage of the BBC's Light Programme were to be maintained in the north and west, where it had a considerable audience, particularly in the rural areas. It would also be undesirable in present circumstances to set up a new service, financed from advertising, which would increase the demand for consumer goods. Moreover, there was objection to extending the scope of advertising in the field of broadcasting. On the other hand, it was suggested that the type of service that would be provided by the BBC, who were limited by their agreements with the Musicians' Union in the amount of time they could devote to recorded music, would not in fact meet the demand or provide a range of choice. It was suggested that further consideration should be given urgently to the technical possibility of establishing new transmitting stations, possibly operating on VHF, to transmit a popular music programme in time to coincide with the disappearance of the pirate stations.

The Prime Minister, summing up the discussion, said that before decisions could be taken on local sound broadcasting and the establishment of a music programme the Cabinet required a technical appraisal of the possibility and implications of setting up stations to transmit, soon after the end of the year, programmes similar to those provided by the pirate stations; these might either be local stations operating on VHF, or stations using the BBC's present medium 247 metre wavelength. The Cabinet would also require an appraisal of the possibility of financing such a service, whether operated by the BBC or otherwise, from advertising. The Postmaster-General should submit a report in the first instance to the Ministerial Committee on Broadcasting who should report to the Cabinet before the end of September. No indication could be given in the meantime to the BBC of the Government's conclusions on their finances.

The Cabinet—

(1) Invited the Postmaster-General to submit to the Ministerial Committee on Broadcasting a technical appraisal on the lines indicated in the Prime Minister’s summing up of their discussion.

(2) Agreed to resume their discussion at a later meeting in the light of a report by the Ministerial Committee on the material submitted in accordance with (1).

Cabinet Office, S.W.1,
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Wednesday, 10th August, 1966,
at 11.30 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P.,
First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. MICHAEL STEWART, M.P., Secretary of State for Foreign Affairs
The Right Hon. ARTHUR BOTTOMLEY, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. ANTHONY CROSSLAND, M.P., Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEART, M.P.,
Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

Also present:
The Right Hon. JOHN SILKIN, M.P.,
Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NHILD
Mr. R. T. ARMSTRONG

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1. The Lord President said that Parliament would adjourn on Friday, 12th August, subject to essential Parliamentary business having been completed by then, and would resume on 18th October. This time-table would necessitate deferring the Second Reading of the Industrial Reorganisation Corporation Bill until after the Summer Recess, but an assurance could be given that this would not delay the time-table which had previously been accepted for the Committee Stage of the Bill.

In discussion it was suggested that the Lord President’s statement that afternoon on the programme of Parliamentary business might make it clear that this deferment of the Second Reading of the Bill implied no diminution of the importance which the Government attached to the Corporation and that the preliminary work of the Board of the Corporation would in no way be delayed in consequence.

The Cabinet—

Took note of the statement by the Lord President of the Council and invited him to make clear in his statement that afternoon the importance which the Government attached to the work of the Industrial Reorganisation Corporation, on the lines indicated in discussion.

2. The Foreign Secretary said that a record of the opening statements by the Spanish Minister of Foreign Affairs and by himself on the opening of the discussions about Gibraltar had been placed in the Library of the House of Commons. We had put a series of proposals to the Spanish Government in subsequent discussions between officials and, though we had not yet had their formal reply, it seemed clear that this would prove to be unfavourable. Our intention was then to propose a reference of the dispute to the International Court of Justice. If the Spanish Government refused, our proposal would nevertheless still put us in a good tactical position in relation to any subsequent discussion on this issue at the United Nations. If, however, the Spanish Government accepted the proposal in principle it would then be necessary to agree detailed terms on which the dispute should be referred to the Court. It was unlikely that such discussion would be concluded before the end of the Summer Recess and in any event there could be no final agreement while Parliament was not sitting, since the agreement would require Parliamentary ratification. It could, if necessary, be made clear in the House of Commons that there would be no final agreement on the terms of reference in question until Parliament had considered them.

The Foreign Secretary said that Sheikh Shakhbut, the Ruler of Abu Dhabi, had been deposed. It had been clear for some considerable time that his retention of power was contrary to the
The interests both of the people of Abu Dhabi and of the United Kingdom, but it had not been possible for us to take action except in response to the express wish of the ruling family. The latter had now formally requested the deposition of Sheikh Shakhbut and action had been taken in consequence.

The Foreign Secretary said that it was now confidently expected that the Bangkok Agreement would be signed in the course of the week in Djakarta. The Agreement provided for the reaffirmation of popular opinion in the Borneo territories on their continued participation in Malaysia, for an exchange of diplomatic representatives and for an immediate end to hostilities between Indonesia and Malaysia. The public agreement would be accompanied by a secret exchange of letters which would provide that mutual recognition of Indonesia and Malaysia would follow the holding of elections in the Borneo territories which would reaffirm their position in Malaysia, but that regular contacts would meanwhile be maintained between the two countries.

In discussion it was agreed that it would on balance be undesirable that any statement should be made in Parliament, or issued by the Prime Minister, welcoming the signature of the Agreement. It was however suggested that the Foreign and Commonwealth Secretaries might suitably send messages to the signatory Powers of the Agreement and that the Secretary of State for Defence might send a message to United Kingdom troops in Malaysia, expressing appreciation of the difficult and dangerous task which they had so successfully carried out in dealing with confrontation.

The Cabinet—

(1) Took note of the statements by the Foreign Secretary.

(2) Invited the Foreign and Commonwealth Secretaries to consider whether it would be appropriate for them to send messages on the signature of the Bangkok Agreement to the appropriate Ministers in Indonesia and Malaysia and Singapore respectively.

(3) Invited the Secretary of State for Defence to consider whether it would be appropriate for him to send a message to United Kingdom troops in Malaysia, on the lines indicated in discussion.

The Prime Minister informed the Cabinet that a Ministerial Steering Committee on Economic Policy had been established to keep under review the broad development of the Government's economic strategy and to report, as appropriate, to the Cabinet. The Committee would be meeting the following day; it would review the current situation and commission further work on forward planning by officials, on the basis of which a report could be made to the Cabinet in due course.
The Chancellor of the Exchequer said that preliminary indications showed that the balance of payments for the second quarter of 1966 had been in heavy deficit. It was difficult at this stage to assess with confidence in quantitative terms the eventual effects of the measures already announced. Much would depend upon their impact upon business expectations of future levels of demand; uncertainty about the extent and time scale of recovery, superimposed upon the tight liquidity position in which companies were finding themselves as a result of the credit restrictions and the Selective Employment Tax, could lead to substantial adjustments to industrial investment plans. On the best forecasts that could be made at present, it was expected that the level of private investment would not change significantly over the next 18 months, and might even fall away. Between the second half of 1966 and the second half of 1967 public consumption was expected to rise by 3 per cent and fixed investment in the public sector by 7.5 per cent. The expectation was that the level of unemployment would increase at a rate of about 10,000 a month (seasonally adjusted), to reach a level of about 1.8 or 1.9 per cent (seasonally adjusted) by the end of 1967. Forecasts of the balance of payments for 1967 following the recent measures suggested that there would be a deficit in the first half of the year followed by a sizeable surplus in the second half, so that the balance of payments should be in surplus over the year as a whole. This depended however upon fulfilment of the decisions on reductions of Government expenditure overseas. In an independent analysis the International Monetary Fund had also concluded that the United Kingdom balance of payments would be in surplus in 1967. The knowledge that international bodies were reaching this conclusion would be likely to spread, with beneficial effects upon confidence in sterling.

The additional public expenditure proposed for 1967-68 over 1966-67 amounted (at constant prices) to £1,350 million (10.9 per cent) including both basic and additional programmes; and to £880 million (7.1 per cent) for basic programmes alone. The Ministerial Committee on Public Expenditure had concluded that an increase of 10.9 per cent in public expenditure in 1967-68 was out of the question, and had decided to recommend to the Cabinet that there should be a detailed review of programmes, without commitment, to see what detailed measures would be necessary if the Cabinet were to decide to keep the rate of growth of public expenditure next year within the planned rate of 4½ per cent; this would allow an increase of about £500 million at constant prices. Until the effects of the measures announced on 20th July became clearer, it would not be possible for Ministers to decide whether public expenditure programmes should be allowed to increase in 1967-68 by 4½ per cent or by some greater or smaller amount; but decisions would have to be taken after the Recess, and, in order that decisions could be properly taken, it would be important for officials to assemble the data upon which decisions would have to be based. The Ministerial Committee on Public Expenditure therefore recommended
that officials should be instructed to draw up a wide-ranging set of alternatives, no branch of expenditure being excepted, on the basis of which Ministers could reach decisions in the autumn on what rate of growth in public expenditure in 1967-68 over 1966-67 would be acceptable and what detailed measures should be taken to achieve this objective. If the Cabinet agreed, the Treasury would set this in hand at once, in consultation with officials of other departments.

Looking further ahead, Ministers would also have to review the rate of growth of public expenditure over the years beyond 1967-68 in the light of revised forecasts of the rate of economic growth. This exercise should be related to the more immediate exercise on the programme for 1967-68, since decisions about the level of expenditure in later years might to some extent affect the position for 1967-68. In the longer-range exercise, and so far as possible in the shorter-range exercise as well, Ministers should be put in a position where they could, if they wished, revise priorities as between one departmental programme and another: hence the need for a wide-ranging set of alternatives among which to choose. Substantial economies had already been secured in the defence programme; but it would not be right to exclude the defence programme from the scope of these further exercises. He would be writing to the Secretary of State for Defence to suggest that officials should examine without delay the possibility of achieving further savings of up to £150 million at constant prices in defence expenditure. Among the possibilities which he would suggest for review would be the size of the armed forces, the level of civilian support for the armed forces, the batmen system, the number of naval dockyards, and the timing of the aircraft carrier programme.

In discussion the following points were made:

(a) One of the tasks of the new Ministerial Steering Committee on Economic Policy would be to form a view upon the degree of deflation which the measures already taken were producing. In view particularly of the risk that loss of business confidence might lead to a greater degree of deflation than was at present forecast, the Committee would put in hand contingency planning for reflation. It would clearly be important that, where measures were taken to increase expenditure as part of an exercise in reflation, first priority should be given to expenditure which would directly benefit growth, productivity, exports and import saving. In committing additional public expenditure this should be the first priority. As a second priority it would be desirable to have ready programmes in the field of public sector investment (for example, road programmes) which would be desirable for their economic benefits, e.g., as providing the infrastructure for growth, as well as being reflationary in effect. As a third priority, in case additional measures of reflation were needed, consideration could be given to proposals for increased social investment. The distinction between expenditure which directly promoted growth or benefited the balance of payments and consumption expenditure was more important, certainly in the current situation, than the distinction between public and private expenditure. Though the Government's social objectives should not be lost sight of, it might well be that in these circumstances
improvements in benefits and assistance to persons would have to take a lower priority, difficult though such decisions would be. Consideration would have to be given, for example, to the possibility of deferring the increase in non-contributory benefits from June to October or November, 1967, and of relating the increase to the rise in prices rather than to the rise in earnings since the last increase in benefits.

(b) The problem of time lag would have to be borne in mind in considering the role of public sector investment in a reflation exercise. If business confidence dropped and industrial investment plans were curtailed on a large scale, and during the course of next year some measure of reflation proved to be urgently needed, it might not be easy to bring about a quick revival of growth of private investment. In this event the Government might be faced with the choice between injecting additional public sector investment, which would not necessarily be of the first economic priority, or stimulating consumers' expenditure.

(c) In reaching decisions on the rate of growth of public expenditure in 1967-68 the Government would need to leave themselves some freedom of manoeuvre in other sectors where it might be necessary to sustain or stimulate output and investment in the interests of growth or of the balance of payments.

(d) Special attention should be given by the departments concerned to the promotion of import savings. For example, the Ministry of Technology should review imports of machine tools and consider what could be done to encourage domestic manufacture of some of the tools that were now imported. The Board of Trade should review investment programmes in the chemical industry, with a view to encouraging those projects which would lead to substantial import savings. Other projects for substantial import savings were under separate discussion. It would be desirable for sponsoring departments to take such steps as were open to them to encourage large industrial companies not to cut back their investment programmes.

(e) There should be a further review of agricultural policies and programmes, with a view to seeing whether further import savings could be achieved without serious damage to our international trading relationships, commitments and policies.

(f) The Housing Ministers and the Minister of Public Building and Works should review the possibility of import savings in connection with the housing programme, particularly in imports of timber.

(g) The Government's regional policies had had considerable success in reducing the gap between the level of unemployment in the Midlands and the South-East and that in Scotland, Wales and the North-East. While from the point of view of overall economic activity a national level of unemployment of 1½ to 2 per cent might be desirable in the interests of flexibility and redeployment, there was a danger that the deflationary effect of the recent measures would not be evenly spread over the country as a whole, but would bear
disproportionately severely upon Scotland, Wales and other development areas. It would be important to maintain policies for promoting growth in those areas, where the potential for growth was greater than elsewhere in view of the reserves of labour available and in general to do what was possible to prevent the impact of deflation from bearing more severely on those areas than on other parts of the country.

The Prime Minister, summing up the discussion, said that the Cabinet had had a useful review of the economic situation, which would serve as a basis for further strategic planning by the new Ministerial Steering Committee to which he had already referred. The Cabinet agreed with the Chancellor of the Exchequer's proposal that, in the field of public expenditure, officials should be instructed to draw up, without commitment, a wide-ranging set of alternative means by which the growth of public expenditure in 1967-68 could be contained within the planned rate of 4½ per cent in real terms, no branch of expenditure being excepted, as a basis for ministerial decisions later in the year on the rate of growth in public expenditure which would be appropriate in 1967-68 and the detailed measures which could be taken to achieve that rate. At the same time the exercise should look forward to later years, with a view to enabling Ministers to take broad decisions about the rate of growth of public expenditure in the years beyond 1967-68 in the light of revised forecasts of the growth of the economy to 1971-72.

The Cabinet—
(1) Took note of the points made in discussion.
(2) Invited the Chancellor of the Exchequer to arrange for officials to draw up, without commitment, a wide-ranging set of alternative means whereby the rate of growth in public expenditure in 1967-68 over 1966-67 could be contained within the planned rate of 4½ per cent in real terms.
(3) Invited the Chancellor of the Exchequer to arrange for the Ministerial Committee on Public Expenditure in due course:
   (i) to consider the rate of growth in public expenditure in 1967-68 and the alternative courses available, in the light of the points made in the Cabinet's discussion and of the report to be prepared by officials, and to make recommendations to the Cabinet;
   (ii) to review the public expenditure programme for later years in the light of revised forecasts of the rate of economic growth, and to make recommendations to the Cabinet.
(4) Invited the President of the Board of Trade, the Housing Ministers (the Secretary of State for Scotland, the Minister of Housing and Local Government and the Secretary of State for Wales), the Minister of Technology and the
Minister of Public Building and Works to pursue possibilities of greater import savings in the fields for which they were responsible, on the lines suggested in discussion.

(5) Took note that the Prime Minister would arrange for a group of Ministers under the chairmanship of the Minister without Portfolio to consider whether greater savings of imports of agricultural commodities could be achieved without serious damage to our international trading relationships, commitments and policies.

Cabinet Office, S.W.1.
10th August, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 1st September, 1966,
at 10.30 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. MICHAEL STEWART, M.P.,
First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. HERBERT BOWDEN, M.P.,
Secretary of State for Commonwealth Affairs
The Right Hon. WILLIAM ROSS, M.P.,
Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P.,
President of the Board of Trade
The Right Hon. THE EAL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEART, M.P.,
Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWYN HUGHES,
M.P., Secretary of State for Wales
The Right Hon. JAMES CALLAGHAN, M.P.,
Chancellor of the Exchequer
The Right Hon. RICHARD CROSSMAN,
M.P., Lord President of the Council
The Right Hon. DOUGLAS HOUGHTON,
M.P., Minister without Portfolio
The Right Hon. ARTHUR BOTTOMLEY,
M.P., Minister of Overseas Development
The Right Hon. R. J. GUNTER, M.P.,
Minister of Labour
The Right Hon. BARBARA CASTLE, M.P.,
Minister of Transport
The Right Hon. ANTHONY WEDGWOOD BENN, M.P.,
Minister of Technology
The following were also present:
The Right Hon. KENNETH ROBINSON,
M.P., Minister of Health (Item 3)
The Right Hon. LORD SHACKLETON,
Minister of Defence for the Royal Air Force (Item 2)
The Right Hon. GEORGE THOMSON,
M.P., Chancellor of the Duchy of Lancaster
The Right Hon. ALICE BACON, M.P.,
Minister of State, Home Office (Item 3)
The Right Hon. Sir ELWYN JONES, Q.C.,
M.P., Attorney-General

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. L. Errington

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1. The Chancellor of the Duchy of Lancaster said that our proposals for reducing our foreign exchange expenditure on our forces in Germany had been put forward in the Western European Union (WEU) and the North Atlantic Treaty Organisation (NATO) in accordance with the prescribed procedures. An Anglo-German Commission had also been established to consider ways in which German offset payments might be increased. The position had recently been complicated, however, by a message from the United States President to the Prime Minister proposing tripartite discussions on these issues between the United States, Germany and ourselves. The Ministers concerned would meet in the following week to consider how best to deal with this approach.

The Chancellor of the Exchequer said that this move by the United States Government had undoubtedly been made to dissuade us from withdrawing forces from Germany and would considerably complicate our task of reducing our foreign exchange expenditure.

The Cabinet—

Took note of these statements.

2. The Commonwealth Secretary recalled that the previous November, after the illegal declaration of independence in Rhodesia, the Government had decided to take all possible action to apply economic sanctions and had secured a very wide measure of support from other countries for them. In April of this year the leader of the illegal régime, Mr. Ian Smith, had taken the initiative in seeking discussions with the United Kingdom Government about a settlement and we had agreed that there should be informal talks between officials to ascertain whether there was a basis for negotiations and, if so, with whom such negotiations should be held. In these informal talks, United Kingdom officials had explained our views on the way in which the six principles which we had laid down as the basis of an acceptable solution could be given constitutional effect and had emphasised that negotiations on such a constitution could only take place after a return to constitutional rule in Rhodesia.

The previous week these talks had been adjourned because the illegal régime had announced their intention of introducing legislation to provide for an amendment to the Constitution whereby they would obtain permanent powers of preventive detention. It seemed improbable that this action was a deliberate affront to the United Kingdom Government but we had emphasised to the illegal régime the grave view which we took of it in relation to the continuance of the informal talks. Agreement to have such talks at all had caused widespread suspicion among African countries and would undoubtedly give rise to particular difficulty at the forthcoming
Meeting of Commonwealth Prime Ministers. In particular President Kaunda had threatened that Zambia might withdraw from the Commonwealth.

Ministers had considered ways in which increased pressure might be brought to bear on the illegal regime. The possible courses of action were:

(i) The use of force. There were however overwhelming objections to this course, which had been ruled out by the Government.

(ii) The handing over of responsibility for dealing with the situation to the United Nations. This also had been rejected. It might involve an escalation of the action to be taken in a manner which would gravely damage our own interests and it would in any event not mitigate the present difficulties of our situation.

(iii) A mandatory resolution under Chapter VII of the United Nations Charter, either in respect of economic sanctions generally or in respect of supplies of oil alone. The advice of officials was that any such action would inevitably lead to sanctions against South Africa. These would be likely to fail, with grave consequences for the United Nations, and would in any event be disastrous for the United Kingdom economy. We would suffer severe economic damage if we broke off relations either with South Africa or with the African members of the Commonwealth and other African States but, on the balance of our economic interests alone, it appeared that we should suffer more seriously from the former than from the latter.

Ministers had also considered whether we should declare that we would not accept independence in Rhodesia before the institution of majority rule. Such a statement would undoubtedly greatly ease our position at the Meeting of Commonwealth Prime Ministers, but since it would irretrievably damage any prospect of achieving a settlement in Rhodesia, this course was not acceptable.

In these circumstances, the best course which we could take at the Meeting was on the following lines. We should admit that sanctions had not proved to be as effective as we had hoped at the Meeting of Commonwealth Prime Ministers held at Lagos in January of this year. It would, however, be wrong to assume that they were having no effect: on the contrary they were imposing substantial difficulties for the Rhodesian economy. For example, only one-quarter of the last tobacco crop had so far been sold and that at prices substantially below normal. There was, moreover, little prospect that the illegal regime would be able to sell any considerable part of the crop due for sale in March 1967. We should also state that no other countries had suffered economic damage comparable to our own in an attempt to end illegal independence in Rhodesia. The cost to us was at the rate of some £80 million a year, including our aid to Zambia.

There were three main breaches in sanctions: continuing trade between Zambia and Rhodesia, continuing supplies of oil through Portuguese East Africa and South Africa and continuing Rhodesian exports of certain raw materials, primarily chrome and pig iron and
chiefly to Germany and the United States. As regards the first, Zambia had so far cut off only some 35-40 per cent of her trade with Rhodesia and this proportion could be considerably increased, perhaps up to some 80 per cent, without unacceptable consequences for the Zambian economy. The Cabinet would recall that before the Summer Recess we had agreed to provide additional aid of some £7 million, making nearly £14 million in all, in order to assist Zambia in her difficulties in making a phased reduction of this order. The Minister of State for Commonwealth Affairs had subsequently almost succeeded in reaching agreement with the Zambian Government on this basis when President Kaunda had made his statement about the possibility of Zambia withdrawing from the Commonwealth. It would be important at the forthcoming Meeting of Commonwealth Prime Ministers to seek help for Zambia from the other African members of the Commonwealth, who had so far done little or nothing to assist. As regards oil, it was difficult to see how supplies could be further reduced. It would be physically possible to stop oil going through Portuguese East Africa and this might have some psychological effect in Rhodesia. That would, however, only be temporary, since alternative supplies could go through South Africa, and we could not face the consequences of oil sanctions against the latter. As regards the continuing export of raw materials, we were continually pressing the Governments concerned to reduce their imports from Rhodesia, but they maintained that they could not take further action without passing legislation and that this was not politically practicable.

There had been a further development overnight in that telegrams had been received from our representative in Rhodesia, with a message from the Governor. This stated that Mr. Smith and his Ministers had been taken aback by the adverse criticism aroused through the introduction at this stage of their Constitutional Amendment Bill. Mr. Smith was anxious for the talks to succeed and if they could be resumed as soon as possible was prepared to give an undertaking that during their progress he would not introduce any legislation dealing with preventive detention or allied subjects, or any other constitutional amendments. If agreement were reached on the basis of the six principles and a return to constitutional rule he would withdraw completely the recent constitutional amendment.

The Prime Minister said that while sanctions had not had the political effect which had originally been hoped of supplanting the illegal régime by a moderate government, they had led Mr. Smith to propose that talks should be held and the leaders of the régime were well aware of the effect which sanctions were having. In the talks the United Kingdom officials had explained that the carrying out of our six principles involved the firm entrenchment of those provisions of the Constitution which would lead gradually to majority rule. The need for this had been emphasised by the action of the illegal régime during the previous week in introducing their Constitutional Amendment Bill. Our officials had also explained that negotiations must be based on a return to constitutional rule and the formation
by the Governor of a properly constituted government which would be widely representative. This would probably include Mr. Smith, though not some of his colleagues, together with representatives of more moderate European opinion and of some Africans, though it would probably not be possible at this stage for the leaders of the two main African Nationalist parties, Mr. Nkomo and the Rev. Sithole, to be included. It would, however, be important that they should be released from detention, provided that they gave an assurance that they would pursue their political ends constitutionally. The control of the armed forces and the police would in this period have to be in the hands of the Governor and the acceptability of the proposed new constitution to the people of Rhodesia as a whole would probably be ascertained by a Royal Commission, whose members might be drawn mainly, or perhaps entirely, from this country. It might also prove desirable to insist on the neutralisation of the area around the Kariba Dam, perhaps by a force containing troops from other members of the Commonwealth. One of the difficulties facing the illegal regime was that if the Royal Commission reported that the proposed constitution was unacceptable, the position would then revert to that obtaining before the illegal declaration of independence. There was however no escape from this dilemma. In considering the line which we should take at the Meeting of Commonwealth Prime Ministers, Ministers had in discussion the preceding day taken the view that we should not seek to initiate any form of mandatory sanctions in relation to oil supplies for Rhodesia, even if they were confined to Portuguese East Africa. There were, however, arguments for the contrary view that use might be made of the threat of such sanctions by informing Mr. Smith that if he would not accept a settlement on the lines which we had put forward by a given date, say 1st December of this year, then the United Kingdom Government would propose a mandatory resolution on such sanctions at the United Nations. Discussion at the forthcoming Meeting was likely to prove extremely difficult and in view of the danger that Zambia, and perhaps one or two other countries, might withdraw from the Commonwealth, it might be necessary to have an urgent Cabinet meeting to review the line which the Government should take in the light of developments during the Meeting.

After the Meeting there might be advantage in not resuming the talks at their present level, but in the Commonwealth Secretary himself going out to Rhodesia to see the Governor. He would of course not have any official relations with the illegal régime, but if Mr. Smith came to Government House the Commonwealth Secretary could see him, though without recognising his position, and could put to him a series of propositions. These might include the constitutional proposals which he had mentioned and other possibilities such as the appointment of a constitutional committee representative of other Commonwealth Governments to work out an alternative acceptable constitution. Although some of these possibilities might be unacceptable to Mr. Smith, he might be the more inclined to accept the form of constitution and basis of return to legality which we had in mind.
In discussion the view was expressed that whatever constitutional provision was made to entrench the vital clauses of the Constitution which would lead in the course of time to majority rule, this would be ineffective in preventing a racialist government from ignoring or forcibly changing it in order to preserve government by Europeans. The only safeguard for majority rule was to insist that this should come into effect before independence was granted. We should therefore publicly declare our intention not to grant independence before majority rule, should continue present sanctions and should not resist any move in the United Nations to make them mandatory. As part of this policy it would be reasonable that we should compensate Europeans who in these circumstances did not wish to remain in Rhodesia: the cost might be high, but would in the long run be less than the continuance of present policies.

It was, however, the general view that though such a course of action could be logically justified it offered no prospect of success. The scope for our policies was strictly limited by what was practical. To grant independence before majority rule would undoubtedly upset African opinion, but to declare that our policy was not to grant such independence meant destroying any hope of a settlement of the Rhodesian problem, would inevitably drive that country into the arms of South Africa and would therefore in practice be responsible for the indefinite postponement of the very majority rule which the policy sought to secure. It would however certainly be necessary to consider with the utmost care the means by which the major clauses of the Constitution could be entrenched, including perhaps provision for appeal to some outside agency such as the Privy Council.

There was general agreement that while different interpretations could well be made of the effect of sanctions, these should be maintained at their present level and wherever possible strengthened, and there was reason to hope that the period for the sale of the next tobacco crop in March to April 1967 would result in substantially increased pressure on the régime to accept a settlement on our terms, since the sanctions which had already been applied to tobacco meant that there would then be no prospect of selling any substantial part of the 1967 crop unless sanctions were lifted. While it might not be possible to maintain indefinitely international agreement to the continuance of sanctions there was every prospect that this could be done at least until April 1967. We were seeking to strengthen sanctions wherever possible, but we must recognise that beyond a certain point we might have to pay a heavy price to Germany and the United States in respect of our major political interests for any further support which they might give to the policy.

It was also the general view that we should resist any proposal to make sanctions mandatory by a resolution under Chapter VII of the United Nations Charter. The application of mandatory sanctions in respect of oil supplies for Rhodesia passing through Portuguese East Africa might not of itself involve serious consequences for us, but it would not be effective, since increased supplies of oil would
then pass through South Africa. Any subsequent widening of mandatory sanctions in order to stop this would have the gravest consequences for the United Kingdom economy and indeed for the position of the United Nations and for the world-wide level of economic activity.

It was recognised that sanctions at their present or likely prospective level would not be sufficient to lead to the overthrow of the illegal regime, but experience suggested that they might incline Mr. Smith to accept a settlement which would accord with our principles. In the short run, sanctions had undoubtedly had the effect of stiffening European support for Mr. Smith in Rhodesia, but this effect might be dissipated by the knowledge that we were prepared to continue sanctions over a long period if necessary, and by a wider dissemination of the facts in Rhodesia, including particularly the extent to which there was already relatively substantial emigration from Rhodesia to South Africa.

In discussing these issues at the forthcoming Meeting of Commonwealth Prime Ministers we should make clear the unique extent to which the United Kingdom had suffered economic damage from the policy of sanctions. Indeed, Zambia had in many respects actually benefited from them and we should make it clear that the continuance of trade between Zambia and Rhodesia at its present level was one of the major weaknesses in the policy. In acknowledging that an increased severance of trade between Rhodesia and Zambia held dangers for the latter, we should also make clear the extent to which we had already undertaken to assist Zambia and forcibly express the view that such aid was not solely a matter for the United Kingdom, but for the Commonwealth as a whole, and particularly for African Commonwealth countries.

In further discussion doubt was expressed on the desirability of conveying to Mr. Smith, on any resumption of the informal talks, an ultimatum to the effect that if he did not accept our terms for a settlement by a given date we should declare that independence would not be granted before majority rule. If such an ultimatum were ineffective—and there could be no certainty that it would be—we should then irrevocably have tied our hands in seeking to make use of any later opportunities which might reasonably have been expected to occur, particularly in the following spring, for obtaining a settlement on terms consistent with our principles.

The Prime Minister, summing up the discussion, said that the general view of the Cabinet was that broadly we should maintain our present policy. At the forthcoming Meeting of Commonwealth Prime Ministers we should make it clear that we were pursuing the honourable aim of a settlement based on our six principles and would not be prepared to derogate from them. We would make clear our intention of continuing sanctions, if necessary for a long period, but the general view of the Cabinet was that we should resist any attempt to introduce mandatory sanctions, even if these were limited to the transit of oil to Rhodesia through Portuguese East Africa. We should, however, seek to expose the weakness of voluntary sanctions arising from the continuing level of Zambian trade with Rhodesia.
Prices and Incomes Policy

Standstill on Prices and Incomes

(Previous Reference: CC (66) 41st Conclusions. Minute 2)

and seek the agreement of the former to reduce it substantially and of other Commonwealth countries in Africa to assist her in any difficulties that ensued. The course which we should adopt in relation to the resumption of informal talks in Rhodesia would be a matter for further consideration in the light of the Meeting. The Cabinet were inclined to the view that there should be no undue haste in resuming the talks, though it would be necessary to send a reassuring message to the Governor, whose position it was important to preserve. It was of the utmost importance that Ministers should limit their discussions on these issues with Commonwealth representatives at the Meeting and should not disclose any details of the course of the informal talks or of the constitutional proposals which we had in mind. It might well be that the course of events at this Meeting would call for a review of some aspects of the policy which had been agreed and it might be necessary to call an emergency meeting of the Cabinet for that purpose.

The Cabinet—

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

3. The First Secretary of State said that so far there had been widespread compliance with the standstill on prices and incomes, as far as could be judged over a holiday season. Although individual representations had been made by trade unions on the application of the standstill to increases of wages under existing commitments, there had been no general disposition to challenge the standstill itself. The Government’s general economic measures made it easier for employers to resist pressure for increases in wages and salaries and the attitude of employers had in general been favourable, although there had been some complaints about the enticement of workers from their current firms by offers of higher pay. There had been very few increases of dividends. Prices had been relatively stable, increases attributed to the economic regulators and the Selective Employment Tax (SET) tending to be offset by reductions resulting from seasonal changes, but there was likely to be difficulty in dealing with some increases attributed to the SET which went beyond what could be justified on that account. Departments had received some complaints about price increases but none which proved, on investigation, to have substance. The Confederation of British Industries (CBI) had urged their members strongly not to increase prices, but they had refused to recommend that price increases should be notified to the Government because of the importance they attached to the voluntary operation of the standstill and the avoidance of requests for exemptions. This argument was unacceptable; it would, however, be necessary to make administrative arrangements
to deal adequately with any substantial increase in applications for exemption, and possibly the CBI itself might agree to vet them in the first instance.

While the position was not discouraging and there was a widespread desire that the standstill should work, its continued voluntary operation might be threatened if unions took legal action to enforce existing commitments. If such action were taken, it would be necessary to quickly invoke the compulsory powers given by Part IV of the Prices and Incomes Act. It would, however, be necessary to decide before long what criteria should be applied to increases of pay during the period of severe restraint that was to follow the initial six months standstill. So far it had been suggested that increases might for example have to be clearly related to increases in productivity, or be limited to the lowest-paid workers, but the latter would create serious difficulty in relation to differentials. Nor would such criteria meet the needs of the public services. The criteria would also have an important bearing on the Government's long-term incomes policy following the period of severe restraint, and proposals would shortly be brought before the Ministerial Committee on Prices and Incomes. It might subsequently be desirable to institute tripartite discussion of these with the CBI and Trades Union Congress (TUC).

In discussion there was general agreement that public opinion had welcomed the standstill policy, and that unions and employers had, in general, been co-operative. The following principal points were also made:

(a) More than 500 companies had declared dividends since the standstill was announced, and of these only 36 had increased their dividends. The Treasury were seeking an explanation from these. The Treasury had also been consulted by a number of companies over contemplated increases in dividends; in only three special cases had the Treasury advised that increases might be made, and in every other case the Treasury advice against increases had been taken. It was likely that the current pressure on profits would assist the restriction on dividends.

(b) While it might be possible to make arrangements with the United States to ease the pressure in the United Kingdom resulting from the world-wide trend towards higher interest rates, there was little hope of any early reduction in domestic rates.

(c) Food prices had remained stable since the standstill, a fall in mid-July having been followed by an increase of three-quarters of a point in the retail prices index in mid-August, attributable to seasonal causes; the figures for mid-September were likely to show a fall of one point. The brewery industry had agreed to hold beer prices and to absorb part of the cost of the SET and the bakers had been asked to hold bread prices, although there was a possibility of an increase in the price of flour. Consideration was being given with the food industries to the improvement of the early-warning system for notifying increases of prices. More generally, the Board of Trade had been consulted about a number of proposed increases of prices, and had agreed to increases in only two cases; they had investigated a number of complaints of increases but had not found any substance
in them, although the recent increases made by the laundry industry were being investigated. It was, however, likely that the incidence of the SET and the economic regulators would lead to some increases of prices in the near future.

(d) While, in the Health Service, general practitioners had accepted the advice of their representatives to accept the deferment of their improvements in pay, subject to some minor easements that had been possible within the terms of the White Paper on Prices and Incomes, difficulties were developing in the hospital service due to the action of junior doctors who had reacted strongly to the standstill. The widespread threats of emigration could do great damage to the Health Service if they were carried out, and the situation would be carefully watched. While the Royal Commission on Medical Education had been asked to consider as a long-term possibility whether doctors should, following training in this country, be required to serve here for a number of years, or in default to repay the cost of their training, there was no possibility of applying this in the present situation, although doctors would be reminded of their obligations.

(e) Following the previous Cabinet discussion of the proposed provisions of the Criminal Justice Bill in the enforcement of fines, it was now proposed to restrict the Courts’ power of immediate committal, where an offender had the means to pay forthwith, to cases where the offence itself was punishable by imprisonment. This proposal would ensure that people could not be imprisoned for offences under the Prices and Incomes Act if they refused to pay the fines. However, it was unlikely that the Act would become law until well into 1967, and, in the intervening period, it could not be excluded that a defaulter under the Act might be committed to prison if he had the means to pay but refused to do so. Nor would the new provision apply to Scotland.

(f) In general, local authorities had been co-operative in deferring rent increases.

In further discussion it was pointed out that the absence of exceptions to the standstill on incomes had contributed very largely to its acceptance by the unions. It was, therefore, important that no such exceptions should be allowed in the field of wage negotiations over which the Government had control or influence. It was suggested, however, that the uniformity of application of the standstill might be threatened if the Association of Supervisory Staffs, Executives and Technicians (ASSET) took its threatened legal action against Thorn Electrical Industries to enforce compliance with their contract, or if the newspaper proprietors conceded certain cost-of-living increases now due under contracts of employment. The CBI were unwilling to advise their members to break legal contracts, and it was likely that if there were any breach of the standstill it would not be possible to continue it generally on a voluntary basis, so that the powers under Part IV of the Prices and Incomes Act would have to be invoked to give employers protection against legal action. The CBI were seeking assurances to that effect and it would be necessary
also to consider what should be said by the Prime Minister to the TUC about the possibility of invoking these powers of compulsion. No assurance should be given at this stage to the CBI but the TUC might be told that while the Government hoped that it would not be necessary to invoke Part IV of the Act, they had to decide on their action in the light of circumstances and that, if the voluntary application of the standstill broke down and inequities and injustices arose from breakaway action, or if intolerable legal difficulties arose, they would have reluctantly to make use of the compulsory powers given by the Act. It was suggested that, in view of the legal action contemplated by ASSET, no specific reference should be made to legal difficulties. On the other hand, it was pointed out that ASSET might be deterred from legal proceedings if there were a likelihood that the application of the compulsory powers under the Act would be held directly attributable to their own action. A more obscure reference to this effect in the Prime Minister’s speech, while it would still be generally understood, would be preferable. It was also suggested that the invocation of the compulsory powers might be most readily justified on the grounds of legal necessity.

The Prime Minister, summing up the discussion, said that the standstill on prices and incomes had, in general, operated satisfactorily with the voluntary co-operation of unions and employers. Its continued acceptability depended largely on the absence of exceptions, and it would be necessary for the standstill to be applied rigidly in the field of wage negotiations controlled or influenced by the Government. The Cabinet would wish to keep under review the continued operation of the standstill and the need to invoke Part IV of the Prices and Incomes Act. It would also be necessary to give early consideration to the criteria that should be applied in the period of severe restraint following the standstill period. In view of the possibility that compulsory powers might have to be invoked before long, the Cabinet were also agreed that, in addressing the TUC, he should give a warning of this on the lines suggested in their discussion.

The Cabinet—

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

Cabinet Office, S.W.1,
1st September, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Saturday, 10th September, 1966, at 11 a.m.

Present:
The Right Hon. HAROLD WILSON, M P, Prime Minister
The Right Hon. GEORGE BROWN, M P, Secretary of State for Foreign Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. RICHARD CROSSMAN, M P, Lord President of the Council
The Right Hon. WILLIAM ROSS, M P, Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M P, President of the Board of Trade
The Right Hon. ANTHONY CROSLAND, M P, Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEART, M P, Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWYN HUGHES, M P, Secretary of State for Wales
The Right Hon. RICHARD MARSH, M P, Minister of Power
The Right Hon. MICHAEL STEWART, M P, First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. HERBERT BOWSDEN, M P, Secretary of State for Commonwealth Affairs
The Right Hon. ROY JENKINS, M P, Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M P, Minister without Portfolio
The Right Hon. ARTHUR BOTTOMLEY, M P, Minister of Overseas Development
The Right Hon. ANTHONY GREENWOOD, M P, Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M P, Minister of Labour
The Right Hon. BARBARA CASTLE, M P, Minister of Transport
The Right Hon. FREDERICK LEE, M P, Secretary of State for the Colonies
The Right Hon. ANTHONY WEDGWOOD BENN, M P, Minister of Technology

The following were also present:
Mr. GERALD REYNOLDS, M P, Minister of Defence for the Army
Mr. ELWYN JONES, Q C, M P, Attorney-General

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. D. S. LASKEY

SECRET
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COMMONWEALTH OF AUSTRALIA

SECRET

THE PROCEEDINGS OF THE PRIME MINISTERS' CONFERENCE

11th November 1968

SUBJECT

RHODESIA

Commonwealth Prime Ministers' Conference

[Text continues on the following pages]
The Cabinet considered a memorandum by the Secretary of State for Commonwealth Affairs (C (66) 128) on Rhodesia and the Commonwealth Prime Ministers' Meeting, to which was appended the draft of a statement to the Meeting on behalf of the United Kingdom Government.

The Commonwealth Secretary said that we had been under great pressure at the Meeting and, although we had had support from the old Commonwealth countries and from Malaysia, virtually all other Commonwealth Heads of Delegations had pressed us to use military force, or to declare that there would be no independence before majority rule, or to propose mandatory sanctions. Unless this pressure could be met in some degree there was a risk that some Members would leave the Commonwealth, with a consequential blow to confidence in the Commonwealth association which could have serious lasting results.

There was an approximate balance of view among the Heads of Delegations on whether or not force should be used, and it seemed unlikely that there would be any withdrawal from the Commonwealth if we did not concede this course. We had always taken the view that we would not use force save to restore law and order, and we should maintain this stand.

The pressure for a declaration that we would not concede independence before majority rule placed us in a more serious difficulty. So far we had never conceded this point, and if we were now to do so it would be clear that it was in consequence of pressure from the Commonwealth and it would destroy any hope of an agreed settlement in Rhodesia. Nevertheless, it might be possible to maintain the position on this aspect at the Meeting by making clear what was involved in the application of the fifth principle (that any Constitution providing for independence must be acceptable to the people of Rhodesia as a whole), on the lines suggested in the draft statement.

As regards mandatory sanctions, there would be no difficulty in accepting these on Rhodesian exports of selected raw materials, but this by itself would not be enough to get general Commonwealth acceptance of our policy and there would be strong pressure for some action in respect of oil. Mandatory sanctions on exports of selected raw materials, which on the basis of the proposal put forward by the Canadian Prime Minister might be chrome, asbestos, copper, iron ore and pig-iron, and perhaps tobacco, would constitute a valuable strengthening of sanctions, since they would affect the main remaining exports of Rhodesia other than those going to Zambia. The question was whether, having regard to the risk of escalation leading to economic war with South Africa, we could agree to oil sanctions in any form and, if so, whether they should be general or should be limited to Mozambique and whether they should be introduced now or delayed until, say, 1st December. A
ban on oil going through Mozambique, which appeared to be the main source of leakage at present, would be quite ineffective, since adequate oil supplies could readily pass through South Africa. In these circumstances we should be under heavy pressure to agree to the extension of mandatory oil sanctions and if they were to be imposed they should cover supplies through South Africa as well as through Mozambique. If we could obtain agreement at the Meeting on selective sanctions, then there was a reasonable prospect that in subsequent debate in the Security Council we should be successful in preventing their extension in a manner which would cause grave damage to our economy.

As regards timing, there would on balance be advantage in deferring action until 1st December, when the United Nations Assembly would still be in session, since this would give further time to reach a settlement in Rhodesia, provided we were to undertake that if the rebellion had not ended by then we would then agree to limited mandatory sanctions being imposed. In these circumstances we should seek agreement at the Meeting on the basis of the draft statement appended to C (66) 128, which declared our position on the following lines. We proposed the formation by the Governor, after the end of the rebellion, of a broad-based Government representative of all races in Rhodesia, with responsibility for the armed forces and the police in the Governor's hands. We would then seek to devise a Constitution to be submitted to the Rhodesian people as a whole for their acceptance. It would be for consideration how far Commonwealth Members could be associated with the test of acceptability, and in any event we should wish to continue the fullest consultation with all Members of the Commonwealth on these matters. We would propose to acquaint the Governor with these proposals and arrange for consultations to be held with all sections of opinion in Rhodesia. If by 1st December, 1966, they were not accepted, we would be prepared to agree to appropriate mandatory sanctions under Chapter VII of the United Nations Charter involving selected Rhodesian exports and sanctions against the import of oil into Rhodesia.

_The Prime Minister_ said that many representatives at the Commonwealth Prime Ministers' Meeting felt frustrated because of their powerlessness to act against Rhodesia. Nevertheless most of the speeches had shown some sense of responsibility and certain speakers had explicitly recognised that the United Kingdom could not engage in economic warfare with South Africa. It had been suggested that we had misled the Commonwealth about the grant of independence before majority rule. This was not true; our position had been fully set out by the Commonwealth Secretary at the Commonwealth Conference in 1965 and in the Blue Book issued by the Government in November 1965. Our intention to seek a settlement on the basis of the six principles, of which the first was that there was to be unimpeded progress to majority rule and the second that there should be no retrogressive amendments of the Constitution, made it clear that independence could come before

SECRET
majority rule if this were acceptable to the people of Rhodesia as a whole. To declare that we would not grant independence before majority rule would therefore be a reversal of policy which would lay the Government open to severe criticism in Parliament. The position would however change if Mr. Smith, the leader of the illegal régime, rejected all reasonable offers and this could be made clear to him when the offers were made. The fifth principle would give the Rhodesian Africans a veto on the grant of independence before majority rule and we could stress at the Commonwealth Conference the safeguards on which we should insist in order to counter any suspicion that the fifth principle would not be fairly applied. The Rhodesian Nationalist leaders would have to be released and allowed to propagate their views so long as they acted constitutionally. We could also provide for Commonwealth association, for instance, by means of observers if there were to be a referendum, or by consulting certain Commonwealth Heads of Governments about the membership of the Royal Commission. As regards mandatory sanctions it was the virtually unanimous view of the Conference that there must be some move in this direction. If agreement could be reached at the Conference on limited sanctions it would be possible to count on Commonwealth support to resist pressure at the United Nations to extend the scope of sanctions, particularly against South Africa. Without such agreement we should be under immediate pressure at the United Nations involving the risk of confrontation with South Africa. The Canadian proposal for a selective mandatory ban on Rhodesian exports would not in itself be sufficient and some action against oil supplies to Rhodesia would be essential. He would himself favour limiting oil sanctions initially to Mozambique since this would gain time before the question of South African involvement was raised. It was accepted that the main leak in the oil embargo at present was the railway through Mozambique, whether the oil itself originated in the refinery at Lourenço Marques or in South Africa.

In discussion there was general agreement on the importance of securing agreement at the Commonwealth Prime Ministers' Meeting. Apart from the other serious consequences of disagreement and of the possible break-up of the Commonwealth, our subsequent position at the United Nations in respect of Rhodesia would be gravely embarrassed. Agreement at the Meeting on the action to be taken in the United Nations would give us a pledge of Commonwealth support in the Security Council and the exercise of Commonwealth influence with other members of the Afro-Asian group against pressure for more extreme measures. If the Meeting broke down we should meet almost united opposition in the Security Council and the Assembly and would face the dilemma of using our veto or accepting economic confrontation with South Africa. The prospect of reaching agreement would depend on our ability to satisfy the majority of the Commonwealth on the question of not granting independence before majority rule and on the scope of mandatory sanctions.
The explanation of the meaning of the fifth principle and the safeguards which we would attach, including Commonwealth participation, on the lines suggested in paragraph 4 of the draft statement, might satisfy the other Members of the Commonwealth that they need not insist at this stage on a declaration that there would be no independence before majority rule. On the other hand they might argue that if the distinction between the fifth principle and the declaration were so slight we ought to be ready to make the declaration forthwith; a refusal to do so, particularly if it were known that after the Conference we would be having further talks with the illegal régime, would increase suspicion about our intentions. It could also be argued that in the light of past experience and in view of the behaviour of the illegal régime, particularly the recent attempt to amend the Constitution, no constitutional provision to prevent retrogressive amendment would in practice be effective and hence that we could not in fact grant independence before majority rule; to announce this would be a change of policy but one which could be justified by the change in the situation since the illegal declaration of independence. As against this it was argued that to declare now that there would be no independence before majority rule would be regarded as a surrender to African pressure. It would remove any prospect of reaching a negotiated settlement and would drive Rhodesia into the arms of South Africa. The position would be different if all reasonable proposals for a settlement had been rejected by the illegal régime. The change of policy which the declaration would represent could then be more easily justified in this country. Moreover, if Mr. Smith had made it clear that he would not accept any reasonable settlement the South African Government would be less likely to support him. There were therefore strong arguments for deferring a declaration that there would be no independence before majority rule until a further attempt had been made to secure a negotiated settlement. The question was whether the Commonwealth Prime Ministers’ Meeting could be brought to accept this.

In discussion of sanctions there was general agreement on the desirability of imposing a mandatory ban on certain Rhodesian exports. The major difficulty was in respect of oil. There would be the gravest objections to the imposition of mandatory sanctions on the supply of oil to Rhodesia through all countries, since this would immediately involve a confrontation with South Africa with the risk either that the United Nations would be seen to be ineffective, or that sanctions would then be imposed against South Africa with consequent catastrophic results for the United Kingdom economy. It was, however, argued that the imposition of mandatory sanctions on the transit of oil through Mozambique could be justified on the ground that this was at present the main source of supply to Rhodesia. The sanction could be imposed without involving South Africa, in that, although the supplies in question passed into South Africa at one stage, they had subsequently to pass through Mozambique again in order to reach Rhodesia via the Maivernia railway. If Portugal did not accept such sanctions, it
would then be necessary to reduce supplies of oil to Mozambique itself, or to cut them off completely. There would be no insuperable difficulty in enforcing such a blockade provided that adequate naval forces could be made available. It was pointed out however that in that event there would be no difficulty in Rhodesian requirements being met by the increase of oil supplies from South Africa over the Beit Bridge at comparatively small additional cost. The imposition of even limited sanctions in respect of oil would therefore eventually lead to a confrontation with South Africa. It was, however, argued that such confrontation would not arise for some time, that this would provide more opportunity for an agreed settlement in Rhodesia, and, furthermore, that the threat of such confrontation might well lead the South African Government to put further pressure upon Mr. Smith to accept our proposals for a settlement.

On the other hand, it was pointed out that a cut-off of oil passing through Mozambique would cut off supplies to Swaziland, that traffic over the Bechuanaland railway could hardly be exempted and hence that there would be a grave threat to supplies of all kinds to the two remaining Protectorates of Bechuanaland and Basutoland. Bechuanaland was particularly vulnerable to South African pressure since the cut-off of the railway would in practical terms mean starvation for its people, as Bechuanaland was now in its sixth year of famine and was dependent on supplies of food coming over the railway. Since Rhodesia had adequate supplies to meet any temporary inconvenience that might result, it was argued that it was not on balance desirable to seek the imposition of limited sanctions unless there was good reason to expect that, in the time before this led to confrontation with South Africa, Mr. Smith was likely to accept a settlement on our terms. It was also maintained that there was grave objection of principle to imposing mandatory sanctions on Portugal alone, that it would be apparent that this action had been taken solely because we were only prepared to have a confrontation with the smaller and weaker of the two countries concerned in supplying oil, and that our consequent position would be indefensible.

On balance, however, there was a wide measure of support for the view that, despite the difficulties and the risks involved, it might be necessary to accept limited mandatory oil sanctions in respect of oil passing through Mozambique if this proved necessary in order to obtain agreement at the Meeting of Commonwealth Prime Ministers to our policy on Rhodesia. It was suggested that there might be advantage if any statement to the Meeting were to confine our proposal to the acceptance of limited mandatory oil sanctions in general terms rather than to make it explicit that the proposal related solely to oil passing through Mozambique. It was, however, the general view that this course might lead to a misunderstanding of what was involved, and hence to a breakdown of the agreement with Commonwealth countries when the matter was raised in specific terms at the United Nations.
Discussion then turned to the timing for the introduction of mandatory sanctions, both in respect of selected exports and in respect of certain imports of oil, and to the handling of the complex of issues on which agreement might be sought at the meeting.

As regards the timing of the introduction of mandatory sanctions, the view was expressed that it might not be possible to obtain the agreement of other Commonwealth Members to a course of action which involved postponement of the introduction of such sanctions until 1st December. Even if such agreement proved possible, there might subsequently be renewed suspicions, particularly in respect of any further talks that might then be held with Rhodesia, and consequently agreement to our policy by African Members of the Commonwealth might not be forthcoming in subsequent discussion at the United Nations. On the other hand, it was argued that the delay in the introduction of such sanctions would enable us to put further pressure upon Mr. Smith without incurring the difficulties which mandatory sanctions would impose for our relations with other countries, as well as in respect of the talks themselves. In particular, they would give time to ascertain the likely position of the South African Government under whatever Prime Minister might succeed Dr. Verwoerd and would make that Government more likely to bring pressure to bear upon Mr. Smith to accept our proposals for a settlement. In the light of these conflicting considerations, there was general agreement that the question of timing turned primarily on the acceptability of postponement to the Meeting of Commonwealth Prime Ministers.

In considering the bases of agreement as a whole at the Meeting it was suggested in the light of the views expressed earlier in discussion that if it proved necessary in order to obtain the agreement of the Commonwealth Heads of Delegations to our policy on Rhodesia we should be prepared to move to a statement that no independence would be granted before majority rule. It should be made clear at the same time that we did not envisage early independence with majority rule and that the period of political dependence of Rhodesia would probably last a considerable number of years. This course commanded general assent. It was also suggested that if necessary, in order to obtain agreement, we might also commit ourselves to accepting the imposition of wider mandatory oil sanctions, but it was the general view that this course would involve unacceptable risk to the position of the United Kingdom.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that he should endeavour to seek agreement at the Meeting of Commonwealth Prime Ministers on the basis of the statement attached to C (66) 128 save that we could only accept mandatory oil sanctions if they were limited to the transit of oil through Mozambique. It would be necessary in addition to offer to have a resumption of the Meeting in the spring, at a time when the sale of the Rhodesian tobacco crop would bring the maximum economic pressure to bear upon Mr. Smith to accept our terms for
a settlement. We might also offer to Mr. Smith, as one of the alternatives, a small Commonwealth Mission, at the level of Prime Minister or its broad equivalence, under the chairmanship of the Canadian Prime Minister, to consult all shades of opinion in Rhodesia and seek the basis of a settlement. In any event, such a body would be desirable as a continuing consultative body on Rhodesian policy in future. We should also offer to involve such a body in the ascertainment of the fifth principle, e.g., by having Commonwealth observers if there were a Referendum, or by seeking the recommendations of the Commonwealth Heads of Governments concerned in the Mission of suitable members for a Royal Commission. The Cabinet were also of the view that he should, if it were necessary in order to obtain agreement, commit the United Kingdom Government to a statement that independence would not be granted to Rhodesia before majority rule. It would have been desirable in principle to hold a further Cabinet meeting before making such a statement, if it were deemed necessary to make it, but the Cabinet felt that the publicity which would inevitably accompany their meeting for this purpose, with the implication that the statement had only been made in deference to Commonwealth pressure, was such as to make a meeting undesirable. It might, however, be possible to hold a meeting of the Committee of Ministers more immediately concerned with the Rhodesian question and only to hold a subsequent meeting of the Cabinet if discussion at that Committee suggested that this was necessary.

The Cabinet—

(1) Approved C (66) 128, subject to the qualification indicated by the Prime Minister.

(2) Agreed that the statement of the United Kingdom Government's position at the Meeting of Commonwealth Prime Ministers might, if necessary in order to obtain agreement at the Meeting, be amplified as indicated by the Prime Minister in his summing up of their discussion.

Cabinet Office, S.W.1,
10th September, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Friday, 16th September, 1966, at 11.30 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. FREDERICK LEE, M.P., Secretary of State for the Colonies
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:
The Right Hon. Sir ELWYN JONES, Q.C., M.P., Attorney-General (Item 1)

The Right Hon. MICHAEL STEWART, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. RICHARD CROSSMAN, M.P., Lord President of the Council

The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M.P., Minister without Portfolio
The Right Hon. ARTHUR BOTTOMLEY, M.P., Minister of Overseas Development
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. CLEDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. RICHARD MARSH, M.P., Minister of Power

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
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1. The Cabinet discussed Rhodesia in relation to the outcome of the recent Meeting of Commonwealth Prime Ministers, the action which should be taken in the light of that Meeting and the demand by the Leader of the Opposition for the recall of Parliament on the ground that the Government had changed its policy.

Meeting of Commonwealth Prime Ministers

The Commonwealth Secretary said that the Meeting of Commonwealth Prime Ministers had ended the previous day. It had been concerned almost exclusively with Rhodesia and other items on the agenda had been disposed of quickly and summarily at the end. We had been under very heavy pressure in respect of our policy on Rhodesia and one particularly disturbing feature of the Meeting had been the establishment of a caucus, comprising the African, Asian and West Indian Members other than Malaysia and Malawi. This caucus had conferred separately on Rhodesia. It had been used as a means of pressure on those of its more moderate Members to accept extreme views and subsequently to prevent the acceptance of reasonable compromises by the Meeting. The proceedings had been discourteous to the Meeting as a whole, in that the other Members of the Commonwealth had frequently been kept waiting in formal sessions for a considerable time while the caucus conferred.

In the Meeting, approximately half the Members had been in favour of the use of force to defeat the illegal régime and just under two-thirds had been in favour of a declaration that no independence would be granted before majority rule. A somewhat smaller number had favoured seeking the approval of the Security Council for comprehensive mandatory sanctions under Chapter VII of the United Nations Charter. It had only been through the exercise of great patience and firmness that agreement had finally been reached on the terms of the communique.

In discussion concern was expressed at the emergence of the caucus and the consequent serious change in procedure and tone of the Meeting as compared with other Commonwealth Meetings. It was suggested that the outcome called for a review of the future of the Commonwealth in relation to the interests of the United Kingdom. There was general agreement that such a review might be desirable after sufficient time had elapsed to enable the Meeting that had just terminated to be seen in perspective. In considering the outcome, however, it was also necessary to bear in mind that the firm attitude which had been adopted by the United Kingdom had made clear to the other Members the extent to which their interests too might suffer if the Commonwealth were to break up and this realisation might, in certain respects at least, give greater cohesion to the Commonwealth in future. The test of this would be during subsequent discussions on Rhodesian problems at the United Nations and in particular whether or not the Commonwealth Members then stood by their agreement, as expressed in the communique, to limit the extent of mandatory sanctions.
Further action

The Commonwealth Secretary said that the communique agreed by the Meeting expressed the unanimity of the Commonwealth on the need to bring the rebellion speedily to an end. It noted the decision of the United Kingdom Government that after the illegal régime was ended the Governor would then form a broadly-based government with which the United Kingdom Government would be prepared to negotiate a constitutional settlement. This would be directed to achieving majority rule on the basis of the six principles. In the interim period the armed forces and the police would be responsible to the Governor. We contemplated that other Members of the Commonwealth might be associated either with devising a new constitution to this end (as an alternative to the necessary amendment of the 1961 Constitution) or with the means for ascertaining the acceptability of whatever constitution was proposed. The caucus had at the Meeting asked that the Commonwealth Prime Ministers should have the right of veto on the acceptability of the constitution, but this had been denied and we had maintained the position that the United Kingdom Government would be responsible for devising the means of testing acceptability, whether by the appointment of a Royal Commission or otherwise. It was made clear that no independence would be granted before majority rule unless this course was acceptable to the people of Rhodesia as a whole. The communique also stated that political detainees in Rhodesia must be released provided they conducted themselves lawfully and peacefully.

A senior official of the Commonwealth Office had flown out to Rhodesia to acquaint the Governor with the course of discussion at the Meeting leading up to the communique. The Governor had also been informed that it was contemplated that the Commonwealth Secretary might visit Rhodesia and inform the illegal régime, through the Governor, of the proposals which the United Kingdom Government were prepared to put forward. No action would of course be taken which might be regarded as recognition of the régime.

In discussion the Cabinet first considered whether it would be desirable for the Commonwealth Secretary to visit Rhodesia in the immediate future, before the conference of the Rhodesia Front Party (the Rhodesia Front Congress) which was due to be held towards the end of the following week. The arguments were finely balanced and it was the general view that the decision should turn on the course recommended by the Governor after he had ascertained the reactions of Mr. Smith, the leader of the illegal régime, to the proposal for the visit. In any event, however, it would be undesirable for the Commonwealth Secretary to remain in Rhodesia during the Congress. To avoid any suggestion that inadequate time had been allowed for Mr. Smith to consider the terms of a settlement which the United Kingdom Government would be prepared to accept, it would however be preferable that, if the Commonwealth Secretary were in the event to go to Salisbury before the Congress, he should not return in this period to the United Kingdom but should visit another Commonwealth country. Subject to the outcome of the Congress, he should then return to Rhodesia and be prepared to spend a fortnight or so there in order to allow ample time for discussions.
In further discussion it was pointed out that Mr. Smith would not be prepared to hand over power to the Governor so that the latter could then form a broadly-based government, unless he were first aware of the form of constitution which the United Kingdom Government would accept as a basis of a settlement. It would, therefore, be necessary for the Commonwealth Secretary to make clear what that constitution might be, on the lines which had already been discussed between United Kingdom and Rhodesian officials in the informal talks, though formal negotiations would only be held with the duly constituted Government thereafter. It would also be desirable for the Commonwealth Secretary to offer Mr. Smith a number of other possible courses, such as the association of Commonwealth experts in devising a wholly new constitution, or a visit of a small Mission of Commonwealth Heads of Government under the chairmanship of the Canadian Prime Minister. None of these might prove acceptable to Mr. Smith, but if he were to reject them all it would demonstrate beyond doubt that he was not genuinely prepared to contemplate a settlement.

Should Mr. Smith not have accepted by December a settlement on the basis of the six principles, then we were committed by the communiqué to withdraw all our offers so far, to decline to submit to Parliament any settlement which involved independence before majority rule and, provided that we had the full support of Commonwealth representatives at the United Nations, to join in sponsoring in the Security Council a resolution providing for selective mandatory economic sanctions against Rhodesia. If that support were however not forthcoming, then the whose basis of agreement at the recent Meeting would be called into question and our hands would be free. We had in any event made it clear at the Meeting that we were not prepared to contemplate sanctions which would involve us in economic warfare with South Africa.

The Prime Minister, summing up this part of the discussion, said that the Cabinet were agreed that after a long enough period had elapsed to enable the Meeting of Commonwealth Prime Ministers which had just ended to be seen in proper perspective it might be desirable to review United Kingdom interests in relation to the future of the Commonwealth.

Meanwhile the Cabinet were agreed that the Commonwealth Secretary should be authorised to visit Rhodesia in the near future, provided unacceptable obstacles were not imposed by the illegal régime. The timing of the visit in relation to the Rhodesia Front Congress would be a matter for decision by the Commonwealth Secretary, in consultation with himself, in the light of the Governor's recommendations after Mr. Smith's reaction to the proposal had been ascertained. It was agreed that if the Commonwealth Secretary were to go out before the Congress he would not stay in Rhodesia during its course, but should visit another Commonwealth country. In any event he should spend ample time in Rhodesia to enable a number of alternative courses of action to be fully discussed with Mr. Smith.
The Cabinet—

(1) Agreed that the Commonwealth Secretary should visit Rhodesia in the near future on the conditions and subject to the considerations indicated by the Prime Minister in his summing up of their discussion.

Recall of Parliament

The Prime Minister informed the Cabinet that the Leader of the Opposition, Mr. Heath, had written to him asking that Parliament be recalled to discuss the Rhodesian situation on the ground that the Government’s agreement to the action detailed in the communique constituted a change of policy and hence that Parliament should be recalled in view of the Government’s commitment to do so in that event.

In discussion there was general agreement that, since the question of a change in the Government’s policy would only arise should Mr. Smith refuse to agree to a settlement on the conditions which the Government had specified throughout as being necessary, there was no justification on that account for the recall of Parliament.

In further discussion it was suggested that it might however be necessary to recall Parliament because the Government might have to bring into effect in the near future Part IV of the Prices and Incomes Bill. Judgment would be given in the courts on 27th or 28th September on two cases relating to the payment of increased wages under contract, and it was likely that judgment would be given in favour of the appellants. In that event it would be necessary, in order to maintain the Government’s policy on prices and incomes, to bring Part IV of the Bill into operation with the minimum of delay. This required an affirmative resolution of both Houses of Parliament within 28 days, and while it might not be necessary on this account alone to recall Parliament earlier, it might prove politically desirable to do so. This, however, could only be decided in the light of the judgment of the court on the two cases in question and of the discussions which would subsequently be necessary both with the Confederation of British Industries and with the Trades Union Congress.

The Cabinet—

(2) Agreed that a reply should be sent to the Leader of the Opposition declining to recall Parliament for discussion of the Government’s policy on Rhodesia.
The Minister without Portfolio recalled that the Cabinet had asked the Committee on Agricultural Policy (CC (66) 43rd Meeting, Minute 3) to consider whether greater savings of imports of agricultural commodities could be achieved without serious damage to our international trading relationships, commitments and policies. The Committee had unanimously taken the view that as the objectives for the saving of imports set for agriculture last year under the National Plan had been thoroughly considered in regard both to the use of national resources and to the implications for our trading relationships, and as there had also been consultations with our overseas suppliers before the objectives were adopted, it would be unwise to reopen these discussions, with a view to increasing the objectives for production, so soon after the announcement of the Plan.

The Agricultural Ministers had, however, drawn the Committee’s attention to certain risks threatening the achievement of the existing objectives for the saving of imports under the Plan. The Agricultural Ministers had pointed out that there had been a sharp decline in pig production and in the breeding herd, and there had been no dissent from their proposal for an early announcement that the middle band of the flexible price guarantee for pigs should be raised by 400,000 pigs at the 1967 Farm Price Review. The Committee had also considered the interpretation of two assurances in the 1966 Farm Price Review White Paper concerning productivity and milk; these interpretations had been under discussion with the farmers since the last Review, and ought now to be settled. Here also the Committee had reached unanimous agreement on forms of words set out in the report before Cabinet (C (66) 129) which the Minister of Agriculture might use on these points in an early statement about agricultural policy.

It had not, however, been possible to reach agreement in the Committee, or subsequently, on the Agricultural Ministers’ proposition that a statement should be made putting credit for agriculture on the same basis as credit for manufacturing industry, subject to the overriding priority of credit for manufacturing exports. There had been considerable agitation in the agricultural Press which contrasted the instructions to the banks about credit restrictions with the Government’s emphasis on the need for increased agricultural production to reduce imports. There was some question how far the agitation about agricultural credit was based on a real and widespread shortage of credit and how far upon considerations of prestige arising from the priority apparently given to credit for manufacturing industry. In his view it would certainly be impossible for the Minister of Agriculture to make a major speech with the object of fostering the restoration of confidence in agriculture without saying something reassuring about credit, which was currently in the forefront of agricultural discussion. The Agricultural Ministers had, therefore, submitted a case on this to the Cabinet, and the Chancellor had similarly circulated a statement of the countervailing considerations.
The Minister of Agriculture said that he and his colleagues had examined carefully whether the objectives for agricultural production could be increased, and also how far the industry was progressing towards the achievement of the objectives set under the selective expansion programme adopted the previous year. This examination confirmed that our international trading position in respect of the commodities for which there was further scope for reducing imports did not afford any room for manoeuvre, particularly in view of the imminence of the Kennedy Round talks. The Agricultural Ministers' anxiety at the moment was much more to restore confidence in the industry so as to assure the achievement of current objectives. At present these were at risk, as regards beef because the dairy herd was static, and as regards pigmeat because of the decline in production and in breeding stock. There was unease generally in the industry about the extent to which farmers would themselves be allowed to benefit from their increasing productivity, and about the current shortage of credit.

He therefore welcomed the agreement reached by the Committee on Agricultural Policy on the first three proposals of the Agricultural Ministers. On the outstanding matter of credit policy, the latter had considerable evidence that uneven application of the credit restrictions by the banks was depriving farmers of normal seasonal requirements for credit, and also that agriculture was being more severely treated than industry in respect of its short and medium-term requirements for credit in respect of livestock, plant and buildings. There was no dispute about long-term credit for land purchase, for which the facilities of the Agricultural Mortgage Corporation were available.

It was not consistent to ask farmers to produce more and save imports, and to deny them the finance necessary to do this. The picture of the availability of credit was uneven; but the Agricultural Ministers were satisfied, both from evidence of individual cases and from statements received from the banks themselves, that farm credit was being unduly restricted, and that it was necessary to make clear that there had been no change in the Government's agricultural policy, to clarify the instructions to the banks about credit accordingly, and in particular to place agriculture in this respect on a par with productive investment under manufacturing industry.

The Chancellor of the Exchequer said that he was content with the conclusions reached by the Committee on Agricultural Policy as regards objectives for production, pigs, and the assurances on milk and productivity.

There were however difficulties as regards credit. The facts were not agreed. He had spoken to the banks after correspondence with the Minister of Agriculture in August and there was no doubt in the minds of the banks about their instructions. The administration of these instructions was bound to be somewhat uneven as between several thousand bank managers, but the broad policy was clear. Normal seasonal requirements for credit were being met, and the banks had no evidence of sales at distressed prices for lack of credit. The banks knew that if they had to exceed the 105 per cent limit for credit policy.
seasonal purposes, they were free to do so. The banks also had full authority to give credit (since this was self-liquidating) over two to three years for purchase of livestock. As regards credit for plant and buildings, he was advised that agriculture was doing as well as manufacturing industry, save in regard to the overriding priority for exports. There had been complaints that farmers could not get long-term credit for land purchase, and it was true that this had been stopped, but it was in any event wrong that farmers should look to the banks for this type of finance. He agreed that the Minister of Agriculture should make a speech with the objective of restoring confidence, in which full use should be made of the agreed reassurances in respect of pigs, milk and productivity, together with a statement he had drafted about the availability of credit facilities, on the lines which he had just indicated. This should meet the reasonable needs of the farmers.

In discussion it was stated that there was considerable evidence that the banks were applying the credit restrictions in Scotland with great severity as regards capital investment, and unevenly as regards seasonal requirements; it had been necessary for some farmers to sell livestock as a result. On the other hand the banks’ view was that some fall from the unduly high livestock price of the previous year was inevitable. The banks themselves had confirmed in correspondence that they did not regard agriculture as entitled to the same priority for credit as manufacturing industry, and this appeared to substantiate the complaints that had been received from farmers. On the other hand, while the proposition that agriculture should be put on a par with productive industry (save for priority for exports) appeared prima facie to be reasonable, the needs of agriculture were so different from those of industry that such an instruction would not be meaningful to the banks.

The Prime Minister, summing up the discussion, said that if it seemed that the banks were in fact acting in the way described to the Chancellor, there should be no significant problem; it would therefore be helpful if they could be asked to confirm that this was the position. In the meantime, the Agriculture Ministers might consider the draft statement on credit to which the Chancellor had referred, and if there had not been time to agree it before the Chancellor’s imminent departure for North America he would himself consider what form of words might be used, within the existing policy on credit.

The Cabinet—

(1) Approved the conclusions of the Agricultural Policy Committee in respect of the further assurances to farmers on milk, productivity, and the middle band of the pigs guarantee.

(2) Invited the Chancellor of the Exchequer to confirm with the banking authorities that the position on agricultural credit was in accordance with his statement to Cabinet.
(3) Invited the Minister of Agriculture, Fisheries and Food to make an early public statement reaffirming the Government's agricultural policy and incorporating the points agreed in the Cabinet's discussion.

(4) Took note that the Prime Minister would if necessary consider the form of words relating to credit to be used in the statement covered by conclusion (3).

Cabinet Office, S.W.1,
16th September, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 22nd September, 1966,
at 10.30 a.m.

Present:
The Right Hon. HAROLD WILSON, M P, Prime Minister
The Right Hon. GEORGE BROWN, M P, Secretary of State for Foreign Affairs
The Right Hon. LORGE BROWN, Lord Chancellor
The Right Hon. WILLIAM ROSS, M P, Secretary of State for Scotland
The Right Hon. ANTHONY CROSLAND, M P, Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEART, M P, Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWYN HUGHES, M P, Secretary of State for Wales
The Right Hon. RICHARD MARSH, M P, Minister of Power
The Right Hon. MICHAEL STEWART, M P, First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. RICHARD CROSSMAN, M P, Lord President of the Council
The Right Hon. ARTHUR BOTTOMLEY, M P, Minister of Overseas Development
The Right Hon. ANTHONY GREENWOOD, M P, Minister of Housing and Local Government
The Right Hon. WILIAM ROSS, M P, Secretary of State for Scotland
The Right Hon. R. J. GUNTER, M P, Minister of Labour
The Right Hon. BARBARA CASTLE, M P, Minister of Transport
The Right Hon. FREDERICK LEE, M P, Secretary of State for the Colonies
The Right Hon. ANTHONY WEDGWOOD BENN, M P, Minister of Technology
The following were also present:
The Right Hon. ALICE BACON, M P, Minister of State, Home Office
The Right Hon. JOHN SILKIN, M P, Parliamentary Secretary, Treasury

Securitati:
SIR BURKE TREND
Mr. D. S. LASKEY
Mr. L. ERRINGTON

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The Prime Minister said that it would be desirable to give some consideration to the possibility of improving the arrangements for the presentation of the Government's policies to domestic public opinion. There was no case for creating any new body in the nature of a Ministry of Information, or even for making any one Minister responsible for presenting departmental policies to the Press and the public generally. Individual Ministers should continue to be responsible for presenting and explaining their own departmental policies and, where appropriate—e.g., in relation to foreign and economic policy in certain respects—for co-ordinating the public presentation of the policies of related departments. Subject to these reservations, however, there would be advantage in promoting an inquiry to ascertain what improvements might be made in interdepartmental machinery in the field of home information services in order to ensure the most timely, effective and consistent public presentation of the Government's policies as a whole; and he proposed that the Lord President of the Council, with appropriate official assistance, should conduct an investigation for this purpose.

In discussion there was general agreement with this proposal. Its importance was illustrated by a recent incident when a decision on the application of the Government's policy on prices and incomes to the Clyde Shipbuilding Agreement had had to be taken by senior Ministers at short notice and its publication had entailed some risk of embarrassment to other Ministers who might be affected by it but had not had an opportunity to participate in the discussion or to be informed of its outcome before the decision was made public.

The Cabinet—

Took note, with approval, that the Prime Minister would invite the Lord President of the Council to conduct an inquiry with the following terms of reference—

"To recommend what improvements are required in interdepartmental machinery in the field of home information services in order to ensure the most timely, effective and consistent public presentation of the Government's policies, without prejudice to the normal responsibility of individual Ministers for the presentation of their own departmental policies and for the co-ordination, in appropriate cases, of the policies of related departments."

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Vietnam
(Previous Reference: CC (66) 41st Conclusions, Minute 4)

The Foreign Secretary said that he would shortly be going to New York to attend the meeting of the United Nations Assembly and, while there, would naturally have an opportunity to discuss with the representatives of the United States, Soviet and other Governments whether there was any prospect of an improvement in the Vietnam situation.

The Cabinet—
Took note of the Foreign Secretary's statements.

3. The Cabinet considered a memorandum by the Foreign Secretary (C (66) 132) about the United Nations Convention on the Elimination of all Forms of Racial Discrimination, to which was appended a report by an official working group on the implications of the Convention.

The Foreign Secretary said that the United Nations Convention was open for signature and ratification: 25 States had signed and the United States had announced their intention of signing. Adherence to the Convention was likely to be regarded as a touch-stone in matters of racial discrimination, and there would be strong pressure on the United Kingdom to become a party to it. On the other hand, much of the Convention was badly drafted and obscure, and it was in some respects likely to create difficulties for the United Kingdom. It would be necessary to associate with signature a reservation on Rhodesia and also certain statements of interpretation which might themselves attract criticism and could not be relied upon entirely to remove the difficulties.
A particular difficulty arose from the fact that the Convention contained no territorial application clause, and acceptance by the United Kingdom would bind its dependent territories. There would therefore have to be a reservation about the application of the Convention to Rhodesia, and this could most clearly be justified if made in the near future. Further, acceptance of the Convention would make it very difficult to legislate to restrict the right of entry into the United Kingdom of the many coloured United Kingdom citizens in Commonwealth countries. There were also difficulties arising from Article 4 of the Convention, which dealt with freedom of speech and association, and it would be necessary to make a suitable statement of interpretation to avoid conflict with the traditional rights of freedom of speech and of association in this country. Article 6 which required the provision of legal remedies against racial discrimination and a right to seek reparation or satisfaction for damage suffered, might not be fully covered by the law and also require a statement of interpretation; it had been possible to devise a form of words which avoided bringing the Race Relations Act into issue. Article 15, which provided for consideration of petitions from dependent territories, had been opposed by the United Kingdom throughout the negotiations on the Convention on the grounds that it applied only to colonial territories, while making no comparable provision for States without such territories, and purported to establish a procedure applicable to dependent territories of States whether or not those States had become parties. It would be necessary to make an interpretative statement reiterating our objections and making it clear that the Article was acceptable only because of the importance we attached to the Convention as a whole; consultation with our dependent territories had been on the basis that such a statement would be made. Finally, Article 20 stipulated that a reservation shall not be permitted if at least two-thirds of the parties to the Convention object to it and, in view of the risk that our proposed reservation on Rhodesia might fail under this procedure, it would be necessary to make clear that we interpreted the Article in the sense that rejection of a reservation would result in the reserving State ceasing to be regarded as a party to the Convention.

These difficulties had been considered fully by the Home Affairs Committee which had concluded that on balance there was strong advantage in early signature. Agreement had also been reached on the form of words which should be used in relation to the reservation on Rhodesia and the interpretative statements. Signature would not commit us to eventual ratification, and a decision to ratify could be considered later in the light of international reactions to our reservation and interpretative statements. In particular, the Home Affairs Committee had concluded that the risk of an influx of United Kingdom citizens of Asian origin was insufficient to justify a refusal to sign the Convention. The dependent territories had been informed of our intention to sign. Nineteen had so far replied, including those most likely to be affected, and all had accepted the proposals, subject only
to reservations which would have to be made in the special case of Fiji. It was unlikely that the remaining six territories would offer objection.

He sought the agreement of the Cabinet to early signature of the Convention in view of the strong presentational advantages of this course in the General Assembly of the United Nations. The precise timing would be settled in consultation with the Commonwealth Secretary and the United Kingdom Representative in the United Nations.

In discussion there was general agreement that the balance of advantage lay in early signature of the Convention, subject to the reservation and interpretative statements proposed, and the following principal points were made:

(a) It was important to avoid bringing the application of the Race Relations Act into issue. The Government of Northern Ireland, to which this legislation did not extend, were content with the form of statement now proposed.

(b) While there might be as many as 2 million coloured United Kingdom citizens in Commonwealth countries who had an unrestricted right of entry to the United Kingdom, the rate of inflow had been only 6,000 in 1965 and was likely to show a relatively small increase in 1966. Even without the Convention, legislation to restrict their entry would be difficult, but it would be desirable to defer ratification as long as possible in case the problem became acute.

(c) While there was strong objection to Article 15, refusal to sign on this account would have little advantage, since petitions from dependent territories could be considered by the proposed Committee whether or not the State concerned was a party to the Convention.

(d) There was a possibility of difficulty arising in relation to Hong Kong if the question of racial discrimination there were brought before the Committee established under Article 15.

(e) We should not be alone in making signature subject to reservations.

Summing up the discussion, the Prime Minister said that the Cabinet were agreed that the balance of advantage lay in early signature of the Convention, subject to the reservation on Rhodesia and the statements of interpretation proposed by the Foreign Secretary, and subject to consideration of the outstanding replies from the dependent territories. The timing of the announcement of our intention to sign and of signature should be settled by the Foreign Secretary in consultation with the Commonwealth Secretary and the Colonial Secretary. The question of ratification would fall to be considered later.

The Cabinet—
Approved C (66) 132.

Cabinet Office, S.W.1.
22nd September, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 29th September, 1966, at 10 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. RICHARD CROSSMAN, M.P., Lord President of the Council
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEARL, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. RICHARD MARSH, M.P., Minister of Power
The Right Hon. MICHAEL STEWART, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Commonwealth Affairs (Items 1 and 2)
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. DOUGLAS HOUGHTON, M.P., Minister without Portfolio
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. FREDERICK LEE, M.P., Secretary of State for the Colonies
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:
The Right Hon. Sir ELWYN JONES, Q.C., M.P., Attorney-General (Items 1-3)
Mr. NIALL MACDERMOT, Q.C., M.P., Financial Secretary, Treasury (Items 3-5)

Secretariat:
Sir BURKE TREND
Mr. W. A. NIELD
Mr. D. S. LASKEY
Mr. K. BARNES
Mr. R. T. ARMSTRONG
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1. **The Prime Minister** said that the situation in Nigeria was serious. There seemed little prospect of further progress in the constitutional conference; there were threats of secession by the Eastern Region and a risk of pre-emptive action by the central authorities. We would be ready to give any help we could, through the provision of our good offices, to reach a settlement; the need for urgent action to evacuate British subjects in Nigeria could not be excluded.

2. **The Colonial Secretary** said that 18 armed men had forced an Argentine civil airliner, on which there was also a number of innocent passengers, to land in the Falkland Islands. The situation had been brought under control by the guard of six Royal Marines stationed in the Falklands, backed by the local home guard, and the armed men were confined near the aircraft. It was intended to return the innocent passengers to the Argentine on a British merchant vessel which would be calling at the Falkland Islands on 3rd October; it was not however considered safe or practical to send back the armed men on this small vessel. A British warship could reach the Falkland Islands from Simonstown in about 11 days and the armed men could be returned to the Argentine on this. Further incidents of this sort might well occur and it might be advisable to increase the size of the garrison on the islands.

2. **The Foreign Secretary** said that the Argentine Government had deplored the incident and expressed their intention of instituting proceedings against the armed men. He would explore with the Colonial Secretary and the Secretary of State for Defence the possibility of inviting the Argentine Government to send one of their ships to take off the armed party if this could be done without prejudice to our claim to sovereignty over the islands. There was every advantage in seeking a quick and amicable settlement since this might assist our longer term objective of resolving the dispute with the Argentine over the islands.

The Cabinet—

Took note of these statements.

2. **The Commonwealth Secretary** said that during his visit to Salisbury he had had five meetings with Mr. Smith. The first meeting at Government House on the morning of 20th September, at which he and Mr. Smith had been accompanied only by their Secretaries, had been concerned mainly with modalities. He had suggested that the Commonwealth Prime Ministers’ communique might be taken
as the basis for discussion, but Mr. Smith had said that he was not interested in the Commonwealth and had referred to the recent upheavals in the Commonwealth countries to the north, such as Ghana. At the second meeting in the afternoon, at which the Attorney-General was present, Mr. Smith had brought with him Mr. Lardner Burke. Mr. Smith had made it clear that he was not prepared to discuss the question of a return to constitutional rule until he knew what the constitutional arrangements would be for the grant of independence. He had suggested that there might be different constitutional approaches or even a new constitution, but Mr. Smith had claimed that this would be a waste of time and that they should work on the basis of the 1961 Constitution. Mr. Smith had rejected out of hand a number of other suggestions, for instance a group of Commonwealth constitutional experts or a mission of Commonwealth Prime Ministers. He had ruled out the possibility of an Act of Union between the United Kingdom and Rhodesia or the presence of a small British military force in Rhodesia. He had claimed that a Royal Commission on racial discrimination would be unnecessary and that there was no need to review the Land Apportionment Act. There had been some discussion of electoral arrangements and Mr. Smith had been prepared to contemplate some extension of the African franchise. He was not however ready to accept effective entrenchment of the essential provisions in the Constitution and it was clear that he was insisting on the Rhodesian Government retaining a "braking mechanism", through the creation of new constituencies which would be won by Europeans, in order to prevent the achievement by Africans of majority rule if, in the opinion of the Rhodesian Government, this would be premature.

The third meeting on the morning of 21st September had been held at Mr. Smith's insistence in the Police Mess Hall. There had been some discussion about the return to constitutional rule and Mr. Smith had argued that this could be done in 24 hours and that there would be no need for any interim government. Mr. Smith had claimed that the present Rhodesian Government and Parliament had been legally elected under the 1961 Constitution and that there was no need for any radical change; if the Africans were prepared to co-operate in working the 1961 Constitution there was a good prospect that they would achieve majority rule after two or three general elections. He had pointed out to Mr. Smith that a return to constitutional rule on this basis would be totally unacceptable to the United Kingdom Government.

Mr. Smith had suggested the creation of a Senate, composed of 12 European and 12 African members, and of arrangements whereby constitutional changes would require a 75 per cent majority in a combined vote of the Senate and House of Representatives. In theory this would give the African members a blocking minority, but in practice this would not be so since six of the African members of the Senate, according to Mr. Smith's proposal, would be representatives of the Chiefs who were dependent on and paid by the Rhodesian Government.
At the end of the meeting he had given Mr. Smith the United Kingdom's statement of the points of agreement and disagreement. In the afternoon, when he and Mr. Smith had met alone, the latter had adopted a somewhat less rigid line but had made no concrete concessions. He had proclaimed his anxiety for a settlement but had said that he should not be pressed too hard.

During the next four days, while Mr. Smith was attending the Rhodesia Front Conference, he and the Attorney-General had had meetings with some 96 people representing a wide cross-section of Rhodesian opinion. Representatives of Rhodesian business had admitted that sanctions were having an effect, but claimed that there was much evasion. Some of them had said that, if mandatory sanctions were imposed, they would give full backing to the illegal régime. African trade unionists had not protested against the policy of sanctions, but had complained that their effect, particularly as regards unemployment, was being felt more severely by the Africans than by the Europeans. He had tried to establish what the reaction would be to the declaration of a republic; as far as the Rhodesian Armed Forces were concerned it seemed likely that a few officers would resign but that there would be no serious move by the forces against the régime; some of the judges would probably also continue to work with the régime.

His last meeting with Mr. Smith had been on the evening of 26th September when Mr. Smith had presented the Rhodesian statement of their position. This envisaged five stages: agreement on constitutional arrangements; a Royal Commission to ascertain the acceptability of these arrangements to Rhodesian opinion; a general election; the return to constitutional rule; the grant of independence. Throughout all these stages it was clear that the existing government, with Mr. Smith as Prime Minister, would remain in power. He had made it clear that this was wholly unacceptable and that the return to constitutional rule must come first. Other matters would also require settlement, such as the release of the African leaders now detained or restricted and the removal of censorship.

The impression he had formed was that Mr. Smith was now seriously concerned about the situation but that he was still in the hands of his extremists, however much he might personally wish to rid himself of them. But he now knew the United Kingdom's requirements and the gravity of rejecting them. The door had not been closed and there was still a chance that Mr. Smith might lead the country back to legality. He alone had the authority to do so, although the extremist minority in the Rhodesia Front might refuse to follow and thus split the party. Even if a settlement were achieved the outlook was not encouraging. Any settlement could only work with African co-operation; and the African parties, ZAPU and ZANU, were still obstinately divided. African co-operation might, however, be forthcoming if the African parties could see the prospect of achieving majority rule within a definite number of years. Of the
European community some 30 per cent might be opposed to the régime; but the moderates were weak and irresolute. Owing to the régime's propaganda and censorship most of the Europeans were unaware of the United Kingdom Government's position and still believed that we were insisting on majority rule immediately after independence.

He proposed that there should now be a further study by the Commonwealth Office of some of the ideas which had been put forward with a view to drawing up a statement of our minimum requirements within the terms of the Commonwealth Prime Ministers' communiqué. This should be considered by the Ministers principally concerned and then by the Cabinet and should be made known in Rhodesia before the anniversary of the illegal declaration of independence on 11th November. It would also be necessary to take all possible steps to ensure that Rhodesian opinion was fully informed of the United Kingdom Government's position.

In discussion there was general agreement with the Commonwealth Secretary's proposal that a new statement of the United Kingdom Government's position should now be prepared. This would set out our minimum requirements for a settlement and would draw attention to the rejection by the illegal régime of the alternative proposals which the Commonwealth Secretary had discussed with them. The statement should make it clear that the main difference between the United Kingdom Government and the illegal régime was one of principle and did not turn on no more than the detail of some individual constitutional provision; experience had shown that constitutions could be easily and quickly changed after independence and that no measure of entrenchment could prevent this. It was therefore essential that our position should be seen to be based squarely on the six principles, particularly the first, which required unimpeded progress to majority rule, and the fifth, which stipulated that the final settlement must be shown to be acceptable to the people of Rhodesia as a whole. Rather than definitely accepting or rejecting our offer, the illegal régime might seek to prevaricate as in the past. We should, however, be operating within the timetable laid down in the Commonwealth Prime Ministers' communiqué; Mr. Smith could not delay matters beyond the end of November and, if the terms had not been accepted by then, the further measures contemplated in the communiqué would follow. If the offer met with outright rejection before then, we should be free to consider the adoption of further measures before the deadline of 30th November.

There was also general agreement on the need to ensure that public opinion in Rhodesia was more fully informed of the United Kingdom Government's position. We faced the choice of continuing to work for a negotiated settlement, although the chance of Mr. Smith's accepting our terms seemed very small, or of preparing now for a final breakdown of our attempts to reach agreement with the illegal régime. If we adopted the second hypothesis, we should not only seek to convince public opinion in Rhodesia that our terms...
were reasonable but should also try to impress on them all the possible consequences of rejection. But we should need to exercise great care in mounting any propaganda operation of this kind. In particular the use of any threats might only unite European opinion more firmly behind Mr. Smith; and in any case we should not threaten anything which we were not prepared to perform. Moreover, the effect of such a campaign must be considered in relation not only to Rhodesia but also to other neighbouring countries and to opinion in the United Kingdom itself. The position of the South African Government was not yet clear; but the possibility that they might still influence Mr. Smith to accept a reasonable settlement should not be excluded. It was important, therefore, that we should continue to work within the terms of the Commonwealth Prime Ministers’ communique; and the consequences of failure to reach a satisfactory settlement were so serious that we should not at this stage abandon hope of persuading the illegal régime to accept our offer before the deadline of 30th November.

The Prime Minister, summing up the discussion, said that there was general agreement that further study should be undertaken on the lines indicated by the Commonwealth Secretary, who should also consult other Ministers, as appropriate, on the best means of making known to public opinion in Rhodesia both the true nature and extent of our proposals and the possible consequences if they were finally rejected by the illegal régime. The results would be considered by the Ministers principally concerned and thereafter by Cabinet. The situation in Zambia also required urgent consideration since coal supplies from Rhodesia were not being maintained owing to shortage of wagons on the Rhodesia railways. This might result in an early reduction of copper production in Zambia. Interdepartmental consideration should be given to this problem as a matter of urgency; and the possibility of increasing supplies by providing railways wagons from the United Kingdom or by means of an airlift should be examined.

The Cabinet—

Invited the Commonwealth Secretary:

(i) to arrange for the preparation of a statement of the United Kingdom Government’s position on the lines agreed in their discussion;

(ii) to arrange, in consultation with other Ministers as appropriate, for an examination of the best means of making known to public opinion in Rhodesia both the true nature and extent of our proposals and the possible consequences if they were finally rejected by the illegal régime;

(iii) to arrange for interdepartmental consideration, as a matter of urgency, of the supply situation in Zambia.
3. The Cabinet considered a note by the First Secretary of State and Secretary of State for Economic Affairs (C (66) 137), to which was attached a note on the various courses open to the Government if the Association of Supervisory Staffs, Executives and Technicians (ASSET) were successful in their court case against Thorn Electrical Industries Limited.

The First Secretary of State said that the court actions pending were described in his note. In addition, the National Society of Pottery Workers were threatening legal action, and the National Joint Council for the Electrical Contracting Industry were seeking legal opinion on the implications of deferment of pay increases which would shortly become due, since both sides of the Council were concerned at the possibility that individuals might take legal action if the increases were deferred. 200 employees would be directly affected by the result of the Thorn case, but on 3rd October the company were due to pay an increase under a three-year agreement to another 5,000 employees, and the company would be consulting the Minister of Labour, in the light of the court action, on the course they should follow.

It had been suggested that, if the case went against them, as was to be expected, Thorn might pay the increase to the worker in whose name the action had been brought but not to others in a comparable position. Another suggestion was that Thorn should give notice to terminate the contracts of employment of the workers concerned. Both these courses, however, seemed likely to lead to industrial action. The company would be reluctant to adopt either of these suggestions, and it was not proposed to press them to do so.

The Government would need to consider, in the light of the court case, what action to take on Part IV of the Prices and Incomes Act. The only immediate result of an Order in Council implementing Part IV of the Act would be to bring into operation Section 30, indemnifying employers against legal action for withholding in pursuance of the standstill the implementation of a wage increase. It would also confer upon the Government power to give directions under Section 27 on prices and to make Orders under Section 29 on wages; but these powers would become operative only when specific Orders were made in particular cases. Section 30 would not have retrospective effect, and if it were desired to prevent the payment of wage increases by Thorn it would be necessary to make an Order under Section 29. Such an Order would require the company from the date of the Order not to pay wages higher than those in payment on 20th July, but it would not be possible to require the repayment of increases in wages which had been paid out before the date of the Order.

One course might be for the Government not to take any action following the Thorn case, in the hope that this would not lead to widespread breaches of the voluntary working of the prices and incomes standstill. The other course would be to start consultations with the Trades Union Congress (TUC) and the Confederation of...
British Industries (CBI) on the activation of Part IV of the Act. The Government were committed to consulting the TUC and the CBI before activating Part IV of the Act; even if these consultations took place next week, it would be unlikely that Part IV could be in operation until the following week. It would be necessary to arrange for a meeting of the Privy Council in order to make the necessary Order in Council.

If the decision were to bring Part IV of the Act into operation as soon as possible, the question would arise whether an Order should then be made under Section 29 of the Act. There was a danger that, once one such Order had been made, the voluntary working of the standstill would break down. It might therefore be preferable, even if it were decided to bring Part IV into operation as soon as possible, not to make any Order under Section 29 until it became clear that without such an Order the standstill of wages would break down.

In discussion the following points were made:

(a) With the introduction of the statutory powers in Part IV of the Act, some of these responsible for decisions on prices and incomes on both sides of industry might feel that the need for their co-operation with the Government in the voluntary working of the policy was diminished or even eliminated. It would be a pity to incur this risk by activating Part IV of the Act before the voluntary working of the policy could be seen to be in serious danger of breaking down and it might well be preferable not to activate Part IV merely because of an adverse result in the Thorn case.

(b) There were political reasons for postponing an Order in Council implementing Part IV of the Act until after the House of Commons had resumed, if this could be achieved without giving the appearance of indecision on the part of the Government.

(c) There was a danger that a decision to bring Part IV of the Act into operation would be interpreted as an attack on wages and not on prices. It would be desirable to make it clearer to the public that the only immediate effect of bringing Part IV into operation was to indemnify employers against action for breach of contract if they withheld wage increases in pursuance of the standstill, and that the powers to prevent or reverse price or wage increases would come into operation only on the making of further specific Orders under Sections 27 and 29. A decision to activate Part IV should be presented as being made necessary by the result of the Thorn case (if that were adverse) in order to provide the indemnity against cases of breach of contract necessary to preserve the voluntary working of the standstill. Should the time come to make Orders under Section 27 or Section 29, it might well be desirable that the Government should be seen to be taking action on prices as well as on wages.

(d) Information about increases of prices and wages at a central point, which should presumably be in the Department of Economic Affairs.
The Prime Minister, summing up the discussion, said that there was general agreement that, if the court action went against Thorn, the First Secretary of State should enter into consultations with the TUC and the CBI, in which he should indicate that the Government were seriously contemplating the possibility of bringing Part IV of the Prices and Incomes Act into operation and should invite their views. If following these consultations the First Secretary of State considered that Part IV of the Act should be brought into operation, he would bring the issue back to the Cabinet for a decision. A public announcement at this stage should say no more than that the Government were consulting the TUC and the CBI, though it would be advantageous to give background guidance on the lines indicated in discussion on the limited legal effect of bringing Part IV into operation without any additional Orders or directions being made, if this guidance could be given without undesirable consequences, such as implying that a decision had already been taken or was about to be taken. The First Secretary of State should arrange for the Department of Economic Affairs to collect information about all cases of actual or claimed wage and price increases; other Ministers concerned with particular sectors of the field should take steps to make sure that the Department of Economic Affairs were kept fully informed. This information would form the material upon which decisions on the use of statutory powers under Part IV of the Act would be based. Periodic reports should be made to the Ministerial Committee on Prices and Incomes, and if necessary to the Cabinet.

The Cabinet—

(1) Agreed that, if the forthcoming court action went against Thorn Electrical Industries Limited, the First Secretary of State should enter into consultations with the Trades Union Congress and the Confederation of British Industries and make a public announcement on the lines indicated in the Prime Minister's summing up of their discussion.

(2) Invited the First Secretary of State to arrange for the collection of information on increases of prices and wages on the lines suggested in discussion and in the Prime Minister's summing up, and to circulate periodic reports to the Ministerial Committee on Prices and Incomes, and if necessary to the Cabinet.

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4. The Cabinet considered memoranda by the First Secretary of State and Secretary of State for Economic Affairs (C (66) 135) and the Minister of Labour (C (66) 136) on employment and pay in the docks.

The First Secretary of State said that the Minister of Labour had now received reports by Sir George Honeyman on objections to the draft revised Dock Labour Scheme and by a committee under

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Lord Devlin on the changes of pay needed as a corollary to the introduction of permanent employment in the docks. No special problems arose on the Honeyman report, but the Devlin proposals presented problems from the point of view of incomes policy. These were for increases amounting to 6 per cent of the wage bill which were firmly tied to the changes in working practices that would accompany full decasualisation. The resulting improvements of productivity would not justify increases of more than 6 per cent in earnings, and even so the whole benefit of the improved productivity would be going to the employees. Devlin had, however, proposed the introduction of weekly modernisation payments, adding a further 10 per cent to the wage bill, not related to further increases in productivity but simply in order to ease the acceptance of the modernisation scheme on which decasualisation depended. The Ministerial Committee on the Reorganisation of the Docks had taken the view that it would be difficult to justify so substantial an increase without countervailing and specific improvements in productivity, either during the period of severe restraint or indeed thereafter. They had therefore concluded that the Government could commend the Devlin recommendations in principle only if the modernisation payment was made conditional upon definite and specific improvements in productivity and the elimination of restrictive practices, over and above the changes directly associated with decasualisation. Lord Brown, the Chairman of the National Modernisation Committee, took the view that this, though an important modification of the Devlin proposals, would constitute a basis for negotiation. There would, however, undoubtedly be difficulties, since the Devlin Committee had envisaged that restrictive practices not directly associated with the casual labour system would be the subject of further productivity bargains in individual ports.

On the timing of the changes, the Ministerial Committee on the Reorganisation of the Docks had agreed that this should be left open for the time being, though it would in his view be impossible to introduce these changes during the period of severe restraint.

The Minister of Labour said that he agreed with the First Secretary of State that the Government should press the industry to deal with restrictive practices other than those directly associated with decasualisation in the context of the proposed pay settlement. None the less it must be recognised that this represented a modification of the Devlin proposals. It was in his view extremely important to take no step that might jeopardise the decasualisation programme, and it would be desirable that he should have some freedom of manoeuvre in the negotiations that would follow the Government’s acceptance of the Honeyman and Devlin reports. The announcement which he proposed to make, a draft of which was attached to his memorandum, would enable him to see what measure of support the Government could obtain in the industry for the approach which the Ministerial Committee on the Reorganisation of the Docks had suggested, and to press for action on the National
and Local Modernisation Committees leading to firm and binding
decisions on those restrictive practices, the elimination of which was
a prerequisite of decasualisation and the proposed pay settlement.
The Government would be able to consider in the light of the progress
of negotiations how to pursue the matter, but he feared that, if the
Government’s initial announcement were as tightly worded as the
First Secretary of State’s memorandum suggested, there was a real
danger that negotiations on decasualisation would break down and
that there would be threats of industrial action in the docks.

The Financial Secretary, Treasury, said that the Chancellor of
the Exchequer was concerned about the possible impact of a pay
settlement on the lines proposed upon the Government’s policy on
prices and incomes, bearing in mind that the proposed modernisation
payments could not be reconciled with the criteria envisaged for the
period of severe restraint or indeed for the subsequent period. It
would be hard to justify increases of the order proposed simply as an
inducement to dockers to accept changes for which they had been
pressing for a long time. He suggested that it would be preferable
for the fifth sentence of paragraph 5 of the proposed draft
announcement to read: “Implementation of these changes must of
course also be governed by the provisions of the prices and incomes
standstill and by the criteria which still have to be settled for pay
increases during the period of severe restraint and thereafter ”.

In discussion the following points were made:

(a) It was suggested that the draft announcement should be less
specific about the timetable for legislation on nationalisation. It was
pointed out, however, that the timetable had already been made
public, and that there need be no objection to restating it in this
announcement.

(b) The draft announcement did not include any reference to
compensation for employees of the National Docks Labour Board
who were declared redundant on nationalisation. The Chairman of
the Board was anxious for some reassurance to his staff on this
matter, but the inclusion of such an assurance in the forthcoming
announcement might cause unnecessary alarm among dockers. The
Minister of Labour would endeavour to persuade the Chairman of
the Board that this assurance could be conveyed privately to
representatives of the staff concerned, and would include a reference
to this in the public announcement only if it proved necessary to do
so in order to satisfy the Chairman of the Board.

The Prime Minister, summing up the discussion, said that the
Cabinet were impressed by the need to leave the Minister of Labour
with freedom of manoeuvre in what would be difficult negotiations.
They agreed that the Government should accept the Honeyman and
Devlin reports in principle, and approved the draft announcement
in the form of the draft attached to the Minister of Labour’s
memorandum (subject to the minor points made in discussion), on
the understanding that the Minister of Labour would make every
effort to persuade the two sides of the industry to link the
elimination of restrictive practices, other than those directly

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associated with the casual labour system, with a pay settlement on the lines of the Devlin proposals. The Minister of Labour would no doubt report to his colleagues upon the progress of negotiations and upon the success of his endeavours.

The Cabinet—

Invited the Minister of Labour:

(i) to arrange for the publication of the Honeyman and Devlin reports on 3rd October, 1966;

(ii) to announce the Government's acceptance of the reports in the terms of the draft statement annexed to his memorandum (C (66) 136), subject to the minor points made in discussion;

(iii) in his subsequent negotiations with the two sides of the industry to be guided by the views expressed by the Ministerial Committee on the Reorganisation of the Docks and the point made in the Prime Minister's summing up about the need to the greatest extent possible to associate with the proposed pay settlement the elimination of restrictive practices other than those directly associated with the casual labour system;

(iv) to keep the Ministerial Committee on Prices and Incomes and the Ministerial Committee on the Reorganisation of the Docks, as appropriate, informed of the progress of negotiations, particularly in respect of the willingness of the two sides of the industry to associate the elimination of other restrictive practices with the proposed decasualisation pay settlement;

(v) to seek the agreement of the Ministerial Committee on Prices and Incomes in due course to any proposals for Government approval of the nature and timing of pay and other changes resulting from negotiations between the two sides of the industry.

5. The Cabinet considered a memorandum by the Minister of Power (C (66) 133) on the salaries to be paid to members of the National Steel Corporation.

The Minister of Power said that he was in the process of setting up an Organising Committee to prepare the ground for the National Steel Corporation. The task facing the Corporation was of such magnitude that it would be important to find the best possible people for the Corporation. He proposed formally to invite Lord Melchett to accept appointment as Chairman of the Organising Committee, and subsequently of the Corporation, at a salary of £16,000 a year. He had ascertained that Lord Melchett, even though his present earnings totalled around £20,000 a year, was prepared to accept
appointment on these terms in view of the current economic situation. But he, as well as other prospective members of the Organising Committee (who would not be committed to membership of the Corporation), saw some difficulty about finding suitable candidates for membership of the Corporation from within the steel industry, if salaries of full-time members were limited to the range of salaries paid to full-time board members in other nationalised industries. The average salary of directors in the steel industry was over £15,000; and in Richard Thomas and Baldwin, Ltd. (RTB) the Government had approved salaries of £15,000 for the chairman, £12,000 for the managing director and amounts ranging from £10,000 to £8,000 for other members of the board. At this stage the Minister proposed to suggest to Lord Melchett that appointments to the Organising Committee should be made ad hoc, and to inform him that the salaries of members of the National Steel Corporation had yet to be determined by the Government; but in due course he might have to ask the Cabinet to approve salaries higher than those paid to full-time board members in other public corporations, at least in one or two special cases.

In discussion, while there was general agreement that Lord Melchett should be offered a salary of £16,000, it was suggested that there might be advantage in dividing this figure into a salary of £15,000 and allowances of £1,000, on the lines of the emoluments paid to the Chairmen of the British Overseas Airways Corporation. It was pointed out, however, that this might well create an undesirable precedent; moreover it might well be important that the actual salary rate should be higher than the £15,000 paid to the Chairman of RTB.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that Lord Melchett should be offered a salary of £16,000, on the understanding that the Government should be in no way committed as regards the salaries of those who would serve under him, either on the Organising Committee or in due course on the National Steel Corporation.

The Cabinet—

(1) Agreed that the Minister of Power should formally invite Lord Melchett to serve as Chairman of the Organising Committee, and subsequently of the National Steel Corporation, at a salary of £16,000 a year.

(2) Agreed that the remuneration of other members of the Organising Committee should be determined by the Minister of Power, the First Secretary of State and the Chancellor of the Exchequer.

(3) Agreed to determine the rates of salary for members of the National Steel Corporation at a later date.

(4) Invited the Minister of Power to ensure that in the meantime no commitment was given to Lord Melchett on salaries for other members of the National Steel Corporation.

Cabinet Office, S.W.1.
29th September, 1966.

CONFIDENTIAL
CONCLUSIONS of a Meeting of the Cabinet held at the Grand Hotel, Brighton, on Tuesday, 4th October, 1966, at 7.15 p.m.

Present:

The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. Michael Stewart, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. Lord Gardiner, Lord Chancellor
The Right Hon. Richard Crossman, M.P., Minister without Portfolio
The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. Douglas Houghton, M.P., Minister of Overseas Development
The Right Hon. Anthony Greenwood, M.P., Minister of Housing and Local Government
The Right Hon. R. J. Gunther, M.P., Minister of Labour
The Right Hon. Barbara Castle, M.P., Minister of Transport
The Right Hon. Frederick Lee, M.P., Secretary of State for the Colonies
The Right Hon. Anthony Wedgwood Benn, M.P., Minister of Technology
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Herbert Bowden, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. William Ross, M.P., Secretary of State for Scotland
The Right Hon. Douglas Jay, M.P., President of the Board of Trade
The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science
The Right Hon. The Earl of Longford, Lord Privy Seal
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Cledwyn Hughes, M.P., Secretary of State for Wales
The Right Hon. Richard Marsh, M.P., Minister of Power
The Right Hon. Kenneth Robinson, M.P., Minister of Health
The Right Hon. Sir Elwyn Jones, Q.C., M.P., Attorney-General
The Right Hon. John Silkin, M.P., Parliamentary Secretary, Treasury

The following were also present:

Secretariat:
Mr. W. A. Nield
Mr. R. T. Armstrong
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at the Grand Hotel, Brighton, on Tuesday, 4th October, 1966, at 7.15 p.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. MICHAEL STEWART, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. RICHARD CROSSMAN, M.P., Lord President of the Council
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M.P., Minister without Portfolio
The Right Hon. ARTHUR BOTTOMLEY, M.P., Minister of Overseas Development
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. FREDERICK LEE, M.P., Secretary of State for the Colonies
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. RICHARD MARSH, M.P., Minister of Power
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:
The Right Hon. KENNETH ROBINSON, M.P., Minister of Health
The Right Hon. SIR ELWYN JONES, Q.C., M.P., Attorney-General
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:
Mr. W. A. NIELD
Mr. R. T. ARMSTRONG

SECRET
Subject

PRICES AND INCOMES

Part IV of the Prices and Incomes Act
The Cabinet considered a note by the Secretary of the Cabinet, to which were attached the minutes of a meeting held under the Prime Minister's chairmanship on 1st October, 1966, to consider the consequences for prices and incomes policy of the decision of the Newspaper Proprietors Association (NPA) to pay their 25,000 printing workers a cost-of-living bonus due from 1st September.

After a discussion, during which the members of the Secretariat withdrew, the Cabinet—

(1) Agreed that The Queen should be asked to approve an Order in Council bringing the provisions of Part IV of the Prices and Incomes Act, 1966, into force as soon as possible.

(2) Invited the First Secretary of State to convey to representatives of the Newspaper Proprietors Association at an early meeting the Government's views upon the action which the NPA had taken.

(3) Invited the First Secretary of State, in consultation with the Attorney-General and with other Ministers as appropriate, to consider whether there were particular cases of increases in prices or incomes on which the Government should take action under Sections 26 to 29 of the Act.

(4) Invited Ministers to bring to the attention of the First Secretary of State any cases which might provide suitable occasion for action to be taken on prices under Sections 26 or 27 of the Act, and in particular any cases of prices increased ostensibly on account of the imposition of selective employment tax where the price increase appeared to be greater than could be accounted for solely by the tax.

(5) Invited the First Secretary of State when considering the use of the powers under Sections 26 to 29 of the Act to hold consultations with the Trades Union Congress and the Confederation of British Industries.

(6) Invited the First Secretary of State to arrange for the Ministerial Committee on Prices and Incomes to consider proposals to make Orders or issue directions under Sections 26 to 29 of the Act; and, where time did not permit this course to be followed, to take the necessary decisions after consultation with the Ministers directly concerned.

(7) Took note that the Prime Minister would announce the Government’s decision to bring Part IV of the Act into force at a Press conference after the meeting of the Cabinet, and that the First Secretary of State, after consultation with the Attorney-General, would issue a statement. (The text of the statement subsequently issued is attached as an annex to these Conclusions.)
PRESS STATEMENT

The Government are concerned to maintain the effectiveness of the standstill and to ensure that the actions of a few do not jeopardise the interests of the rest of the community. In the light of recent developments they have decided that they should ask Her Majesty The Queen to approve an Order in Council bringing Part IV of the Prices and Incomes Act into operation from 6th October, 1966. This Order will require affirmative resolution by both Houses of Parliament within 28 days.

If the Order is approved, the activation of Part IV will enable employers who propose in compliance with the standstill to withhold increases for which they are contractually liable for any period after Part IV comes into force to give seven days' written notice of their intention to rely upon the indemnifying provisions provided by Section 30. It will also give the Government power to make orders and issue directions on prices and incomes under Sections 26 to 29 of the Act.

In reaching their decision the Government have taken full account of the views expressed to the First Secretary of State by the Trades Union Congress and the Confederation of British Industries. They will hold further consultations with both sides of industry on the use of the powers to make orders and issue directions on prices and incomes under Part IV of the Act.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 13th October, 1966, at 10 a.m.

Present:
The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. Michael Stewart, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. Herbert Bowden, M.P., Secretary of State for Commonwealth Affairs (Items 1-3)
The Right Hon. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. William Ross, M.P., Secretary of State for Scotland
The Right Hon. Douglas Jay, M.P., President of the Board of Trade
The Right Hon. Anthony Greenwood, M.P., Minister of Housing and Local Government
The Right Hon. R. J. Gunter, M.P., Minister of Labour
The Right Hon. Cledwyn Hughes, M.P., Secretary of State for Wales
The Right Hon. Richard Marsh, M.P., Minister of Power

The following were also present:
The Right Hon. John Diamond, M.P., Chief Secretary, Treasury (Items 3 and 4)
The Right Hon. Sir Elwyn Jones, Q.C., M.P., Attorney-General (Item 3)
Mr. John Morris, M.P., Joint Parliamentary Secretary, Ministry of Transport (Item 4)

The Right Hon. Lord Gardiner, M.P., Lord Chancellor
The Right Hon. Richard Crossman, M.P., Lord President of the Council
The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. Douglas Houghton, M.P., Minister without Portfolio
The Right Hon. Arthur Bottomley, M.P., Minister of Overseas Development
The Right Hon. The Earl of Longford, Lord Privy Seal
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Frederick Lee, M.P., Secretary of State for the Colonies
The Right Hon. Anthony Wedgwood Benn, M.P., Minister of Technology

Mrs. Irene White, M.P., Minister of State for Foreign Affairs (Items 1-3)

Sir Morrice James, Commonwealth Office (Item 3)

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. D. S. Laskey
Mr. R. T. Armstrong
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1. The Cabinet were informed of the business to be taken in the House of Commons in the following week.

The First Secretary of State said that after discussion in the Ministerial Committee on Prices and Incomes it had been agreed that it would be necessary to make Orders under Section 29 of the Prices and Incomes Act to enforce the withdrawal of increases of wages in two cases. So far, however, such increases of prices as had taken place were either justifiable, in that they reflected increased taxation or resulted from seasonal fluctuations, or were of such a trivial nature as to make statutory action unsuitable. The Committee were, however, conscious of the importance of demonstrating the Government's intention to enforce the standstill on prices no less than on wages by taking such action if a suitable occasion could be identified.

In discussion there was general agreement on the importance of the latter aspect. It was also suggested that it would be important to consider action to penalise any dividends that were increased despite the continuous efforts that were made to maintain a voluntary standstill.

The Cabinet—

(1) Took note of the statement by the First Secretary of State.

(2) Invited the Chief Secretary, Treasury, in consultation with the First Secretary of State, to keep the rate of dividends under close examination.

2. The Minister of State for Foreign Affairs (Mrs. White) said that the speech which the Foreign Secretary had just made in the United Nations General Assembly had been well received. We were however in an embarrassing position in the Assembly on the dispute over the mandate for South-West Africa and we might have to abstain on a Motion in extreme terms which was likely to be put forward in the Assembly with a considerable measure of support. The Foreign Secretary had also seen the Soviet Foreign Minister, Mr. Gromyko. He had pressed him hard to join in an initiative to seek negotiations in respect of the conflict in Vietnam, though so far with no result. The Soviet Government appeared, however, to be ready to be more forthcoming in respect of international agreements on the use of space and on the non-proliferation of nuclear weapons.

Objection had been raised by some of our Allies in the North Atlantic Treaty Organisation (NATO) to the tripartite talks between the United States, the Federal German Government and ourselves on the problems arising from the foreign exchange costs of United
States and United Kingdom Forces in Germany. In order to make it clear that the importance of these talks to NATO was fully recognised, the Secretary-General of the Organisation had been invited to take part in the first of them. We hoped that they would come to a conclusion not later than the end of November.

It appeared that the Spanish Government had been somewhat surprised by our proposal that the issue of our sovereignty over Gibraltar should be referred to the International Court of Justice and we still did not know if they would accept it. Meanwhile, they had instituted a campaign of propaganda on a large scale on the need to "decolonise" Gibraltar, in which they had made it apparent that even if the issue went to the International Court they would continue their pressure on this issue in the United Nations Committee of Twenty-four.

The Commonwealth Secretary said that for the moment the widespread shooting and murders in Nigeria had ceased and there was an uneasy calm. Large numbers of Ibos had left the Northern Region or had been killed. Four out of the five battalions of the Nigerian Army were in disorder, having lost most of their Ibo officers and it was feared that the Nigerian Army was now incapable of controlling the situation. The Nigerian police were however doing their best to do so. There were some 17,000 United Kingdom citizens at present in Nigeria, widely dispersed throughout the country. No attempt had been made by any section of the Nigerian people to interfere with them, but provisional arrangements had as a precaution been made for their evacuation in case law and order broke down completely. We had not been asked for military assistance in preserving order nor for additional technical assistance in the Northern Region, where it was now extremely difficult to maintain public services. We were, however, considering what action we could take if a request for such technical assistance were made to us.

The Cabinet—

Took note of the statements made by the Minister of State for Foreign Affairs and the Commonwealth Secretary.

3. The Cabinet considered a memorandum by the Commonwealth Secretary (C (66) 139) to which was attached a draft statement on the British Government's terms for a settlement in Rhodesia.

The Prime Minister said that exceptionally Sir Morrice James, a Deputy Under-Secretary of State in the Commonwealth Office, would be present to listen to the Cabinet's discussion of this item since, if they approved the proposals before them, he would be charged with the task of taking out to Salisbury the statement of the Government's terms for a settlement. It was therefore important
that he should be fully aware of the considerations which the Cabinet had in mind in reaching their decision.

The Commonwealth Secretary said that the draft statement had been prepared in accordance with the Cabinet’s conclusions at their previous discussion and took account of the suggestions made to the Attorney-General and himself during their visit to Rhodesia. It was fully in accord with the Government’s six principles and with the Commonwealth Prime Ministers’ communiqué. The paragraphs on the constitutional settlement provided for the special entrenchment of the whole of Chapter III of the 1961 Constitution. The safeguards for the specially entrenched clauses would include the creation of a Senate; this was acceptable in principle to the illegal régime but we must insist that it should include a higher proportion of elected African representatives than they had proposed. There was also provision for appeal against amendment of the specially entrenched clauses to a “Constitutional Commission” in Rhodesia, and subsequently to the Judicial Committee of the Privy Council. These provisions should effectively prevent the amendment of Section 37 by the creation of additional “A” Roll seats designed to impede progress to majority rule. These would be very difficult points for the illegal régime in Salisbury to accept. As regards the return to legality the method and timetable proposed by that régime were not acceptable. We must continue to insist that a return to constitutional government should be the first step but we could make certain concessions on method and, as suggested in his memorandum, these might be conveyed to Mr. Smith, the leader of the illegal régime, in a letter rather than in the statement. We envisaged that the interim government would contain a certain number of Rhodesia Front representatives, including Mr. Smith, together with representatives of other sections of opinion in Rhodesia, including Africans, selected in agreement with the United Kingdom Government. If these proposals were accepted and there were a return to legality, detention and censorship would be ended and sanctions would be lifted. The constitutional settlement would be formally negotiated with the interim government and a Royal Commission would ascertain its acceptability to the Rhodesian people as a whole. During this period, which might take about three months, there must be freedom to recommence political activity and to form new political parties. If the Royal Commission found that the proposed constitution was acceptable there would be elections followed by the grant of independence. The statement provided for a British military presence in Rhodesia, possibly at Kariba, during the interim period and this might be maintained, if we so wished, after the grant of independence. This too was likely to be a very difficult condition for the illegal régime to accept.

The Prime Minister said that the method set out in the statement for the return to legality was consistent with the principle we had maintained in respect of the illegal régime; Mr. Smith would be summoned by the Governor to form an interim government as a private citizen and not as a Prime Minister. While
we could accept that the interim government should contain some representatives of the Rhodesia Front we must reserve the right to approve or to veto those whom Mr. Smith might nominate. The statement also showed that all the alternative proposals we had made had been rejected out of hand. The suggestion relating to an “Act of Union” between Rhodesia and the United Kingdom had not been put forward as a proposal but as a possibility which we would be prepared to study in spite of the difficulties which it would undoubtedly involve for us. The special entrenchment of Section 37, dealing with the number of constituencies, would be particularly difficult for the illegal régime to accept. It would be most difficult for us to make any concession on this point but if it later appeared that this was the only outstanding point preventing agreement, the Commonwealth Secretary should have authority to refer back to the Cabinet so that the possibility of some alternative arrangement could be considered.

In discussion of the draft statement the following main points were made:

(a) Paragraphs 1 and 3. The word “final” in both paragraphs should be omitted.

(b) Paragraph 2. When the statement was published the six principles should be set out in full, perhaps as an appendix.

(c) Paragraph 4. An additional sentence should be included referring to our previous offer of assistance for a crash programme of African secondary education and also to the importance of full African co-operation in working the Constitution.

(d) Paragraph 6. The effect of this paragraph would be to provide 24 elected African members out of a combined total of 89 for the Senate and House of Representatives. This would give too small a margin to constitute a safe “blocking quarter”. The paragraph should therefore include a requirement for an increase from 15 to 17 in the number of “B” Roll seats in the House of Representatives.

(e) Paragraph 8. The following words should be added at the end of the first sentence: “which would not come into force until the time for appeal had expired or the appeal had been finally disposed of”. In the last sentence the interests of the people of Rhodesia as a whole was not a justiciable issue and the sentence should therefore be amended to read: “The grounds of appeal should be that the amendment discriminated or had the effect of discriminating unjustly between the races, or contravened any of the provisions of the Declaration of Rights contained in the Constitution”.

(f) Paragraph 9. The last sentence might give the impression that we favoured a qualifying age of 30 for the African franchise rather than some lower age limit. The sentence should therefore be amended to read: “The ‘B’ Roll franchise should be extended to all Africans over 30 by appropriate amendment of the Second Schedule to the Constitution”.

(g) Paragraph 14. It was noted that the use of the term “the widest possible range of public opinion of all races” contemplated
the inclusion in the interim administration of representatives of African nationalist opinion, though not necessarily of the present leaders of the two main African nationalist parties.

(h) *Paragraph 15.* It was suggested that the second sentence implied that the Governor would be bound to act on the advice of Rhodesian Ministers except in regard to the armed forces and police. This would give undue power to the interim Rhodesian Government and the relevant words should be amended to read: "responsible to the Governor who would normally act on their advice." A similar change should be made in the second sentence of paragraph 16.

(i) *Paragraph 15 (a).* It was agreed that it would be important for the Governor to control the Rhodesian radio and television services. An additional paragraph should therefore be inserted at this point to read: "Free expression of opinion would be ensured by the removal of censorship and the assumption by the Governor of responsibility for the national broadcasting and television services."

(j) *Paragraph 16.* The reference to our forces being present after independence "by agreement" should be deleted and the last sentence should be amended to read: "The British Government would reserve the right to provide military assistance for this purpose if this is required by the Governor in this period. Similarly, the British Government would reserve the right, under the independence constitution, to provide such assistance if this is necessary as a further guarantee of the agreed constitution."

A number of other drafting amendments were also agreed.

The Cabinet—

(1) Approved the statement of the British Government's terms for a settlement in Rhodesia, as amended in their discussion.

(2) Invited the Commonwealth Secretary to raise with them for further consideration the question of the special entrenchment of Section 37 of the 1961 Constitution if this proved to be the only issue preventing a settlement.

**Procedure**

*The Commonwealth Secretary* said that Sir Morrice James would leave for Rhodesia that afternoon with copies of the statement as approved by the Cabinet. He would discuss it with the Governor: if it proved that the Governor took such strong exception to certain points in it as to threaten resignation Sir Morrice James would refer back for instructions. If, as was to be hoped, the Governor accepted the statement Sir Morrice James would hand it to Mr. Smith and would be prepared to wait in Salisbury for two or three days to give Mr. Smith time to consider the statement and to consult his colleagues. During this period it was important that the statement should remain confidential, unless it was at once rejected by the illegal régime and published in
Rhodesia. If there seemed to be a real chance of our terms being accepted he would himself be prepared to go to Salisbury for further discussions. If, however, the offer were rejected the Cabinet would wish to consider our future propaganda policy towards Rhodesia and the methods by which we should seek to ensure the widest possible knowledge in Rhodesia of the terms we had offered.

The Prime Minister said that we should avoid giving the impression that our offer was an ultimatum and Mr. Smith should be given enough time to study it. Sir Morrice James should therefore be prepared to stay in Salisbury until, say, 19th October and need not insist on receiving a final answer by then. It was however important that the offer should be published without undue delay so that steps could be taken to make its terms known in Rhodesia. We should therefore reserve the right to publish the offer by about the end of the following week if no answer from Mr. Smith had been received by then. The precise date of publication would need to be decided in consultation with the Foreign Secretary in the light of the situation at the United Nations in regard to Rhodesia. Our proposals for the return to legality, which it was suggested in the Commonwealth Secretary’s memorandum should be conveyed by letter to Mr. Smith, should in the first instance be put to him orally by Sir Morrice James. The proposals could later be confirmed in writing if there were a prospect of settlement and the Commonwealth Secretary himself went to Rhodesia. When the terms of our offer were published we should be prepared to make it clear that we would not exclude representatives of the Rhodesian Front, including Mr. Smith himself, from the interim government.

The Cabinet—

(3) Took note, with approval, of the statements by the Prime Minister and Commonwealth Secretary.

The Cabinet then discussed the situation which might develop, and the measures which it might be realistic to adopt, if our offer were rejected. It would be necessary to impress on the illegal régime in Salisbury that, if we were compelled to withdraw the protection which we had hitherto afforded Rhodesia at the United Nations and the Security Council then imposed mandatory sanctions, which might need to be enforced, the consequences in the longer term were unpredictable.

The Cabinet—

(4) Took note of the points made in this part of their discussion.
Prices and Incomes Policy
Price of Industrial Coal

Previous Reference: CC (66) 16th Conclusions, Minute 5

4. The Cabinet considered a memorandum by the First Secretary of State and Secretary of State for Economic Affairs (C (66) 140) on the price of industrial coal.

The First Secretary of State said that the question for decision was whether the National Coal Board (NCB) should be asked to defer until 1st January next increases in the price of industrial coal under certain privately negotiated contracts. These contracts provided for six months' notification of increases of prices, and, notice having been given last April (when the price of industrial coal was increased for the majority of customers), the increase under these contracts was due to come into effect from 1st October.

In discussion in the Ministerial Committee on Prices and Incomes reference had been made to the Government's advice to the Confederation of British Industry that the standstill did not mean that there should be interference with existing contracts, and to the Cabinet's earlier decision that, where some members of a group of workers had already begun to receive payment of a wage increase before 20th July, the increase should not be withheld from other workers covered by the same agreement, even though the increase was not actually in payment to them before that date. The decisions on both these matters, however, were related to incomes. It did not follow that similar doctrines should apply in the field of prices. The trade unions were known to be watching movements of prices with great vigilance, and were still suspicious that the Government were enforcing the standstill more rigorously upon wages than upon prices. It was important not to give further encouragement to these suspicions, and it was for this reason that the NCB should be asked to defer the price increases in question.

The Minister of Power reminded the Cabinet that the increase in question had been approved by the National Board for Prices and Incomes and subsequently by the Cabinet earlier in the year, and had been paid by most of the customers concerned since April. It had not hitherto come into effect under these contracts only because they required six months' notification of price increases. No announcement would be required if the increase were allowed to go ahead in accordance with the contracts. It was doubtful whether the adverse effect upon the standstill of prices and incomes of accepting the increase would be as great as had been suggested, even if it were to receive publicity: the effect on industrial costs would be to increase them by only 0.01 per cent, and, since the loss of £2 million to £3 million to the NCB would have to be met by the Exchequer, the increase could be deferred only at the cost of what would amount to a subsidy to certain sections of private industry. Those customers who had for some time been paying the increase would be bound to regard any such subsidy as inequitable.

In discussion it was urged that the decision on groups of workers, to which reference had been made, did not provide any real analogy in this case. The Government had interfered with forward
commitments on wages for some six million workers, and the
co-operation which the Government had enjoyed from the great
majority of the trade union movement could well be adversely
affected, with serious risks for the development of the Government's
policy on prices and incomes in the first half of 1967, if the
impression gained wide currency that the Government had failed to
take action on an increase in price when it was open to them to do
so. The reasons for such a failure could not well be presented in
simple and convincing terms. Nor was the fact that the cost would
fall upon the taxpayer a decisive consideration, since increases in the
rents of municipally owned houses had under the standstill been
defered at the cost of the ratepayer. It was also pointed out that,
if this increase were accepted, a similar problem might arise in
connection with railway freight rates, where increases in rates which
came into effect for the generality of customers on 30th January
had not been extended to certain classes of contracts by 20th July.

On the other hand it was argued that despite these
considerations the analogy with the Cabinet's decision on increases
of wages for groups of workers was valid. Admittedly there had
been no specific discussion of whether a similar doctrine should
apply in the field of prices when the Cabinet had reached their
original decision on its application in the field of wages; but there
was no logical distinction to be drawn, and if the same principle
were not adopted in respect of prices, its application in respect of
wages might be called in question. Attention was drawn to the
fact that prices under privately negotiated contracts for washing
services and for television rentals were being increased during the
period of the standstill as a result of increases in charges which
had first been announced and brought into operation before
20th July, and it was suggested that those cases presented in some
ways even closer parallels to the present case than that of a group
of workers, some of whom had received an increase of wages while
others had not done so. It was suggested that the trade unions
were suspicious of cases where wages were held down and prices
increased because of the possibility that profits and dividends might
move up while wages and salaries were being held; but that issue did
not arise in this case, where the question was whether the increase
in price should fall on the consumers of coal (and of the products
whose costs were affected by coal prices) or upon the taxpayer.

As a means of reducing suspicion in the trade union movement that
the Government were enforcing the standstill less rigorously on
prices than on wages, a request to the NCB to defer this increase
would have considerably less effect than statutory action under
Part IV of the Prices and Incomes Act on prices which affected
consumers more directly. Since a decision not to defer the increase
would involve no Government action or announcement, it seemed
doubtful whether any presentational impact would be great enough
to warrant additional Exchequer expenditure of £2 million to
£3 million.

The Prime Minister, summing up the discussion, said that on
balance the Cabinet agreed that the increase in the price of industrial
coal under privately negotiated contracts should take effect in accordance with the notices already given. This decision should not be regarded as setting a precedent for prices in the nationalised industries: any other cases, where the arguments advanced in this instance might not be so applicable, would need to be considered on their merits.

The Cabinet—

Agreed that the National Coal Board should not be asked to defer the industrial coal price changes notified under privately negotiated contracts to come into operation on 1st October, 1966.

5. The President of the Board of Trade informed the Cabinet that the trade figures for September, which had just been published, showed exports at £429 million (compared with £440 million in August, when the figures still included some exports which had been held up by the seamen's strike) and imports of £493 million (compared with £524 million in August). The seasonally adjusted deficit on the balance of visible trade for the month was £2 million, which was the best figure this year. While anticipation of the ending of the temporary import charge in November might have played a small part in the reduction of imports, the major element was thought to be the working through the economy of the deflationary measures which the Government had taken.

The Secretary of State for Scotland said that preliminary forecasts suggested that unemployment in Scotland might rise to over 4 per cent at their seasonal peak next February. It might be necessary to review the impact of the deflationary measures on development areas.

The Prime Minister, summing up the discussion, said that the latest trade figures, with their evidence that the Government's measures were working through to the balance of payments, would help to promote revival of overseas confidence in sterling and in the United Kingdom's ability to overcome her economic problems. The Government would need to take such measures as were possible to prevent the incidence of the deflationary measures being disproportionately adverse in development areas. Ministers in charge of production Departments should take steps to see that firms were encouraged to maintain output in the development areas and, where possible, to transfer work into those areas in order to help maintain the level of activity.

The Cabinet—

Took note of the trade figures for September and of the points made in discussion.

_Cabinet Office, S.W.1_,

_13th October, 1966._
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 20th October, 1966,
at 10 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal (Items 1-5)
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food (Items 1-5)
The Right Hon. FREDERICK LEE, M.P., Secretary of State for the Colonies
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:
The Right Hon. FREDERICK MULLEY, M.P., Minister of Aviation (Item 7)
The Right Hon. Sir ELWYN JONES, Q.C., M.P., Attorney-General (Items 1-4)

The Right Hon. MICHAEL STEWART, M.P., First Secretary of State and Secretary of State for Economic Affairs (Item 7)
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. RICHARD CROSSMAN, M.P., Lord President of the Council
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M.P., Minister without Portfolio
The Right Hon. ARTHUR BOTTOMLEY, M.P., Minister of Overseas Development
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. CLEDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. RICHARD MARSH, M.P., Minister of Power

Secretary:
Sir BURKE TREND
Mr. P. ROGERS
Mr. L. ERRINGTON
Mr. R. T. ARMSTRONG

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1. The Prime Minister informed the Cabinet that he had received from the management of the Grand Hotel, Brighton, a suggestion that the hotel should place on permanent display a plaque commemorating the meeting of the Cabinet which had been held there on 4th October. It was suggested that the plaque should incorporate facsimile signatures of the members of the Cabinet and should indicate the business which the Cabinet had transacted.

In discussion it was suggested that there were no grounds for objecting in principle to the display of a plaque recording the Cabinet's meeting in the hotel, particularly in the light of the precedent provided by the plaque in the Inverness Town Hall commemorating the Cabinet meeting which had been held there in 1921. But there could be no question of its containing any statement purporting to describe the business which had been before Ministers or the decisions which they had reached.

The Cabinet—

Took note that the Prime Minister would convey to the management of the Grand Hotel, Brighton, their decisions on the suggestion that the hotel should place on permanent display a plaque commemorating the Cabinet's meeting there on 4th October.

2. The Prime Minister said that it had recently come to his attention that the Royal Commission on English Local Government had invited a number of Ministers and representatives of the Opposition to discuss informally with them some of the issues arising from their terms of reference. There were occasions on which it might be proper for a Minister to give formal evidence to a Royal Commission, e.g., the Lord Chancellor, as head of the Judiciary, in relation to a Royal Commission which was concerned with some issue of judicial practice or organisation. But the question whether Ministers should give evidence, even informally, to Royal Commissions concerned with more political matters was more arguable; and the Cabinet should consider the questions of principle involved.

In discussion it was suggested that in certain circumstances it could be helpful, both to the Royal Commission concerned and to the Government, that Ministers should have an opportunity to express their views to the Commission, provided that the proceedings were on an informal basis and that no record of the evidence was taken or published. Some Ministers had already accepted on this basis the invitation from the Royal Commission on English Local Government. On the other hand any arrangement whereby
Ministers were regarded as free to express individual views to a Royal Commission, even informally, could be held to be open to serious objection, partly on the ground that it might engender suspicion that the Government were seeking privately to influence the findings of a body which they had established in order to give them impartial advice on some politically contentious issue and partly on the ground that it would create a potential risk of subsequent embarrassment to the Government if some of its members were known to have expressed views which, whether or not they were endorsed by the Royal Commission, were not necessarily in complete harmony with the policy of the Government as a whole. This inhibition need not prevent the Chairman of a Royal Commission from seeking a private discussion with a Minister on occasion, in order to ascertain his views on some specific issue within the Commission's terms of reference which affected him personally in his capacity as the responsible Minister. But on the more general question of the relations between Ministers and Royal Commissions it would be wiser to adhere to the principle that all the factual advice and information which a Commission required should be provided by officials and that Ministers should not be involved in the Commission's deliberations on the issues of policy in question.

The Prime Minister, summing up the discussion, suggested that the Chairman of the Royal Commission on English Local Government should be approached in this sense and that arrangements should be made to put the procedure in this respect on a more regular basis for the future.

The Cabinet—

(1) Invited the Minister of Housing and Local Government to ask the Chairman of the Royal Commission on English Local Government to reconsider, in the light of the issues raised in their discussion, the invitation which the Commission had issued to certain members of the Government to give informal evidence to them; and to report to the Prime Minister the Chairman's reaction.

(2) Agreed that in future Secretaries of Royal Commissions should be instructed to consult the Cabinet Office before issuing invitations to Ministers to give evidence and that any Minister receiving such an invitation should similarly consult the Cabinet Office before accepting it.

(3) Took note that the Prime Minister would make the necessary arrangements to give effect to Conclusion (2) above.

Parliament

3. The Cabinet were informed of the business to be taken in the House of Commons in the following week.
4. The Foreign Secretary said that on his recent visit to New York and Washington he had had a series of discussions, which on the whole were encouraging, with Mr. Gromyko, the Soviet Foreign Minister. There were indications of a distinct movement in the Soviet attitude towards agreement with the West on a number of issues, though not as yet on Vietnam. Mr. Gromyko had made it clear that the first essential in the Soviet view was for the United States bombing of North Vietnam to stop, but though he had given no indication of what, if any, action they might then be able to take, it was clear that they were anxious to see a solution and to continue discussions. It was no doubt partly with this in view that he had been invited to make an early visit to Moscow. Mr. Gromyko had, however, shown great interest in the early conclusion of a treaty on the non-proliferation of nuclear weapons and there was some reason to hope that an acceptable formula might be found on the main points of difficulty, relating to the possible transfer of nuclear weapons to an alliance. The Soviet Union did not appear to be as interested as had been expected in the extension of the Test Ban Treaty, but agreement had nearly been reached on a treaty on the use of outer space. If, therefore, some move forward could be made on Vietnam it was possible that this might result in a number of helpful international agreements in other spheres, though it would be imprudent to be unduly optimistic at this stage. In particular, it was important that we should not express such optimism in public statements.

In discussions with the President and with members of the United States Administration it had been made clear that they were ready to end the bombing of North Vietnam if there were any reasonable chance whatsoever that this might elicit a significant response by the Government of North Vietnam, leading to consultations about ways in which the conflict could be brought to an end. The United States Administration had also shown themselves understanding of our own difficulties in bearing the foreign exchange costs of our forces in Germany at their present level, but were naturally concerned that we should not take unilateral action to reduce or weaken our forces which might further imperil the Alliance.

As regards the admission of the People's Republic of China to the United Nations, it appeared that opinion, both in the Administration and publicly in the United States, was now less firmly resistant to admission than had hitherto been the case, particularly if such admission were accepted in a form which did not appear too dramatic a diplomatic defeat for the United States Government.

He had subsequently visited Ottawa, partly because it was important to avoid any impression that United Kingdom Ministers visiting North America were solely concerned with the United States, and partly for discussions about the need to move the Council of
the North Atlantic Treaty Organisation from Paris, in view of the French withdrawal from the Organisation. Until recently both Denmark and Canada had been opposed to the move, but both had now accepted its desirability and it appeared likely that the move would be agreed at the next meeting of the Council in December.

It had been necessary to react promptly to the action of the Spanish Government in closing the customs post at La Linea on the Gibraltar frontier immediately before the resumption of talks between officials on the dispute about Gibraltar. He had in consequence announced publicly the proposal, which we had hitherto intended to put to the Spanish Government at a later stage in the course of the talks, that the dispute over the sovereignty of Gibraltar should be referred to the International Court of Justice. The Spanish Government had not as yet rejected this proposal and they had asked that the next round of talks should be in Madrid. It would be difficult to refuse this invitation since the previous four rounds had all been in London, but it was necessary to bear in mind that the Governor of Gibraltar had expressed some concern at the effect there if we accepted the invitation.

The Commonwealth Secretary said that Sir Morrice James, a Deputy Under-Secretary of State in the Commonwealth Office, who had taken the statement of the Government’s terms on Rhodesia to Salisbury, had had a further meeting with Mr. Smith, the leader of the illegal régime, the preceding day. Mr. Smith had said that he would send a letter, probably later the following week, giving the detailed comments of the illegal régime on our proposals. It was almost certain that these would amount to a rejection.

In Nigeria there was still an uneasy calm, and some public services had been resumed in the Northern Region. There had been anxiety that the Yorubas in the West might attack Ibos, but so far there had been no further outbreak of violence there.

The Cabinet—

Took note of the statements by the Foreign Secretary and the Commonwealth Secretary.

5. The Cabinet considered a Memorandum by the Postmaster-General (C(66) 141) to which was attached a draft White Paper on Broadcasting Policy.

The Postmaster-General recalled that, following their previous discussion of the draft White Paper, the Cabinet had asked him to consider the possibility of establishing a new service, financed from advertising, to broadcast programmes which would meet the demand for continuous “pop” music when the legislation to suppress the “pirate” radio stations took effect; it was also in mind that a network of local sound stations should also be established and financed on the same basis. His examination of this possibility had shown that the establishment of a new corporation to run such a
service would require legislation; that it would not be possible for any new service to broadcast continuous "pop" music because of the attitude of the Musicians' Union; that the establishment of a new service would take up to two years, because of the need to legislate and the time needed to acquire sites and to build and equip new transmitting stations; and that additional capital and operating expenditure together would reach a peak of some £6½ million in three years' time. The new corporation would need an initial capital loan from the Exchequer of some £5 million. Though the prospects for repayment would be uncertain, it was possible that by the fourth year advertising income might meet the operational costs of the new service. These conclusions had been considered by a meeting of the Ministers primarily concerned under the Prime Minister's chairmanship. This meeting had concluded that a popular music programme ought to be introduced to coincide with the disappearance of the "pirate" radio stations, even though it could not satisfy the demand for continuous "pop" music, and it was agreed that such a programme could only be introduced in time if it were provided by the British Broadcasting Corporation (BBC). The meeting had, however, not been able to reach agreement on a further proposal that a new corporation to be financed from advertising should be set up as soon as possible to take over from the BBC the broadcasting of the new programme and to establish also a network of local radio stations. While there might be objection in present economic circumstances to the additional demand on resources that would be created by the establishment of a new broadcasting service, and while the introduction of a new outlet for advertising might similarly be open to objection, the meeting had, on balance, favoured this proposal, and it had been embodied in the draft White Paper now before the Cabinet.

He had ascertained informally from the Chairman of the Governors of the BBC that they would, with reluctance, be prepared to broadcast a music programme in the interim period while a new corporation was being established. They might, however, feel it necessary subsequently to continue broadcasting such a programme in competition with the new corporation, and in that event might want to use the wavelength at present allotted to the Home Service in the North-East of England, which would then have to share a programme with Northern Ireland. He had also had discussions with the Musicians' Union who had objections to the introduction of advertising on sound radio. If the Cabinet approved the draft of the White Paper at present before them, further consultation with the BBC and with the Musicians' Union would be required.

In discussion it was suggested that if, as proposed, the new corporation were allotted the present medium wavelength (247 metres) with which the BBC supplemented their long wave transmission of the Light programme, there would be substantial areas in Wales and Scotland where this service, which included popular non-musical programmes, could not be received. It was pointed out, however, that reception on very high frequencies
(VHF) would be available and that manufacturers were planning to make transistor sets with a capacity to receive on VHF, if there were a demand for it.

In further discussion it was suggested that the advantage to be gained by establishing a new corporation on the lines proposed would be small in relation to the disadvantages. Whereas the programmes which it could broadcast would not meet the demand for continuous "pop" music and would only duplicate a service that could be provided much more cheaply by the BBC, the proposed new service would disrupt the BBC's existing services, would create an extra demand on resources, and in particular an increase in consumer demand, that was unacceptable in present economic circumstances. The view was also expressed that the acceptance of advertising on sound broadcasting was objectionable in principle. Furthermore by depriving the Press, particularly the local Press, of advertising revenue, the financial difficulties of the newspaper industry would be increased and a tendency to mergers and monopoly increased. Moreover, the solvency of the new service would be uncertain and further subsidy from the Government might be required. It was pointed out that light music was already available from one or other of the BBC's existing services for by far the greater part of the day, and it was suggested that it would be preferable to defer a decision on the establishment of a new service until it was clear how far the BBC could, in fact, meet the demand for a more popular type of music programme than was at present provided. That demand might in any event have been over-estimated. It was further suggested that before resources were committed to the establishment of a network of local sound stations, it would be preferable to conduct an experiment through the BBC to ascertain the demand for such a local service and the availability of local programme material.

On the other hand, it was pointed out that the use of the BBC to broadcast the continuous music programme, otherwise than as an interim arrangement, and to conduct an experiment in broadcasting, could only increase the pressure on the licence fee. It was suggested that unless a means could be found of supplementing the licence fee as a means of financing public service broadcasting, desirable development of the latter, and even the maintenance of present standards, would inevitably be threatened by the difficulty of increasing the licence fee. It was also suggested that in particular local sound broadcasting ought to be developed as a means of assisting the Open University and to provide an outlet for local initiative and talent which the BBC were unlikely to be able to furnish. The establishment of a new corporation financed from advertising would enable the new music programme and local sound broadcasting to be introduced on a self-financing basis, and would open the way for the subsequent establishment on the same basis of the fourth television network. Since the new corporation, unlike the Independent Television Authority, would be responsible itself for providing programmes, on the lines recommended by the PilKington Committee for Independent Television, there would be less risk of
a lowering of the standard of programmes. It was also suggested that, if the new corporation achieved a surplus, it might be possible to apply this indirectly to supplementing the revenue of the BBC, who would in practice be unlikely to reject it. It was further suggested that, because of pressure on the programme, legislation would not be possible in the current session, and that therefore the new corporation could not begin to operate before 1970 at earliest; in consequence the extra capital and other expenditure and any consequent additional consumer demand would not be incurred during the present period of economic difficulty.

The Prime Minister, summing up this part of the discussion, said that the Cabinet were agreed that the BBC should be asked to provide a popular music programme as soon as the legislation to suppress the “pirate” radio stations took effect. On the balance of considerations the Cabinet favoured, in the longer term, the subsequent establishment of a new corporation, financed from advertising, to take over the running of the new programme from the BBC and to set up a network of local sound stations. The timetable for its establishment should, however, be left open and legislation would not in any event be possible in the current session.

The Cabinet—

(1) Invited the Postmaster-General to discuss with the Chairman of the BBC the provision of a music programme on 247 metres as an interim arrangement.

(2) Approved in principle the proposal to establish a new broadcasting corporation, financed by advertising, to provide a national popular music programme and a service of local sound broadcasting, subject to consideration in due course of the timetable for its introduction.

The draft White Paper

In discussion of the draft White Paper on Broadcasting it was suggested that the supplementary licence fee of £5 proposed for colour television sets would, when taken together with the high initial cost or rental of the sets, unduly discourage demand and hence hinder the development of manufacturing and export potential. On the other hand, it was pointed out that the proposed licence fee would be relatively insignificant for those who could afford the high cost of sets. In view of the difficulty of making any subsequent increases in the licence fee, it was important to fix the initial fee at a level which would not need to be increased for a number of years and would, as the ownership of colour television sets spread, provide a new element of buoyancy in the BBC’s licence revenue.

In further discussion the following main points were made:

(a) While the experiment in pay television would have to be allowed to go forward, it was important to prevent a situation developing in which the licensee might be able to deny the vast majority of television viewers the opportunity of viewing major sporting events.
(b) If the BBC were to contain their costs it was important that there should be no general increase in broadcasting hours, but it was in mind that an increase of an hour a day might be given to independent television.

Summing up this part of the discussion the Prime Minister said that the Cabinet approved the draft White Paper on Broadcasting subject to the amendments agreed at their previous discussion. Subject to his further consultations with the BBC and the Musicians' Union, the Postmaster-General should arrange for its publication as soon as possible.

The Cabinet—

(3) Approved the draft White Paper annexed to C(66) 141 subject to the amendments agreed at their previous discussion.

(4) Invited the Postmaster-General, in consultation with the Lord President of the Council, to arrange for its early publication.

CONFIDENTIAL

6. The Cabinet considered a memorandum by the President of the Board of Trade (C(66) 143) about the import arrangements for apples and pears.

The President of the Board of Trade said that it was necessary for the Cabinet to resolve a difference of view which had arisen in the Sub-Committee on External Economic Policy of the Ministerial Committee on Economic Development, relating to proposals for liberalising the quota arrangements for imports of apples and pears. The real protection to our industry was by quota from all sources, except the sterling area. The quota level for apples was at present 15,200 tons for the period July to December and 68,750 tons for the period January to June. There was an annual quota for pears of 28,000 tons. These restrictions, in common with similar restrictions imposed by continental countries, were contrary to our obligations under the General Agreement on Tariffs and Trade (GATT). The Sub-Committee had in the preceding July agreed on balance that the following revised quota arrangements should be introduced as from 1st January, 1967:

(a) An apple quota of 37,000 tons for the months of January and February.

(b) Thereafter a quota-free period for both apples and pears covering the months from March to July inclusive.

(c) The present six-monthly apple quota of 15,200 tons to apply to the five months from August to December inclusive.

(d) The present annual pear quota of 28,000 tons to apply to the seven months from August to February inclusive.

SECRET
These arrangements were, however, subject to consultations with the Australian and New Zealand Governments. In addition the Canadian Government and the National Farmers' Union (NFU) had also been consulted. The overseas Governments were strongly critical of the proposals, while the NFU challenged them as contrary to the import saving role allotted to the home industry under the National Economic Plan and argued that the new proposals would lead to heavy imports from Europe and low prices for the home producer at the beginning and end of the home marketing season.

In further discussion in the Sub-Committee, the Minister of Agriculture, with the support of the Parliamentary Under-Secretary of State, Commonwealth Office, had argued that the proposals should not be pursued at the present time, that the action was untimely and that we should instead concentrate on seeking an agreement on liberalisation in the negotiations in the Kennedy Round. Other Ministers, however, favoured maintaining the view previously taken by the Committee. The reactions of those consulted were in their view on the lines that had been expected and no new factors had emerged. We must have regard primarily to the effect of the measures on our balance of payments and while these could not be precisely quantified it was thought possible that the introduction of the revised arrangements might produce import savings of from £200,000 to £500,000, since it was expected that the increase in imports would be more than offset by the fall in price. The effect of the existing quotas was to maintain prices of apples and pears and hence of other fruit at artificially high levels and the change would therefore be advantageous to the home consumer, while the interests of home growers would not be significantly prejudiced because quotas would remain for the period of the home marketing season. Nor were apples and pears likely to figure appreciably in the Kennedy Round negotiations and we could not, in any event, expect to obtain substantial concessions in return for liberalising restrictions which were contrary to our obligations under the GATT. We should therefore announce in the course of the next week or so that revised quotas would be introduced from 1st January on the lines originally proposed.

The Minister of Agriculture said that he was not opposed to the liberalisation of the quotas at a later stage, but we should first ascertain whether we could obtain concessions in the Kennedy Round for doing so. Moreover, the revised quotas would seriously damage the interests of home growers and would adversely affect our suppliers in Australia and New Zealand. It was doubtful if they would result in any substantial benefit to the balance of payments and would hence be contrary to our need to reduce imports, while they would expose us to dumping from France and Italy, where surpluses had been built up in the past few years as a result of new plantings encouraged for political reasons. Exploratory discussions on the United Kingdom proposals had already begun in Geneva and we should not jeopardise the prospect of a settlement on such a basis by taking unilateral action now.
In discussion doubt was expressed on the likelihood that the proposed liberalisation of quotas would result in such a reduction in price as to offset the increase in imports and hence whether there would be any benefit to our balance of payments. It was also the general view that it would be preferable first to ascertain whether any concessions could be obtained in the course of the negotiations on the Kennedy Round in return for the liberalisation of quotas which was contemplated.

The Cabinet—
(1) Agreed that no change should be made in the existing arrangements for quotas for apples and pears for the coming year.
(2) Agreed to consider the matter further at a later date in the light of progress in negotiations in Geneva on the Kennedy Round.

7. The Cabinet considered a memorandum by the Secretary of State for Education and Science (C (66) 142) on the future of the airframe industry.

The Secretary of State for Education and Science recalled that at their meeting on 2nd August the Cabinet had approved the appointment of a Sub-Committee to consider and make recommendations on the future of the airframe industry, and specifically of the British Aircraft Corporation (BAC) and Hawker Siddeley Aviation Limited (HSA), the two main companies in the industry. The Sub-Committee had now considered this matter.

Most members considered that nothing was likely to be gained by postponing a decision on the future of the airframe industry and that, in view of the delay since the publication of the Plowden Report on the Aircraft Industry (Cmnd. 2853), it was desirable to reach a decision as soon as possible in order to end uncertainty in the industry. There was general agreement that the Government could not leave the present position unchanged. The suggestion in the Plowden Report that the Government should take a majority holding in the two companies was impracticable, because it would not be accepted by the companies. There was thus a clear choice between two courses of action:

1. To take over the whole of the equity of BAC, and then merge BAC and HSA in a new company in which the former BAC equity would represent a substantial minority shareholding for the Government, or
2. To take both companies into 100 per cent public ownership, bringing them as separate companies under a new public corporation, which would also take over responsibility for other airframe interests in public ownership and would be charged with the duty of rationalising the industry.

The Sub-Committee had been unable to agree upon a recommendation on the choice between these two courses.
The case for a solution through a minority shareholding solution rested on the argument that the essential objectives could be more easily achieved by this course:

(i) It would give the best prospect of keeping in the industry a management which would effectively carry through the rationalisation and merger that were agreed to be desirable. It was difficult to see why design staff in BAC should object so strongly to such a solution as to prefer to leave the industry rather than to continue on this basis.

(ii) Combined with the Government’s position as a major purchaser and source of funds, it would give the Government a sufficient measure of influence in the affairs of the industry, while preserving an element of commercial discipline and expertise in the management.

(iii) It was likely to lead to rather less political difficulty than 100 per cent nationalisation.

(iv) It would be substantially cheaper for the Exchequer.

(v) It would avoid saddling the Government with entire responsibility for an industry that was about to enter into a phase of contraction.

(vi) To take a minority shareholding at this stage would not preclude taking the industry into full public ownership at a later stage, if it later proved necessary or desirable to do so.

(vii) Full nationalisation now could not however well be reversed later.

These arguments suggested that a minority shareholding would be the preferable solution.

The Minister of Aviation said that he saw the attraction in the proposal for a minority shareholding, which had indeed been the basis of a plan which he had earlier discussed with representatives of the industry. Either of the two solutions before the Cabinet could probably be negotiated with the industry, though it would become more difficult to reach an agreed conclusion if a number of projects for new aircraft were cancelled. While it could not be taken for granted that the present Hawker Siddeley management would be wholly unavailable to a public corporation, it was probable that they would not, and it might admittedly not be easy to find a sufficiently good management for the industry, if it were brought wholly under public ownership. The objections to taking over a contracting industry also had force. None the less the balance of advantage was in his view in favour of taking both companies wholly into public ownership:

(viii) There would be powerful objections to the deliberate creation of a monopoly under the predominant control of private enterprise in an industry so heavily dependent on Government money.
(ix) It would be difficult to justify taking BAC into public ownership and then merging it into a new private enterprise company, the majority shareholding in which would be privately held.

(x) Only 100 per cent nationalisation would make it possible to achieve the reduction of detailed financial and technical control of projects by the Government, which had been one of the main objectives of the Plowden Committee's recommendations and should make possible considerable reductions in the staff of his Department.

(xi) It would remove the risk of public concern at the possibility of private firms making excessive profits out of public money.

(xii) Because the Government were so deeply involved in the affairs of the industry as the major purchaser and source of funds, the Government would in any event be held responsible for the difficult decisions which rationalisation and contraction would entail.

In discussion it was suggested that there would be some advantage in deferring a decision on the following grounds:

(a) Uncertainties about a number of projects (for instance, the P-1127 and the Anglo-French Variable Geometry aircraft) meant that the outlook for the industry was at present uncertain. While a decision on the structure of the industry could not be deferred indefinitely, there might be advantage in awaiting the resolution of some of the existing uncertainties.

(b) Before a decision was taken, it might be desirable to consider further how best to ensure a maximum return on the money put into the industry by the Government. Further consideration might also need to be given to the position of Rolls-Royce Limited and the effect upon them of whatever was proposed for the future of the airframe industry, though it could be argued that Rolls-Royce would be more greatly affected by the programme of the industry than by the form of its ownership.

It proved, however, to be the general view that on balance, despite these difficulties, a decision could not be further delayed without damage to the future of the industry. In discussion of the form of the solution it was suggested that the industry were likely in future to look to the Government for the whole of the finance required for development not only of military projects but also of all major civil projects. The Government's stake in the industry was very large: Government expenditure in the industry every year amounted to more than three times the total value of the equity of the two companies. In these circumstances the retention of a majority shareholding by private enterprise was unlikely in practice to ensure effectively the retention of commercial disciplines. It was agreed that the Government would probably need to supplement a minority shareholding with reserve powers on certain matters, such as the appointment of the chairman, the disposal of major assets and proposals to increase the capital, and reserve powers of this kind might well be little less objectionable to the majority of the
shareholders than a majority Government shareholding. The best course might well, therefore, be to take both companies wholly into public ownership.

On the other hand it was argued that the considerations of management should be decisive. There was general agreement that it would be desirable to retain the Hawker Siddeley management in charge of the industry, but it seemed certain that there was no prospect of retaining that management for a publicly owned industry. It might well be that the Government would in any event carry a large measure of responsibility for the affairs of the industry, but 100 per cent nationalisation would not make it any easier for the Government to carry that responsibility; indeed it would add to the problems with which the Government would have to deal, and the prospect of taking over an industry which was bound to contract over the next few years was an unattractive one. On broader grounds it was the predominant view that the objections to 100 per cent nationalisation developed by the Secretary of State for Education and Science outweighed the advantages.

The following points were also made:

(c) If the industry were taken into public ownership, it might be preferable to set up a new authority on the lines of the United Kingdom Atomic Energy Authority, rather than to follow the pattern of the other nationalised industries.

(d) It was highly questionable whether 100 per cent nationalisation would make it possible to reduce substantially the requirements for detailed governmental financial and technical control of aircraft projects, in view of the inevitable differences of interest between a public corporation and the Government.

(e) It was possible that, if the Government decided in favour of the minority shareholding solution, Hawker Siddeley would be prepared themselves to make an offer to acquire BAC, on the basis of an understanding that the Government would later purchase a minority shareholding in the combined HSA-BAC. BAC might, however, be reluctant to negotiate with Hawker Siddeley on such a proposition.

(f) It was not clear whether it would be possible under existing statutory powers for the Government to acquire the equity of BAC or a share in the equity of a new company combining the assets of BAC and HSA. The Minister of Aviation was precluded by statute from holding shares in a company making aircraft. It was, however, possible that the President of the Board of Trade might have appropriate powers. 100 per cent nationalisation would in any case require new legislation; if it were decided to seek a solution through a minority shareholding, the Minister of Aviation should consider, in consultation with the President of the Board of Trade and the Law Officers, whether it was possible for the Government to acquire BAC, or a minority shareholding in a new company, within existing statutory powers, and, if not, what legislative provisions would be required to enable them to do so. A place had been reserved in the legislative programme for legislation on the aircraft industry, which would in any event be required for the acquisition of Beagle Aircraft Co. Ltd. It would be desirable, if possible, to avoid further
legislation for the acquisition of BAC, or of a minority shareholding in a new company; if such legislation proved inescapable, it would be desirable to make the provisions as brief as possible.

The Prime Minister, summing up the discussion, said that the balance of view in the Cabinet was in favour of reaching a decision on the future of the airframe industry without further delay, and of adopting a solution whereby the Government would hold a minority shareholding, in partnership with the Hawker Siddeley group, in a new company combining the assets of the existing HSA and BAC and under the direction of the existing Hawker Siddeley management. Further consideration should be given to whether this result could best be achieved by the Government taking over BAC and then merging their holding of BAC into a new company with HSA, or by allowing Hawker Siddeley to acquire BAC and then negotiating with Hawker Siddeley on the formation of a new merged company with a minority Government shareholding. The need for legislation and the form it should take called for further examination.

The Cabinet—

(1) Agreed that Government policy for the airframe industry should be to bring into being a new company, comprising the assets of the British Aircraft Corporation and Hawker Siddeley Aviation Limited, in which the Hawker Siddeley group would hold a majority and the Government a substantial minority of the equity.

(2) Invited the Minister of Aviation, in consultation with the President of the Board of Trade and the Law Officers, to consider, on the lines suggested in discussion, whether the Government could acquire the equity of the British Aircraft Corporation, or a minority shareholding in the proposed new company, within existing statutory powers; and, if not, what legislative provision would be required to enable them to do so.

(3) Invited the Minister of Aviation to consider, in the light of these consultations and after discussion with other Ministers concerned, whether the Government should seek to acquire the British Aircraft Corporation as a preliminary to the proposed merger with Hawker Siddeley Aviation Limited, or whether Hawker Siddeley should be encouraged themselves to acquire the British Aircraft Corporation, on the understanding that the Government would in due course take a substantial minority shareholding in a new company combining the British Aircraft Corporation and Hawker Siddeley Aviation Limited.

(4) Invited the Minister of Aviation to bring before the Ministerial Committee on Economic Development, any matters arising in the course of the consultations and considerations under Conclusions (2) and (3) above which required collective consideration by Ministers before he informed leading representatives of the industry in confidence of the Government's decision and embarked upon negotiations to put it into effect.

Cabinet Office, S.W.1,
20th October, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 27th October, 1966, at 10 a.m.

Present:

The Right Hon. H. W. Wilson, M.P., Prime Minister


The Right Hon. Lord Gardiner, Lord Chancellor

The Right Hon. R. Crossman, M.P., Secretary of State for the Home Department

The Right Hon. D. Houghton, M.P., Minister without Portfolio

The Right Hon. A. Greenwood, M.P., Minister of Technology

The Right Hon. A. Crossland, M.P., Secretary of State for Education and Science

The Right Hon. J. E. Longford, Lord Privy Seal

The Right Hon. R. J. Gunter, M.P., Minister of Labour

The Right Hon. F. Lee, M.P., Secretary of State for Wales

The Right Hon. A. Wedgwood Benn, M.P., Secretary of State for Scotland

The Right Hon. J. Gunn, M.P., Secretary of State for Foreign Affairs

The Right Hon. W. Ross, M.P., Secretary of State for Defence

The following were also present:

The Right Hon. Edward Short, M.P., Postmaster-General (Item 5)

The Right Hon. Sir Elwyn Jones, Q.C., M.P., Attorney-General (Item 6)

Mr. William Rodgers, M.P., Parliamentary Secretary, Treasury

Mr. K. Barnes

Secretariat:

Sir Burke Trend
Mr. P. Rogers
Mr. L. Errington
Mr. K. Barnes
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PARLIAMENT

SUNDAY ENTERTAINMENT

(PREVIOUS REFERENCE: CC (65) 35th CONCLUSIONS, MINUTE 7)

CONFIDENTIAL

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

CONFIDENTIAL

2. The Minister without Portfolio said that the Home Affairs Committee had recently considered the issues of policy arising on the Sunday Entertainment Bill which Lord Willis was about to introduce in the House of Lords. He recalled that the Cabinet had considered the recommendations of the departmental committee on the Law on Sunday Observance (the Crathorne Committee) on 1st July, 1965, and had agreed that Parliament should be given an opportunity to pronounce on the recommendations but that this could best be achieved if a Bill were introduced in Private Members' time, all decisions being left to a free vote. It had also been agreed that the Governments should be ready to offer drafting facilities, but that no undertaking could be given to provide Government time for the Bill in Parliament. Although no Private Member had taken the matter up at the time, Lord Willis had subsequently announced his intention of introducing a Bill in the House of Lords and had been given assistance in drafting it. The proposals in his Bill, however, differed in some important respects from the recommendations of the Crathorne Committee. In particular, whereas the Crathorne Committee recommended that no professional sporting events should be allowed on Sundays, Lord Willis's Bill would permit on Sunday mornings events for which no charge was made for admission, provided that they were not primarily intended for spectators. The Crathorne Committee recommended that amateur events should be allowed after 12.30 p.m. on Sundays, whereas Lord Willis's Bill would allow events after 2 p.m. whether professional or amateur and whether or not they were primarily intended for spectators, so long as no charge was made for admission. The Home Affairs Committee considered that these proposals might be more contentious and more difficult to apply than the corresponding recommendations of the Crathorne Committee. They had, therefore, concluded that, while a free vote should be allowed, the attitude of the Government spokesman in the debate on Lord Willis's Bill in the House of Lords should be one of strict neutrality and in particular that no assurance should be given that facilities would be accorded to the Bill in the House of Commons. They had also concluded that further consideration should be given to the policy to be adopted in respect of Sunday entertainment in the light of the debate in the House of Lords on Lord Willis's Bill.

In discussion there was general agreement with this view.

The Cabinet—

(1) Invited the Home Secretary, in consultation with the Lord Privy Seal, to arrange for the Government spokesman...
in the debate on Lord Willis's Bill to be guided by the considerations indicated by the Minister without Portfolio.

(2) Invited the Minister without Portfolio to arrange for the Government's policy on Sunday entertainment to be further considered in the light of the debate in the House of Lords on Lord Willis's Bill.

3. The Cabinet considered a memorandum by the Home Secretary (C (66) 144) on homosexual law reform.

The Home Secretary recalled that the Committee on Homosexual Offences and Prostitution (the Wolfenden Committee) had recommended that homosexual acts in private between consenting adults should cease to be unlawful. When the Cabinet had previously discussed the matter in connection with a motion by Lord Arran in the House of Lords, it had been decided that the Government should adopt a neutral attitude on the principles involved and in particular that no undertaking should be given to provide Parliamentary time for a Private Member's Bill. Since then the House of Lords had twice passed Lord Arran's Bill to give effect to this recommendation of the Wolfenden Committee, while the House of Commons had given a Second Reading to a similar Bill and had subsequently given Mr. Abse leave under the Ten-Minute Rule to introduce a Bill which had now been published and was for all practical purposes identical with Lord Arran's Bill.

While the Government should still adhere to its neutral attitude on principles, it would be under strong criticism, in view of the recent votes in both Houses, if some time were not provided to enable Mr. Abse's Bill to make progress. Further, if the matter were left in abeyance, there would be continuing difficulty in administering the Criminal Law in this field. The arguments for providing Government time to the Bill were similar to those which had obtained in the case of Mr. Silverman's Bill to abolish capital punishment. In these circumstances the balance of advantage lay in making available half a day of Government time for the Second Reading debate on Mr. Abse's Bill.

In discussion it was pointed out that, despite the shift of opinion disclosed by the votes in both Houses, there were still strong feelings on the issues involved. It was suggested that to give Government time for the Bill might be widely interpreted as indicating Government support and that it might prove difficult to resist pressure for further Government time for the Report and Third Reading if the Bill ran into difficulties. The fact that no Private Member had chosen to take the matter up until Mr. Abse had raised it under the Ten-Minute Rule would make it difficult to justify providing Government time, and to give priority to this Bill would be criticised by the sponsors of other Private Members' Bills who would seek similar preferential treatment.
On the other hand, it was argued that Government time for discussion of the Bill could be justified without compromising the neutral attitude of the Government by the fact that a majority in both Houses had been shown to favour the implementation of the Wolfenden Committee's recommendation in this respect. The risk that further Government time would have to be given might be avoided if it were made clear at the outset that thereafter the Bill would have to follow the usual course without Government assistance. It was also suggested that, since there would otherwise be a continuing campaign to give effect to this recommendation of the Wolfenden Committee, it would be preferable to provide the opportunity for an early debate.

The Prime Minister, summing up the discussion, said that the Cabinet were agreed that on a balance of considerations a half day of Government time should be made available for a Second Reading debate on Mr. Abse's Bill. The Government's attitude should be one of neutrality and a free vote allowed but it should be made clear that the Government were in no way committed to giving further time for the Bill.

The Cabinet—

(1) Invited the Lord President, in consultation with the Home Secretary and the Chief Whip, to arrange that half a day of Government Parliamentary time should be made available for a Second Reading debate on Mr. Abse's Bill.

(2) Invited the Home Secretary to arrange for the debate on Mr. Abse's Bill to be conducted in the manner indicated by the Prime Minister in his summing up of their discussion.

4. The Foreign Secretary said that a resolution on South-West Africa would shortly be put to the vote in the General Assembly of the United Nations. This would raise serious difficulties for us, since the resolution was far from satisfactory, despite our attempts to secure suitable amendment. The resolution not only declared that South Africa had forfeited her mandate over South-West Africa but also that the United Nations should assume responsibility for it. This was wholly impracticable, since the United Nations had not the machinery either to take over the mandate nor to administer the territory thereafter. He had accordingly instructed the United Kingdom Representative at the United Nations to abstain from voting on the resolution but to explain that this action was taken solely because the resolution proposed the assumption of a responsibility by the United Nations which they could not discharge. It seemed probable that a number of other nations would similarly abstain, including the United States, Australia and some European countries.
In discussion it was generally recognised that despite our repeatedly declared opposition to the policy of apartheid in South Africa, the right course was to abstain from voting on either this or other resolutions which purported to commit the United Nations Organisation to action which it could not carry out. There was considerable support for the view that there might be advantage in giving further consideration to the general policy which the Government should adopt on resolutions of such a nature in the United Nations and to the assumption by United Nations bodies such as the Committee of Twenty-Four of rights which they did not possess under the Charter.

The Commonwealth Secretary said that there had been no substantial change in the position in Nigeria since he had last reported it to the Cabinet. The Constitutional Council had adjourned and though it was due to meet again that day there was little possibility that the Eastern Region would be represented. There was reason to hope that a general breakdown of the Federation during the course of the next few weeks might be avoided and consideration was being given to the possibility of a mission of Commonwealth representatives which might help to bridge the present gap between the Northern and Eastern Regions. This and other aspects of the situation would be considered the following day by the Defence and Oversea Policy Committee. Meanwhile, it was satisfactory that United Kingdom nationals did not appear to be in any danger.

The Cabinet—

Took note of the statements by the Foreign Secretary and the Commonwealth Secretary.

5. The Cabinet considered a joint memorandum by the Minister of Technology and the Postmaster-General (C (66) 145) on the future procurement policy of the Post Office in relation to the telecommunications industry.

The Postmaster-General said that the supply of subscribers' telephone apparatus was at present regulated by a Bulk Supply Agreement (BSA) under which five major firms were guaranteed orders for 75 per cent of the apparatus required. This would expire in March 1968 and it had already been announced that it would not be renewed. It was now necessary to make an announcement about the arrangements which would apply following the termination of the Agreement in order that the industry might have adequate time to make preparations. It was common ground between himself and the Minister of Technology that as from March 1968 a system of open competitive tendering should be introduced; but there was a division of view about the longer-term arrangements. The Minister of Technology proposed that there should be a joint production unit, comprising the Post Office and the five main firms, which would
become the sole supplier. If this proposal were adopted, it would be essential in any announcement of future arrangements to make it clear to the industry that competitive tendering was only an interim policy. Any such announcement would cause confusion in the industry and the benefits of competitive tendering would not in fact materialise. The industry was not basically inefficient and the decline in its share of world exports was primarily due to the monopoly conditions created by the BSA. The solution proposed by the Minister of Technology would enhance the present monopolistic tendencies and fail to promote the industry's ability to compete in international markets.

If the joint production unit proposed by the Minister of Technology were to be merely a holding company, there would be no gain to industrial efficiency. If on the other hand it involved the creation of a single large production unit, this would call for heavy capital investment, would remove competition, and would have unfortunate consequences for the development areas where existing factories might be closed. The analogy between the solution proposed by the Minister of Technology and the system in Sweden and the United States was misleading since in both those countries there was effective competition between a number of organisations. A further objection was that it would separate the production of subscribers' telephone apparatus from the rest of the telecommunications industry, which was technologically undesirable.

If competitive tendering were introduced from March 1968 this would not be incompatible with the establishment in due course of a consortium for exports only. It would also be desirable to strengthen arrangements for joint facilities with the industry for research and development and to hold discussions with the Industrial Reorganisation Corporation (IRC) on the future structure of the industry.

The Minister of Technology said that this was the first major issue of Government procurement policy which fell to be decided since it had been agreed to make increased use of procurement as an instrument for raising industrial efficiency. It would have been preferable to consider the matter against the background of the report on public sector procurement policy which would shortly be available, but this was not possible since the prospective termination of the BSA and the fact that the new Deputy Chairman of the Post Office Board (whose previous firm was involved) would shortly be taking up duty made an immediate announcement necessary. The proposal for a joint production unit for the supply of subscribers' apparatus had been under study for some time; and the change in the status of the Post Office about 1968 would facilitate the introduction of a radical industrial change at the same time. The figures of exports for the first half of 1966 showed that we were losing ground rapidly to the Swedes and Germans: a basic cause was the separation of the Post Office, as the major customer, from the industry. A joint production unit would enable the industry to work
more effectively with the Post Office in defining requirements, would secure the maximum integration of the expertise of the Post Office in marketing, design and production and that of the manufacturers and would thus lead to a scale of production comparable with that of major United States firms. The real element of competition arose from foreign firms generally rather than competitive tendering in the United Kingdom. If however we were to go no further than the introduction of competitive tendering, the method proposed for this would not eliminate the smaller and less efficient manufacturers and would thus weaken the competitive ability of the industry. The announcement on future policy should therefore be in terms which would permit the Government to establish a joint production unit in due course if further examination, in the first instance by officials, should substantiate its advantages.

In discussion, it was questioned whether the structural changes that were desirable in the industry would be secured simply by ending the BSA and introducing open tendering. There was no assurance that the latter would lead to more effective competition; indeed it might rather accelerate the emergence of a strong private monopoly. In these circumstances, it would accord with the Government’s general policy to introduce an element of public ownership into the industry by establishing a joint production unit. This would enable the Government to keep an effective check on costs, prices and industrial efficiency.

On the other hand, it was argued that a decision ought not to be taken on the establishment of a joint production unit without much further examination of its implications and against the background of the forthcoming report on procurement policy in the public sector. If an announcement were made now foreshadowing this solution, a considerable time would inevitably elapse before a joint production unit could be established, and this would lead to a prolonged period of confusion and uncertainty in the industry. While a single consortium with Post Office participation might possibly be the solution in the long run, it was not immediately practicable and a change to competitive tendering, coupled with the use of procurement policy to secure rationalisation of the industry, would in any event be the best initial step. It seemed improbable moreover that competitive tendering would lead to the emergence of a private monopoly in this field since it was only a small part of the activities of the very large firms in question.

The Prime Minister, summing up the discussion, said that an early announcement was necessary and on balance the Cabinet took the view that it would be premature to decide now on the establishment of a joint production unit. The Postmaster-General should therefore announce the introduction of competitive tendering as from March 1968 on the lines proposed in paragraph 4 of the memorandum. There was general agreement, however, that such a step might of itself be inadequate to secure the necessary improvement in the industry’s competitive ability. There should therefore be further study of the need for changes in the structure of
the industry, leading to early discussions with the IRC. Further consideration should also be given to the possibility of an industrial consortium for exports.

The Cabinet—

(1) Invited the Postmaster-General to make an immediate announcement, on the lines indicated in paragraph 4 of C (66) 145, that a system of competitive tendering would be introduced following the expiry in March 1968 of the Bulk Supply Agreement for the supply of subscribers' telephone apparatus.

(2) Invited the First Secretary of State, in consultation with the Minister of Technology and the Postmaster-General, to arrange for further study of the need for changes in the structure of the telecommunications industry, including the possibility of establishing a consortium for exports, and for early discussion of these questions with the Industrial Reorganisation Corporation.

CONFIDENTIAL

6. The Secretary of State for Wales said that he had little to add to the public statements which had been made earlier in the week by the Prime Minister and himself. The latest figures for casualties were that 145 bodies had been recovered (of which 114 were children) and 141 identified. There was reason for concern at the uncertainty about the number of those who might still be missing: a figure of 50 had been widely mentioned, but a more realistic figure might be of the order of 10. It seemed unlikely that in such a small community the number both of children and of occupants of individual houses would not be well known: two or three passers-by might also have been killed, but hardly more. It was possible that some bodies on the site might never be recovered.

To sit under the chairmanship of Lord Justice Edmund Davies he had appointed as additional members of the Tribunal Mr. Harold Harding, an eminent consulting engineer, and Mr. Vernon Lawrence, a former Clerk of the Monmouth County Council. Lord Justice Davies was pursuing the enquiry urgently and hoped to hold a preliminary hearing of evidence in about a fortnight. The full enquiry would necessarily take some considerable time and an interim report would be made if the Tribunal considered that this would be of value. Under the legal aid procedure the bereaved families did not qualify for legal aid for representation before the Tribunal. It was clearly important that they should be properly represented. In these circumstances means should be found of providing the cost, under the legal aid procedure, of a single team of lawyers to represent all those families who wish to take advantage of this course, though it would naturally be open to anyone who wished to arrange separate representation.
The Aberfan colliery was not at present working and the miners were employed by the National Coal Board on stabilising the tip. Normal work would not start again in the colliery until after the Board had consulted both the Minister of Power and himself.

In discussion there was full agreement that provision for legal aid should be made on the lines proposed by the Secretary of State. Concern was, however, expressed at two aspects of the enquiry:

(a) The timetable gave cause for anxiety. The delay in taking evidence from those immediately concerned would inevitably involve the risk that the memory of precisely what had happened would by then be blurred. Equally important, there would be grave public concern that the causes of such a disaster, and therefore any consideration of action which should be taken to avoid a repetition elsewhere, would be so long delayed. It was recognised that the procedure which had been followed in earlier Tribunals necessarily involved considerable delay, since it required the taking of evidence by the Treasury Solicitor before a case could be presented to the Tribunal. It was, however, urged that the issues of the present instance differed radically from those in earlier Tribunals, owing to the wholly different nature of the event. There was general agreement that the procedure should be considered by the Ministers immediately concerned with a view to a much shorter timetable both for the initiation and for the completion of the enquiry.

(b) Concern was also expressed at the extent to which interviews were still being carried out on television with people at Aberfan who might be witnesses before the Tribunal. This was highly prejudicial to the conduct of the enquiry. There was agreement that the Postmaster-General should be invited to make representations to the television companies concerned and that the Attorney-General should make a statement in the House of Commons deploring the practice.

In further discussion concern was expressed about the action which was being taken in respect of some other dangerous tips where, for example, children were being kept away from school because of their parents' fears of a similar disaster. It was suggested that in these particular instances there would be advantage if the engineers of the National Coal Board who were inspecting the tips were joined by a representative of the Chief Inspector of Mines and perhaps by some outside engineers.

The Cabinet—

(1) Invited the Secretary of State for Wales, in consultation with the Chancellor of the Exchequer and the Attorney-General, to make arrangements for the provision of legal aid to bereaved families who wished to be represented on a collective basis at the Tribunal.

(2) Invited the Attorney-General, in consultation with the Chancellor of the Exchequer, the Lord Chancellor and the Secretary of State for Wales, to consider what steps could be taken to ensure that hearings by the Tribunal were opened and its report completed at the earliest possible date.
(3) Invited the Postmaster-General, in consultation with the Attorney-General, to bring to the notice of television companies concerned the undesirability of televising interviews with persons who might be witnesses before the Tribunal, since this was highly prejudicial to the enquiry.

(4) Invited the Attorney-General, in the light of the action taken under Conclusion (3) and in consultation with the Secretary of State for Wales, to make a statement in the House of Commons on the undesirability of such interviews.

(5) Invited the Minister of Power, in consultation with the Secretary of State for Wales, to consider in the light of the discussion the arrangements for the inspection of particularly dangerous tips similar to that which had caused the disaster at Aberfan.

Cabinet Office, S.W.1,
27th October, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 1st November, 1966, at 11 a.m.

Present:

The Right Hon. HAROLD WILSON, M P, Prime Minister
The Right Hon. GEORGE BROWN, M P, Secretary of State for Foreign Affairs
The Right Hon. JAMES CALLAGHAN, M P, Chancellor of the Exchequer
The Right Hon. HERBERT BOWDEN, M P, Secretary of State for Commonwealth Affairs
The Right Hon. DENIS HEALEY, M P, Secretary of State for Defence
The Right Hon. WILLIAM ROSS, M P, Secretary of State for Scotland (Item 2)
The Right Hon. DOUGLAS JAY, M P, President of the Board of Trade
The Right Hon. ANTHONY CROSLAND, M P, Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEART, M P, Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWYN HUGHES, M P, Secretary of State for Wales
The Right Hon. ANTHONY WEDGWOOD BENN, M P, Minister of Technology

Also present:
The Right Hon. JOHN SILKIN, M P, Parliamentary Secretary, Treasury

Secretariat:
SIR BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. D. S. LASKEY

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1. The Chancellor of the Exchequer said that the Cabinet would wish to know that, in agreement with the Ministers principally concerned with economic affairs, he had authorised a statement concerning a slight easement of the current restrictions on credit to be made at noon by the Governor of the Bank of England. The figures of bank advances for October, at 101 1/4 per cent of their level at the base date of March 1965 were well within the permitted limit of 105 per cent. The Bank of England was now satisfied, though the clearing banks were still inclined to be cautious about this, that the latter had sufficient funds to meet calls on them for priority categories of borrowing (exports and productive investment in industry and agriculture) and also for bridging finance for the sale and purchase of houses, especially in connection with the redeployment of labour. The statement would say this; and would thus encourage borrowers in the priority categories who needed credit but were not asking for it, whether from fear of refusal or of excessive deflation, to approach the clearing banks. This was not a measure of reflation, but a limited step aimed at avoiding an excessive degree of deflation, and it was important that in any public reference to it Ministers should give it that emphasis. It was not possible for the time being to go further.

The Cabinet—

Took note, with approval, of the statement by the Chancellor of the Exchequer.

2. The Prime Minister said that, as the Cabinet were aware, the Ministers primarily concerned had discussed at Chequers on Saturday, 22nd October, our future relationship with Europe. The discussion had been held for the purpose of clarifying the problems; and it had been made clear that decisions could only be taken through the Cabinet machinery. It might be convenient to the Cabinet if he began by summarising the Chequers discussion.

This had been in two parts. During the morning session Ministers had considered with senior officials and with expert advisers the effects which joining the European Economic Community (EEC) might have upon the United Kingdom. The main points of the morning's discussion had been as follows:

(a) Perhaps the major danger arose from the provisions of the Treaty of Rome regarding freedom of movements of capital. A requirement to dismantle our foreign exchange controls would endanger our balance of payments in the early years of membership, and we should need to secure adjustments, which we might well do, to safeguard our position, particularly in respect of portfolio investment; in respect of direct investment there might be rather less need for protection.
(b) The second problem was that of agricultural policy. The Community's present policy and price structure might well in the aggregate prove profitable to United Kingdom agriculture, but at the expense of unbalancing its production, e.g., as between cereals and dairying, with consequential effects on the farmers concerned. Other effects upon us of the common agricultural policy might be to increase our balance of payments burden by some £175-£250 million; to damage our trade with the Commonwealth, and to increase the cost of living and so wages and export costs.

(c) The effects of membership on our competitive ability, however, were thought to be less serious; we should gain from the abolition of tariffs in Europe and still more from the resulting very large market and economies of scale. These advantages might, however, be partially offset by changes in other markets, such as those in Commonwealth countries from whom we should no longer be free to take so much of our food.

(d) Membership of the Community would affect our ability to control our own economy; concern had been chiefly expressed lest we should be inhibited from using our industrial development certificates (i.d.c.s.) to foster diversification in development areas. Within the Community, we might still prevent our industrialists from setting up businesses outside the development areas; but we could not stop them from doing so on the Continent. Against this, we might use the i.d.c.s. to bring American and European enterprises who wished to invest in the United Kingdom to do so in the development areas.

(e) The constitutional, legal and political effects of membership had also been examined; and especially the anxieties which had been expressed about majority voting, about decisions reached in Brussels having direct legal effect in the United Kingdom and about the powers of the Commission not only to enforce unpopular decisions, but also to delay action which we might wish to take. Expert advice had been that whilst such provisions were indeed a feature of the Treaty of Rome, they were not in practice applied rigidly, no major member country having yet been overridden on a point it regarded as fundamental. It seemed that this flexibility in practice, reinforced as it had been by General de Gaulle's attacks on supranationalism in the EEC, would enable us to join without undue anxiety or risk of being overridden. On that basis Ministers had been advised that it would be unnecessary to seek to have the Treaty of Rome amended before we joined the EEC and such a proposal would in any event be rejected by the Six.

(f) The Chequers discussion seemed to have established that there need now be little fear lest membership of the Community would inhibit the independence of our foreign policy. There were no provisions in the Treaty of Rome to that effect, and it was quite clear that General de Gaulle had been free to follow a policy of his own choosing. There was no reason to think, therefore, that we could not do the same.
(g) It had not been possible to reach a conclusion whether General de Gaulle would be prepared once again to impose a veto upon our joining the EEC; or to insist upon our first jettisoning our special relationships, whether in the Atlantic area or in the rest of the world.

In the afternoon session Ministers had met without advisers, as the Ministerial Committee on Europe. They had addressed themselves primarily though not exclusively to the paper by the Foreign Secretary and the First Secretary of State (E (66) 11) which had been circulated to all Cabinet Ministers together with all the other studies which had been considered at Chequers. In this paper the two Ministers had pointed out that the exploratory discussions which they and the Chancellor of the Duchy of Lancaster had been conducting with European countries during 1966 had been taken as far as their current authority allowed. In their view it was not possible to rest upon these discussions for two reasons. First, to do so would indicate a loss of interest in Europe on our part, whether permanent or temporary, which would discourage our partners in the European Free Trade Association (EFTA) and our friends in the EEC. Second, it had not been possible in the discussions to ascertain with the necessary authority and precision, what kind of terms we might hope to get in a negotiation for membership in the areas of broad difficulty for us, because we ourselves had not been in a position to say that in return we could accept the Treaty of Rome if means were found within it of meeting our particular difficulties—not to indicate in specific terms what means of doing so we wished to secure. The two Ministers had, therefore, recommended that exploratory discussions should be continued, but upon the basis of a public declaration of our willingness to accept the Treaty of Rome provided that means could be found of meeting our difficulties, so that in return we might reasonably insist on being told what conditions of membership we might expect to be able to negotiate.

This theme had served as a focal point of Ministerial discussion, both in regard to the balance of advantage or disadvantage we might expect from membership of the Community, and in regard to the next steps we should take; and upon these points discussion had revealed a variety of views to which he himself had contributed in the course of summarising the discussion, and which he now wished to recapitulate for the information of the Cabinet.

First, as regards the balance of advantage of membership of the Community, in his view the arguments based on the advantages of scale to be derived from membership of a much larger market, were of greater weight than those related to the “cold douche” of competition to be expected in those circumstances. It was unfortunate that the arguments of scale had not been considered five years ago in relation to possible economic arrangements on a North Atlantic basis, though there must be considerable doubt whether the United States would be willing to forsake her protectionist policy sufficiently to make such arrangements possible. Nevertheless it was
necessary to face the fact that the arguments of scale had not been so considered and that there had been a very large development of support for the European alternative. There could be no doubt that United Kingdom industry was overwhelmingly convinced of the advantages to them of membership of the Common Market, and that moves in that direction would probably be the greatest incentive to the renewal and expansion of investment which we so much required at the present time.

Against that background the afternoon's discussion had confirmed that of the morning in suggesting that our major anxieties in seeking membership of the Community would be in respect of freedom of capital movements and of the common agricultural policy, including the internal effects in the United Kingdom and the interests of our Commonwealth suppliers. As regards the latter, some emphasis had been placed on the argument that the next few years would see a rising trend in world food prices, one effect of which would be increasingly to narrow the gap between the prices of the EEC and those of the United Kingdom. As regards the former it had been suggested that it might be possible in connection with discussions aimed at United Kingdom membership of the Community for us to negotiate, whether in the Group of Ten or elsewhere, arrangements for neutralising the sterling balances. If, as part of the arrangements for joining the Community, we could allay the anxieties arising from the sterling balances, much of our concern about entry would be assuaged. Experience suggested that our international financial obligations placed greater constraint on our economic and political independence than would the Treaty of Rome. His personal conclusion from the discussion had, therefore, been that we should accept the recommendation of the Foreign Secretary and the First Secretary of State to go forward and explore further what conditions of membership of the Community we might be able to negotiate on areas of special difficulty.

He had not, however, been attracted by the proposal that these new explorations should be based upon a declaration of intent to accept the Treaty of Rome provided that our difficulties could reasonably be met under it. Such a declaration without conditions was too dangerous; but on the other hand if it were accompanied by sufficient conditions, there would be no change from the declared position of the Government. He had therefore proposed that he and the Foreign Secretary should over the next two or three months visit the Heads of Government of the Six to ascertain what the conditions and timing of United Kingdom entry to the Community might be; and that if asked about our acceptance of the Treaty of Rome we should say that given satisfaction on the major points of capital movements and the common agricultural policy we should be prepared to sign the Treaty. As a corollary of this proposition, he had suggested first, what indeed had been widely accepted in the meeting, that it was essential that our entry should be made from a position of economic strength and that our next steps must be timed accordingly; and second, that pending negotiations for entry, we should study and explore the possibilities of creating an alternative
position should our negotiations fail. Such a position might be either on the lines of Senator Javits' plan for closer economic arrangements between the United States, Australia, Canada, New Zealand, and perhaps Japan as well as ourselves, or of a strengthening by some means of our present position as the centre of EFTA and of the sterling area.

Some Ministers had expressed doubts whether it would be advisable for the Foreign Secretary and himself to make a series of joint visits to the capitals of the member countries of the EEC. Such visits would, however, reduce to a minimum the possibilities of misrepresentation at home and abroad of the Government's position. No conclusions had of course been reached at Chequers on the proposal, which was now for discussion by the Cabinet.

_The Foreign Secretary_ said that the process of investigation which he and the Chancellor of the Duchy of Lancaster had been authorised to undertake had ended in July. The lack of any further move by the United Kingdom Government since then was already creating doubt about our intentions among our friends in the EEC and was also affecting our position in the Group of Fourteen Powers in the North Atlantic Treaty Organisation. If the process of investigation were to be resumed it must be on a more meaningful basis. In the past we had not been in a position to answer specific questions put to us by members of the EEC and had therefore been unable to take up suggestions made by the Belgian and German Governments for detailed discussions about our requirements. In the circumstances his own preference would have been for a declaration of intent on signing the Treaty of Rome but he agreed that we should now move forward on the lines proposed by the Prime Minister. In the renewed discussions with the Governments of the EEC we should make it clear that the Treaty of Rome created no obstacle for us, provided that satisfactory solutions could be found for the two key issues, capital movements and agriculture. We should be able to negotiate transitional periods and need not in his view rule out the possibility of getting agreement for adaptations of the arrangements made in the Community under the Rome Treaty. The Five would be anxious to help and he had been assured by the Dutch Foreign Minister that the Five would be ready to take a firm line with the French. The French were discouraging the idea of further discussions and might well be anxious not to find themselves in opposition to the Five about our entry. France could not afford to withdraw from the EEC and she might therefore no longer be able to veto our membership. As regards the timetable we should know by about the middle of 1967 what arrangements the members of the EEC would be prepared to make and we should therefore be in a position to judge whether our requirements could be met. The formal negotiations and the necessary legislative steps would then take a considerable time and our entry into the Community would not be before 1968 or 1969. There would be advantage in a shorter rather than a longer timetable, but this should be compatible with
the need to strengthen our economy and to protect sterling. It was not simply a question of the United Kingdom joining the Six. If we did so Denmark, Ireland and Norway, and possibly Sweden and Austria, would join with us. The Community would be transformed and there would be profound effects on the voting position. We might hope that on many key issues, such as agricultural prices, we should have the support not only of the members of EFTA who would join the Community with us, but also of some of the Five. The sooner we could achieve this position the sooner we should be able to prevent the adoption by the EEC of further arrangements under the Treaty of Rome which would be contrary to our interests.

In discussion there was general agreement on the need for the Government to demonstrate the sincerity of our desire to join the EEC if our requirements could be met. To defer action, in order to give time for the strengthening of our economy, would be widely assumed to mean that we had lost interest in joining; our friends in the EEC would be profoundly discouraged and the cohesion of EFTA would be at risk. The effect on our own economy, particularly on business confidence in the United Kingdom and therefore on the critically important level of investment, could also be serious. One form which a move forward might take would, as had been proposed, be an immediate declaration of intent to sign the Treaty of Rome. It was, however, generally felt that this would unduly weaken our bargaining position in relation to the EEC and our ability to secure the conditions which we should require. It might also create the impression that our entry was imminent and would take place while we were still in a position of economic weakness. This would be likely to bring sterling under heavy pressure in anticipation of our entry. A forward move must not therefore appear to commit us to joining the EEC before we had taken the necessary steps to strengthen our economy.

Considerable doubt was, however, expressed about the advisability of early visits by the Prime Minister and the Foreign Secretary to the capitals of the Six for discussions with Heads of Government as a means of demonstrating our readiness to join the EEC if suitable conditions could be negotiated. Even the order and timetable for visits would present serious difficulty. The current political weakness of the present Federal German Government—indeed, even the uncertainty about its prospect of survival—would make it inopportune for the first visit to be paid to Bonn. Nor could the first visit well be made to Rome, since the Italian Government had made clear their dislike of separate bilateral discussions on these issues. It would clearly be unsuitable, on the other hand, for the first visit to be made to one of the smaller members of the EEC. Yet in view of the discouraging attitude of the French Government—as well as the considerable possibility that in the upshot General de Gaulle might once again veto our entry—it would clearly be wrong for the first visit to be made to Paris. In any event, some Ministers felt that such visits, even if they were ultimately necessary, would be disadvantageous for some time. The task in the immediate future was to regain our economic strength,
whether as a precursor to joining the EEC or to enable us to maintain an independent position. In either event we needed both to reduce our foreign commitments and hence our expenditure on defence and to carry through successfully the Government's policy on prices and incomes. Moreover, it might be damaging to the prospect of success of the Kennedy Round of tariff negotiations if we were to make any further significant move on discussions with the members of the EEC until after the tariff negotiations had been completed. Since for all these reasons we could not afford to make an early move to join the EEC, we must avoid any action which might create the impression that such a move was in prospect. Furthermore, it seemed probable that in the last resort President de Gaulle would maintain the French veto on our entry into the Communities and we could not afford to take action which would lay us open to such a rebuff. It was therefore argued that on the basis of these considerations the Government should go no further than to maintain their present policy of indicating willingness to join the EEC if suitable conditions could be negotiated. It was urged that this course could be expressed in terms which should be adequate to avoid any suggestion that they had in practice resiled from their policy.

Other Ministers however considered that we could not hope to maintain this position and that it was essential to give an early indication that the Government were prepared to take more active measures to ascertain the conditions on which we might hope to join the EEC. It was argued that while we might not be sufficiently strong economically to enable us to join for another two years, the inevitable process of negotiation would in any event last beyond that time, quite apart from the lengthy transitional provisions which we should expect to negotiate to mitigate the immediate impact on our economy. Furthermore, our economic strength relative both to a number of other European countries and indeed to the United States might be substantially greater in a further 12 months. These considerations argued in favour of the considerably earlier initiation of discussions as a prelude to later negotiations and it was urged that discussions between officials of the Governments concerned could not be expected to be fruitful at the next stage unless they were preceded by a broad indication of political support which could only be obtained from Heads of Government. On this view a visit by the Prime Minister and Foreign Secretary at a relatively early stage might prove to be the best means of the Government being able to take effective steps to ascertain what transitional provisions and what adaptation of the arrangements made under the Treaty of Rome we might hope to obtain in formal negotiations.

In further discussion the view was expressed that in any event it would be desirable to have prior discussions with our partners in EFTA before making any renewed approach to the members of the EEC. It was arguable whether EFTA might break up if we did not give an early indication of our intention to hold detailed discussions on the prospect of joining the EEC, and some
apprehension had recently been shown by our EFTA partners that we might ignore their interests in these discussions. There was, nevertheless, a mounting impatience among them at the lack of any more definitive action on our part. A collective negotiation between EFTA on the one hand and the EEC on the other would not be practicable, but there was considerable evidence that at least a majority of our partners in EFTA would welcome a lead by the United Kingdom Government in negotiations with the members of the EEC. In considering our future position it was important to bear in mind the extent to which the entry not only of ourselves but also of some of our EFTA partners would substantially alter the nature of the Community and lead to changes in its policies in those respects which might appear to cause particular difficulty for our interests at the present time. It was suggested that in these circumstances, the best course might be to seek to hold a meeting of the Heads of Governments of the EFTA countries before the end of the year specifically in order to discuss an approach by the United Kingdom Government to the members of the EEC. Such a meeting was both desirable for its own sake and a means of indicating the Government’s intention of taking more active measures to pursue its willingness to join the EEC on appropriate conditions, without incurring the risks which might be entailed by very early visits to European capitals by the Prime Minister and Foreign Secretary. In the light of such an EFTA meeting, further consideration could be given both to the desirability of such visits in the early part of 1967 and to possible alternative means of achieving the same objective.

The Cabinet—

Agreed to resume their discussions at the next meeting.

Cabinet Office, S.W.1,
1st November, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 3rd November, 1966, at 10.15 a.m.

Present:
The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. Michael Stewart, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. Lord Gardiner, Lord Chancellor
The Right Hon. George Brown, M.P., Secretary of State for Foreign Affairs
The Right Hon. Lord Jenkins, M.P., Secretary for Defence
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Herbert Bowden, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. Herbert Bowden, M.P., Secretary of State for the Colonies
The Right Hon. Denis Healey, M.P., Secretary of State for the Home Department
The Right Hon. Douglas Jay, M.P., President of the Board of Trade
The Right Hon. William Ross, M.P., Secretary of State for Scotland
The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science
The Right Hon. J. R. Gunter, M.P., Minister of Labour
The Right Hon. Douglas Jay, M.P., Secretary of State for the Colonies
The Right Hon. Anthony Crossland, M.P., Secretary of State for Wales
The Right Hon. Barbara Castle, M.P., Minister of Transport
The Right Hon. Anthony Wedgwood Benn, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Frederick Lee, M.P., Secretary of State for the Colonies

The following were also present:
The Right Hon. George Thomson, M.P., Chancellor of the Duchy of Lancaster (item 4)
The Right Hon. John Silkin, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
Mr. D. S. Laskey
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1. The Cabinet were informed of the business to be taken in the House of Commons in the following week.

2. The Commonwealth Secretary said that the situation on the Copper Belt in Zambia was still tense and there were fears that the recent riots might be renewed. There could be little doubt that the situation had been considerably exacerbated by the references to racism in a recent speech of President Kaunda, followed by the action of the Zambian Government in ordering the deportation of 25 Europeans. The representations we had made to the Zambian Government about the deportation of those of the 25 who were United Kingdom citizens had necessarily been in general terms, since we had not available (and the Zambian Government had refused to provide) particulars of the citizenship of the persons concerned. One hopeful development was that the fire at the petrol dump at Kitwe which had been the original occasion of the rioting, and which had been thought to be the result of sabotage, had now been publicly declared to be purely accidental. President Kaunda was due to make a further public speech before he left for the meeting the following week in Addis Ababa of the Organisation of African Unity and it was hoped that on this occasion he might help to calm the situation.

The Foreign Secretary informed the Cabinet that, notwithstanding the current uncertainty about the position of the present Federal German Government, he intended to fulfil his engagement to visit Bonn in the latter part of the week in order that we should not appear to be losing any opportunity to improve international relations at the present juncture.

The Cabinet—

Took note of the statements by the Foreign and Commonwealth Secretaries.

3. The Prime Minister recalled that the Cabinet had at their meeting on 22nd September invited the Lord President of the Council to consider how the Government's information services could best be co-ordinated. The Lord President had now completed his enquiries. These had shown that there was a clear need for better co-ordination. It would however be undesirable to create anything in the nature of a Minister or a Ministry of Information. What was required was mechanism to ensure that all Ministers were adequately informed about decisions on policy which their colleagues intended to announce; that the order and timing of the announcement
should be properly co-ordinated; and that Ministers should receive appropriate guidance on what they should say in public if they made speeches or answered questions about the policies of the Government as a whole. The latter was particularly important for Ministers of State and Parliamentary Secretaries. This co-ordination had to be carried out both at the Ministerial and at the official level. The Lord President would be responsible for Ministerial co-ordination, though he would not himself have direct contact with the Press, other than through his regular meetings with the Lobby. It would, however, be necessary to ensure that he was adequately informed of all forthcoming announcements of policy, to enable him to comment on their timing and presentation and that he was in a position to provide members of the Government at short notice with authoritative briefs on the main announcements of policy on which they might have to offer public comment. It was also necessary to enable him to make arrangements to keep in touch with what was being said on political issues on television, so that criticisms could, if necessary, be immediately countered by Ministers. An additional appointment would be made to his staff to enable him to carry out these functions. At the official level a similar exchange of information should be carried out between the Press Office at 10, Downing Street and departmental information offices and an additional appointment would be made to the staff at No. 10 for this purpose.

These arrangements could be carried out more effectively if certain adjustments were made in the Government's conduct of business in other respects. In particular it should be a standing instruction to all relevant Committees to consider, at the end of each meeting, what arrangements were necessary to provide publicity for any of their decisions which it was intended to announce publicly. When they had agreed on the appropriate presentation, this should be indicated to the Lord President, so that he might then consider how far it need be more widely disseminated. Individual Ministers taking departmental decisions that would also involve publicity should follow the same procedure. It would also be necessary to improve the arrangements for interdepartmental consultation on the presentation of departmental advertisements. There should also be a central point of reference for the consideration of invitations issued to individual Ministers to appear at short notice on television, to ensure a consistent line of response.

These arrangements would not interfere with the existing practice whereby some Departments exercised a degree of interdepartmental co-ordination of publicity, such as that exercised by the Department of Economic Affairs in relation to publicity for decisions of economic policy, nor would they affect existing arrangements for the projection of our foreign policies. If the Cabinet welcomed these proposals in principle, he would circulate a paper.

In discussion there was a general welcome for these proposals, which left the individual responsibility of Ministers unimpaired but
would improve the co-ordination of the public presentation of the Government’s policies. It was also suggested that in considering briefs for Ministers making public speeches outside London, it would be important to arrange for them to cover regional developments on which the Ministers might be asked questions or be expected to comment.

The Cabinet—

Took note, with approval, that the Prime Minister would circulate a paper setting out the detailed proposals which were envisaged for the co-ordination of the Government’s home information services, on the lines indicated in his statement.

4. The Cabinet resumed their discussion on Europe. They had before them a memorandum by the Foreign Secretary (C (66) 146) on the action which might be taken in the light of their preceding discussion.

The Foreign Secretary recalled that at their previous discussion the Cabinet had accepted that there was a need for the Government to demonstrate the sincerity of our desire to join the European Economic Community (EEC) if our requirements could be met. We could not merely defer action, since this would undoubtedly be widely understood to mean that we were not serious in our intentions and hence would lead to a number of developments which might be gravely harmful to our interests. The problem at issue was how to obtain from the Governments of the EEC an indication of the way in which our special difficulties could be met if we decided to apply for membership of the Community. Until we had such indications, we could not decide whether or not to apply: but we could not embark on the necessary investigation of them unless the Governments of the EEC could be made to realise that we were in earnest. To this end three main proposals had been discussed. These were:

(i) A meeting of the Heads of Government of our partners in the European Free Trade Association (EFTA).

(ii) Early visits to the capitals of the Six by the Prime Minister and himself.

(iii) A declaration that the Government were prepared to accept the Treaty of Rome, subject to receiving satisfaction on the points on which we saw difficulty.

If any of these courses were adopted it would be followed by and be inseparable from:

(iv) The investigations which we needed to undertake in greater depth and which would respond to invitations which we had had (but not taken up) from some of the Five.
Any of these major steps could only be taken after we had carefully considered what action would be appropriate to ensure that our obligations to our EFTA and Commonwealth partners were met. A meeting of the Heads of Government of EFTA had however serious disadvantages which outweighed the single advantage that it would gain us further time to strengthen our economy. One reason why our leadership was implicitly accepted in EFTA, in so far as relations with the EEC were concerned, was that we were in a median position between those who wished to move faster towards joining the Community and those who were more reticent in this respect than we were. In these circumstances an EFTA meeting of the kind proposed could not be expected to result in our receiving agreed advice from our partners or in any consensus on the action to be taken. It would, however, be likely to produce pressure upon us for additional commitments within the framework of EFTA, or for some kind of joint negotiation between EFTA and the EEC which we knew to be unacceptable to the latter. The sole result of the meeting might therefore be seriously to complicate our own eventual position in negotiations, while still not appearing to opinion both here and in Europe as the kind of decisive step forward that was now required. It would be sufficient in the light of the recent meeting of EFTA in Lisbon that we should notify the Governments concerned, rather than consult them, on any move which we might now make. The same considerations would apply to other members of the Commonwealth.

In these circumstances, his own preference was for Course (ii), i.e., visits by the Prime Minister and himself to the capitals of the Six. If, however, the Cabinet took the view that such a tour might appear too dramatic or presented insurmountable difficulties because of the political situations in Germany and Holland, then the Government should adopt Course (iii) and make a declaration in respect of the Treaty of Rome, followed by the necessary investigations under (iv).

In discussion it was agreed that the two immediate questions before the Cabinet were whether we should make no further move on the issue of joining the EEC until our economic position was stronger or, if some forward move were agreed to be necessary, what form it should take and what the timing should be. While there was general agreement that our attitude could not be negative, differing views were expressed on the second question.

Some Ministers felt that either of the courses mentioned in the Foreign Secretary’s memorandum, i.e., early visits to the capitals of the Six by the Prime Minister and Foreign Secretary or a declaration that the United Kingdom Government were prepared to accept the Treaty of Rome subject to receiving satisfaction on points on which we saw difficulty, would be premature at this stage. Discussion at Chequers had shown the dangers of joining the EEC while our economic position was weak and, even more, if it appeared that our economic weakness was the reason for our seeking membership. While capital movements and agriculture were the main areas of
difficulty for us, we should need to be satisfied on other points, such as our ability to manage our own economy, including our regional policy, and the power of the European Commission to make regulations having direct legal effect in the United Kingdom. Visits by the Prime Minister and Foreign Secretary could lead us into premature negotiations and if we were negotiating from a position of economic weakness we should be less likely to obtain our requirements, without which we could not afford to join the EEC. Moreover, we should risk a rebuff by the French which would be very damaging if the prestige of the Prime Minister and Foreign Secretary were personally engaged. The first step should therefore be to consult our EFTA partners. While collective negotiation between the EEC and EFTA might be impossible, our own negotiating position would be stronger if it were clear that we had the backing of EFTA. This course would give time for measures to strengthen our economy to take effect and would enable the Kennedy Round of tariff negotiations to be completed; a move by the United Kingdom towards the EEC might prejudice the success of these negotiations which were of great importance to us. A meeting of the EFTA Heads of Government, as had been proposed, would show that we did not wish to stand still on the issue of joining the EEC and would also demonstrate that it was a question not simply of the United Kingdom joining, but of forming a new and wider Community.

Other Ministers however felt that a meeting of EFTA Heads of Government would not by itself be sufficient to maintain the necessary momentum; it might on the contrary be regarded as only another device to defer a decision. While our economy was at present vulnerable, it was reasonable to expect that we should have regained our competitive position by the time we could in any event join the EEC. This was a period when the relationships between countries were particularly fluid and unsettled: and it offered the United Kingdom a unique opportunity to exercise leadership. If we failed to take it and appeared to retreat, the damage not only to our international position but also to our economy could be at least as serious as if we made a premature move to join the EEC. It would therefore be wrong to stand still and we should explore the readiness of the Six to meet our requirements on the points of difficulty for us. Our readiness to move forward would be demonstrated either by visits by the Prime Minister and Foreign Secretary or by a declaration about our readiness, subject to conditions, to accept the Treaty of Rome. Some support was expressed for the view that on balance the former offered the greater advantage. It would of course be clear that the Government would be entirely free thereafter to decline to join the EEC if the visits showed that we could not obtain reasonable conditions for doing so. On the other hand it was suggested that the former course would risk a French rebuff and would in any case bring up at once the question of our readiness to sign the Treaty of Rome and the conditions to which this would be subject: it might therefore be preferable to adopt the second course.
and to link this with discussions in greater depth with the Governments of the EEC. We need not be in any hurry to proceed to formal negotiations and it seemed unlikely that negotiations would in fact be possible at least until after the French elections in the spring. This course would not rule out visits by the Prime Minister and Foreign Secretary to the capitals of the Six at a later stage. It would be important to let it be known, at the same time as we made our forward move, that it would be our intention to join the EEC on terms which would not call in question either the strength of the economy or the value of sterling. Provided that this was made sufficiently clear, the effect on confidence in the forthcoming months could be helpful rather than the reverse. At the same time we should initiate studies of the alternative policies which we should pursue if we failed to obtain satisfactory conditions from the EEC and were therefore unable to join the Community.

In further discussion the Prime Minister said that after the Cabinet's wide-ranging discussion of our relationship with Europe, further consideration might conveniently be concentrated on the following proposals, which sought to take account of the differing points of view. There was substantial agreement that we could not maintain our present position; and that we needed to ascertain the conditions of membership we could hope to secure before we could decide whether to seek entry or not. This information could only be obtained at a higher level and on a different basis from previous discussions. Entry from weakness would be disastrous but to take no further action while we regained our strength might damage our recovery. An indication that we expected to join at a time of economic strength and under conditions which, apart from any safeguards we might secure, would make investment in the United Kingdom attractive to European and American investors, might well bring us a net inflow of capital even before entry, during our period of recovery.

As regards the argument that further moves towards Europe should await the outcome of the negotiations in the Kennedy Round, the proposed visits would afford a valuable opportunity to impress on the Six the importance of the success of those negotiations. The risk of a rebuff could not be decisive since this might at any stage be presented as inhibiting any further action. The purpose of the proposed visits would not be to seek entry, but to ascertain the likely conditions of entry. If these turned out to be unacceptable—or if we were rebuffed—this would constitute the strongest defence of our subsequent position. A declaration of intent in regard to the Treaty of Rome ran the risk of saying too much or too little. Any declaration which would be regarded by the Europeans as a worthwhile advance on our present position might unduly commit us; yet anything less might prove not significantly to alter the Government's present position. The arguments relating to a conference of EFTA Prime Ministers were conflicting.

With so many uncertainties it was imperative that the Government's freedom of choice must be preserved, both as to whether we were to join the Community, and when we were to do
so, until the necessary information was available. To obtain that information the following action might be taken:

(a) After consultations with the Governments of EFTA, a conference of their Prime Ministers in London should be called for early December, to consider the steps to be followed in further approaches to the EEC.

(b) There should be an announcement, probably at the same time as the announcement of the EFTA conference, re-affirming our willingness to enter the Community on appropriate terms, and stating that he and the Foreign Secretary would accordingly make a series of visits to the Heads of Government of the Six to make our requirements clear and to ascertain theirs.

(c) The January meeting of the Consultative Assembly at Strasbourg should be the occasion for him to make a full statement of the Government's attitude to Europe; the terms of the statement would need to be considered by the Cabinet.

(d) Thereafter he and the Foreign Secretary should carry out their visits both to explore conditions of membership and to press for a forthcoming attitude in the Kennedy Round. For the former purpose it would be necessary to have an agreed formula on our attitude to the Treaty of Rome, which would no doubt be on the basis of qualified acceptance.

(e) Urgent studies should be made by officials of both the "Javits" plan and also of the prospects of our continuing without any new form of association, both to strengthen our position in any subsequent negotiations, and to consider what it should be if they failed.

(f) We should decide the nature and timing of consultations with the Governments of the Commonwealth and of the United States in regard to our further moves towards Europe. Those consultations might in turn reveal further possible courses of action.

In the ensuing discussion it was urged that unless the proposed visits were announced at the same time as the conference of EFTA Prime Ministers, the announcement of the latter might be interpreted as an indication of our reluctance to seek further progress with the Six and might also constrict our own freedom of action subsequently. The advisability of the proposed visits in these circumstances might turn primarily on the terms of the statements we should have to make of the Government's policy and of the conditions on which we should be prepared to join the Community. The statements would have to indicate how far the Government would accept the Treaty of Rome, and what transitional provisions and adaptations of the arrangements made thereunder we should need, if we were to secure from the Governments of the Six authoritative indications of how
far they would meet our conditions. It would be possible for the statements to be considered further after the EFTA conference and again after the meeting of the Consultative Assembly at Strasbourg. It would be important to bear in mind that thereafter the statement on the details of the policy to be pursued during the discussions with the Governments of the Six, however informal these might be, would set the pattern for any subsequent formal negotiations.

The Prime Minister, summing up the latter part of the discussion, said that the Cabinet were on balance in agreement with the broad lines of the programme of action he had put forward but the statement of our policy which we should have to make required further detailed consideration. The Cabinet should therefore resume their discussion the following week upon the basis of a further paper by the Foreign Secretary, which should set out in detail the programme of action he himself had outlined and a draft statement of policy on the lines indicated in the discussion.

The Cabinet—
(1) Invited the Foreign Secretary to circulate a paper on the lines indicated in the Prime Minister's summing up of their discussion.
(2) Agreed to resume their discussion in the following week on the basis of the Foreign Secretary's paper.

Cabinet Office, S.W.1,
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Wednesday, 9th November, 1966, at 9.30 a.m.

Present:
The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. George Brown, M.P., Secretary of State for Foreign Affairs (Items 1 and 2)
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Herbert Bowden, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. William Ross, M.P., Secretary of State for Scotland
The Right Hon. Douglas Jay, M.P., President of the Board of Trade
The Right Hon. Anthony Crosland, M.P., Secretary of State for Education Science
The Right Hon. The Earl of Longford, Lord Privy Seal (Items 1 and 2)
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Cledwyn Hughes, M.P., Secretary of State for Wales
The Right Hon. Richard Marsh, M.P., Minister of Power

The following were also present:
The Right Hon. Edward Short, M.P., Postmaster-General (Item 3)
The Right Hon. John Silkin, M.P., Parliamentary Secretary, Treasury

Secretary:
Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
Mr. D. S. Laskey
Mr. R. T. Armstrong

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Rhodesia
(Previous Reference: CC (66) 51st Conclusions, Minute 4)

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1. The Commonwealth Secretary said that the reply from Mr. Smith, the head of the illegal regime in Rhodesia, to our statement of terms for a settlement had been received on 5th November. It was cleverly drafted to give the impression of a move in our direction, but gave no satisfactory answer to the most important points in our statement. It offered to extend the “B” Roll franchise to all Rhodesians over 30; but cross-voting would be abolished and the Africans would thus lose the influence they could exercise on the “A” Roll seats. It also offered to entrench the 15 “B” Roll seats, but this was a concession of no real value. There was a new proposal, which could be represented as giving effect to the sixth principle, for the creation of 15 reserved seats for Europeans. One of these would be created each time the Africans gained an “A” Roll seat and the practical effect would be substantially to defer the date on which Africans could hope to obtain a majority in the Assembly. The entrenchment of Section 37 of the Constitution, which governed the creation of new constituencies, was rejected; the “braking mechanism” would thus be preserved and the Rhodesian Government of the day would be able to create more “A” Roll seats and delay further the achievement of majority rule. The reply insisted that in the Senate there should be six representatives of the Chiefs and six elected African members instead of three Chiefs and nine elected Africans as we had proposed; the Chiefs were paid by the Rhodesian Government and could be expected to vote with the European members. Our proposal for an increase from 15 to 17 in the number of “B” Roll seats was declared to be unnecessary and undesirable. An external authority such as the Privy Council, as the final court of appeal for amendment of the entrenched clauses, was rejected. The reply offered to consider, but no more, the question of a Royal Commission to examine land apportionment and racial discrimination. Our proposals for the return to legality were not dealt with at any length but it was made clear that the ascertainment of Rhodesian opinion on the constitutional arrangements, as provided for in the fifth principle, would have to take place while the illegal regime was still in power. The reply concluded with an invitation for the Commonwealth Secretary to visit Salisbury with full authority to negotiate with the illegal régime.

At a meeting on the previous day of the Ministers primarily concerned it had been agreed that the reply amounted to a rejection of our terms. It had also been agreed that there were decisive arguments against a visit by him to Salisbury and that the idea of a meeting between the Prime Minister and Mr. Smith, either in Rhodesia, in the United Kingdom or elsewhere, would be wholly inappropriate. We must therefore accept that a breaking point had been reached, but it had been felt that there would be advantage, in order subsequently to clarify the United Kingdom Government’s public position, in putting certain questions to Mr. Smith designed to elicit clear answers on some of the key issues. The first question might deal with the “braking mechanism” and ask whether
Mr. Smith accepted unimpeded progress to majority rule or whether he insisted that it must remain in the power of the Europeans to determine the pace of African advance in order, in his own words, to provide a safeguard against premature African rule. The second question might ask whether he accepted our proposal for a broad based interim Administration representative of all races in Rhodesia; and the third question might be related to the way in which the fifth principle would be applied and whether he accepted that the ascertainment of Rhodesian opinion should take place only after the return to constitutional rule, the removal of censorship and the release of the detainees.

There would be advantage if the United Kingdom Government's public statement on the reasons for the break (an outcome which we must assume, on the basis that the answers would prove to be negative) could be deferred until we had the answers to these questions. Publicity might, however, be given in Rhodesia at any time to the terms of our offer and the Rhodesian reply and we should then need to make our statement immediately. He was in touch with the Lord President about the necessary arrangements and the timetable for the statement which would have to be made in Parliament and for the issue of a White Paper.

In discussion there was agreement that Mr. Smith's reply amounted to a rejection of our terms for a settlement. Under our proposals it was calculated, on the best assumptions that could be made, that the Africans would achieve a majority in the Rhodesian Assembly after two or three general elections. Under the arrangements proposed by the régime, with the phasing in of additional European seats, this date was likely to be postponed for a further two elections or 10 years. Moreover, by reserving the right to increase the number of constituencies under Section 37, the minority Rhodesian Government could delay the achievement of majority rule indefinitely. It had been the view of the previous, as well as of the present, Administration that the 1961 Constitution was not in itself a basis for independence; the illegal régime now rejected the additional safeguards which had previously been proposed and were insisting on a further retrogressive condition in the shape of the "braking mechanism".

In further discussion there was general agreement that questions should be put to Mr. Smith on the lines proposed by the Commonwealth Secretary. These might best be drafted in such a way as to force him to give clear negative answers, although it must be recognised that he would attempt to prevaricate. It was also important that any quotations from the statement of the régime's position, such as references to "premature African rule", should be clearly attributable to Mr. Smith in order to avoid the régime's sentiments, if taken out of context, being attributed to the United Kingdom Government. It should also be made clear in the United Kingdom Government's public statement that the question of the "braking mechanism" was not the only point of disagreement in relation to the future constitutional arrangements.
The Prime Minister, summing up the discussion, said that he would arrange for the text of the régime's reply to be circulated to the Cabinet. The Cabinet agreed that the reply amounted to a rejection of a settlement on any terms which we could accept. We must therefore prepare for a break but there would be advantage in clarifying the position for public presentation by putting the further questions which the Commonwealth Secretary had proposed. The text of the questions should be drafted in the light of the points made in their discussion. In the event of prior publication in Rhodesia of the terms of our offer and of the régime's reply the statement of the United Kingdom Government's position would have to be made immediately.

The Cabinet—

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

(2) Invited the Commonwealth Secretary to arrange for further questions to be put to the illegal régime in Rhodesia on the lines indicated in their discussion.

The Foreign Secretary said that in his summing up of the Cabinet's discussion on 3rd November the Prime Minister had outlined the following programme of action:

(i) After consultations with the Governments of the European Free Trade Association (EFTA) a conference of Heads of Government of EFTA to be called in London in early December to consider the steps to be followed in further approaches to the EEC.

(ii) An announcement, probably at the same time as the announcement of the conference, reaffirming the Government's willingness to join the Community on appropriate terms and stating that the Prime Minister and himself would accordingly make a series of visits to the Heads of Government of the Six to make our requirements clear and to ascertain theirs.

(iii) A full statement of the Government's attitude to Europe to be made by the Prime Minister at the January meeting of the Consultative Assembly at Strasbourg.

(iv) The visits then to be carried out, in order both to explore the conditions of membership and to press for a forthcoming attitude by the Governments of the Six to
the Kennedy Round of tariff negotiations. For the former purpose it would be necessary to have an agreed formula on the Government’s attitude to the Treaty of Rome, which would no doubt be on the basis of qualified acceptance, as amplified in the Annex to his memorandum.

(v) Urgent studies to be made by officials both of the “Javits” plan for an economic association between the United Kingdom, the United States and certain members of the old Commonwealth and of the prospects of the United Kingdom continuing without any new form of association.

(vi) Consultations with the Governments of the Commonwealth and of the United States in regard to our further moves towards Europe.

It was arguable that if there were to be a meeting of the Heads of Government of EFTA countries there should be a similar Commonwealth Meeting, but there was the fundamental difference that our partners in EFTA were all in Europe and all potential members of an expanded EEC. It might therefore be felt to be sufficient to notify the Commonwealth Governments, the Government of the Irish Republic and the Government of the United States of our intentions, shortly before the announcement of the EFTA Conference and of the forthcoming visits. In doing so, we should need to make clear to Commonwealth Governments that the policy represented a continuation, at a higher level, of that which the Government had pursued over the previous few months, that there was no question of an early negotiation for entry into the Community and that the Government were not committed to such a course.

In considering the terms of the Annex to his paper, on a statement of the Government’s qualified acceptance of the Treaty of Rome, it was necessary to bear in mind both that the qualifications detailed in the Annex did not purport to be exhaustive, but only to cover the most important aspects and also that we might hope, and should need, to negotiate not merely transitional arrangements should we join the EEC, but also certain permanent adaptations of the present arrangements in the Community. The position of New Zealand, for example, would be a point of fundamental importance to us.

The Commonwealth Secretary said that at the Meeting the previous September of Commonwealth Prime Ministers we had undertaken to give Commonwealth Governments information on the progress of exploratory discussions relating to our further moves towards Europe and to consult them at all stages of any negotiations. If a special meeting of the Heads of Governments of the EFTA countries were convened at short notice, only a few weeks after the recent meeting of the EFTA Council at Lisbon, Commonwealth Governments might suspect that there had been a significant change in our attitude towards joining the EEC and might urge that a Meeting of Commonwealth Ministers might be held. This would
not, however, be advantageous to us, though we must take Commonwealth Governments into our confidence and assure them that we should seek to safeguard their essential interests. It would also be desirable to inform the Governments of the Six in general terms that we should need to know whether terms at least as good as those negotiated by the previous Administration in 1962 could be assumed for Commonwealth countries in Asia, Africa and the Caribbean, as well as special safeguards for New Zealand.

Discussion was focused upon the following main points:

(a) It would be difficult to prevent the process of probing from developing into one of negotiation, since we should be asking the Governments of the Six how far they would be prepared to go to meet us, and they would equally ask us how far we would go to meet them; we should then be close to negotiation, at a time when we were still economically weak. The Ministers or even the Governments of some of the Six countries with whom the exploratory discussions would be held might no longer be in office when the time came for negotiations, so that the indications they had given of the terms we might expect to secure might prove to be misleading. Our enquiries might well encounter unforthcoming reactions from the Governments of the Six, so that the eventual effect on the strength of the economy and the morale of industry in this country would be discouraging. On the other hand it was pointed out that there was general agreement that we could not rest longer upon the position reached in the previous consultations, that the information so far available was insufficient for a decision in principle whether to apply for entry to the Community, and that the necessary information could only be obtained by further direct enquiries at the highest level. Until these enquiries had been completed there could be no consideration of whether we should apply for entry or what the minimum terms would be that we could accept. The possibility that the Ministers of the Six countries whom we had consulted might not be in office when the time came for negotiation did not necessarily involve discontinuity of policy and was a risk which was present in any prolonged discussion. If our explorations indicated that we could not expect to secure acceptable terms, this would admittedly have a damaging effect on the economy; but this effect would be worse if the Government appeared indecisive in the course they wished to take.

(b) The statement of the issues of policy in the Annex to C (66) 149 should have regard to the fact that the consultations would be the beginning of a long bargaining process. At this stage our requirements should therefore be set higher. In particular, we should not say that we were ready to accept the Treaty of Rome provided certain of our conditions were fulfilled; we should not go further than accepting its objectives, because our essential requirements could not be met within its present terms. These requirements related, in addition to the provisions on freedom for capital movements and the common agricultural policy, to the absence of freedom to use direct restraints on imports during balance
of payments difficulties, and to the powers of the Commission itself
to intervene in the conduct of our national economic policy. On
these matters, which were of crucial importance for our capacity to
plan our economy, the language of the Annex was not sufficiently
strong and specific: we should make clear, for example, that we
could not accept the common agricultural policy as it now stood and
that the conditions of our entry must safeguard Commonwealth
interests at least to the same extent as had been done prior to the
termination of the negotiations in 1961-62. It would, therefore, be
wrong to suggest in the proposed talks that there were only two
important areas of difficulty. On the other hand it was pointed out
that in previous Ministerial discussions it had been the general view
that the areas of greatest difficulty were those of the freedom of
capital movements and the common agricultural policy, and it was
a main purpose of the proposed talks to explore these fully. As
regards the supranational powers of the Commission in the field of
economic policy, in previous discussions it had been recognised that
whilst the Treaty of Rome did provide such powers, their exercise by
the Commission was not in practice such that we need feel serious
concern on this score, though it was certainly a point to be explored,
particularly with the French. It had also been the general view that
the restraints imposed upon our economic planning powers by our
position as a major trading nation had been found to be at least as
great as, if not greater than, those we might expect to experience
under the Treaty of Rome. In general, if the conditions of entry as
set out in the Annex were amended as proposed, the consultations
could not be expected to achieve any useful result. Moreover, as the
Foreign Secretary had emphasised, the Annex did not purport to be
exhaustive.

(c) The programme for action would also, it was urged, involve
undesirable and unnecessary risks in three main respects. First, it
was premature; it would be some time before our economic recovery
had made sufficient progress to warrant our opening discussions with
the Governments of the EEC, especially as these discussions might
come close to negotiation. Second, a meeting of the Prime Ministers
of EFTA in December would afford scope for exaggerated concern
for the interests of their countries and so for requirements upon the
United Kingdom to endeavour to safeguard these interests. Third,
a declaration of intent would be preferable to the proposal for high
level visits to the Governments of the Six countries as a means of
making clear our attitude to the Community; after such a declaration,
we could pursue our explorations of the likely conditions of entry
by means which would reduce the risk of speculation and
commitment. On the other hand it was urged that our economic
weakness had been over-emphasised and was not such that we could
not afford even to make enquiries. Indeed, sterling had recently been
a stronger currency than the franc, and there was now more reason
to accept the view expressed at a previous meeting of the Cabinet
that an overt move by the Government towards the Community
would have a good effect on business confidence both externally and
internally, provided it were made clear that there was no question

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of our entering under conditions or on terms which would prejudice the strength of the economy and the value of sterling. As regards the proposed meeting of the Prime Ministers of EFTA, we were no longer under the restrictive obligations of the London Declaration of 1962, the meeting would be a meeting of Prime Ministers of EFTA countries in London under our aegis, and not a meeting under the aegis of EFTA itself, and we could expect that the Prime Ministers would be more likely to be content if they were fully and directly consulted in advance in this way than if consultations were carried out by less direct methods at a lower level. There also seemed no reason to alter the view expressed in the Cabinet’s earlier discussions that a series of visits to the Governments of the Six would be preferable to a declaration of intent followed by explorations at a lower level, not only as a better means of acquiring the information we required, but also because a declaration of intent was likely to be either too categoric (and so concede much of our negotiating position), or so qualified as to fail to emphasise the more positive approach to membership of the Community which it would be its purpose to convey.

In further discussion it was pointed out that the exploratory consultations which had gone on for many months had reached the limit of their usefulness, and it was known that Ministers had accordingly been considering the Government’s position, first at the meeting at Chequers and subsequently in Cabinet. Despite the differences of view which had been expressed in regard to both the programme and the policy set out in the Foreign Secretary’s paper, the Government must now publicly declare its position and clarify its attitude towards joining into the Community. The choice before them was limited; no “Atlantic alternative” to membership of the Community was in sight at present, and it would not be practicable for the Government to announce that they did not intend to seek membership of the Community, but to continue without seeking any alternative association, with inevitably greatly reduced international commitments, until it had been made clear that membership of the Community was not open to us save on unacceptable terms. A conclusion about our attitude to membership of the Community was the more necessary in view of the prospect of an early breakdown of the Rhodesian talks which might have serious implications for our balance of payments. A statement by the Government on our attitude to membership of the Community on the lines proposed could be expected so to reduce uncertainties and increase confidence at home and abroad as to put the Rhodesian development in its proper perspective. There would also be less anxiety at the proposed exploration of the conditions of entry, if this were on the basis that these conditions might include, on points of particular difficulty for us, not only transitional provisions, but also more permanent arrangements, perhaps by means of a protocol of accession such as member countries had negotiated, and as was provided for under the terms of the Treaty of Rome.
The Prime Minister, summing up this part of the discussion, said that on balance the Cabinet agreed with the Foreign Secretary’s paper and Annex as a steering brief for the intensified exploration which had been proposed, subject to the qualification the Foreign Secretary had made that it was not exhaustive and that we should need to negotiate certain permanent adaptations in the arrangements under the Treaty of Rome, as well as suitable transitional provisions. It would also be desirable to emphasise the importance of the final sentence of the Annex, on the need to seek through appropriate channels some long-term arrangements for the sterling balances, though this was not a matter for negotiation with the Heads of Government of the Six as such. The statement of the Government’s position which would now need to be made in Parliament should be approved by the Cabinet and he would circulate a draft for discussion accordingly. There would no doubt be general agreement that the Government should not subsequently be drawn into public discussion in the United Kingdom of detailed aspects of our position in the investigations, or in any subsequent negotiations which might take place with the EEC, since to do so would merely weaken the Government’s position in those negotiations. At the end of the exploratory discussions which he and the Foreign Secretary would undertake, the Cabinet would then have to decide whether the terms which we might reasonably hope to obtain in formal negotiation were adequate to justify our joining the Community, including the question whether, if it proved that permanent adaptations of the arrangements made under the Treaty of Rome could not be secured, lengthy transitional provisions would sufficiently safeguard our interests. Meanwhile, the Cabinet had taken no decision on whether or not we should in due course apply to join the EEC or on whether we should start negotiations to that end.

On the basis of the Cabinet’s agreement on the policy to be followed in the immediate future, it was now necessary to consider the detailed procedure which should be adopted. From the point of view of opinion both at home and abroad there would on balance be advantage in a very early statement of the Government’s position. A suitable occasion for what would necessarily be a speech of some length would be the speech which he was due to make at the Lord Mayor’s banquet on the following Monday. If that were agreed to be appropriate it would be necessary first to make a concise statement in Parliament on the Government’s policy: in that event the statement would have to be made the following day. It would accordingly be necessary, if this timetable were agreed, to convey to the other Governments of EFTA that evening our invitation to a conference in London and also to inform them of the broad terms of the statement which the Government proposed to make. There would also need to be, perhaps in the course of the following morning, and immediately before the Parliamentary statement, a communication to all Commonwealth Governments of the Government’s proposals, perhaps in terms which might vary according to their degree of interest in the issue. The Governments of the United States and of the Irish Republic should also be informed.
of these in advance. The precise date of the meeting of the Heads of Government of the countries in EFTA would be a matter for subsequent discussion with them but we might aim to hold this early in December.

In discussion on procedure it was suggested that it would be premature to make a statement of the Government's position on the following day, both because this might appear inadequate notice to our partners in EFTA of the decisions which the Government had taken since the recent meeting of the EFTA Council in Lisbon and also because they might wish to have had longer notice of our intention to invite them to an early conference. It was, however, the general view that while it was certainly necessary to have effective consultation with the other Governments of EFTA on the line of policy which the Government would adopt in subsequent investigations with the Governments of the EEC, and on how those investigations should be conducted, it would be an unreasonable restriction on our freedom of policy to consult them on the terms of the Government's Parliamentary statement. Nor, indeed, did it seem probable that this would be expected by the other Governments in EFTA: on the contrary they would welcome our undertaking investigations on the lines that had now been agreed and they were principally concerned that we should consult them about the details of these investigations. They could, therefore be expected to welcome an invitation to a conference for this purpose. It might, however, be necessary to take special steps in respect of Sweden in view of the recent discussions between the First Secretary of State and the Swedish Minister of Commerce and it might prove necessary to send a representative of the First Secretary of State to Stockholm for that purpose. On these aspects there was general agreement with the procedure which the Prime Minister had proposed.

In subsequent discussion the Foreign Secretary said that further thought would be required of the timetable for the visits to the capitals of the Six. It would be desirable that the first of these should take place after the EFTA conference and before the meeting of the Consultative Assembly in Strasbourg in January. The visit to Paris should be neither the first nor the last. Ideally, the visit to Bonn should take place first, but this might be precluded by the uncertainty over the position of the present Federal German Government. In that event, the first visit should take place to the capitals of the Benelux countries. Visits might then follow to Bonn, Paris and Rome, in that order: but there should be no visit to Brussels for discussion with the Commission at this stage. He would circulate a paper to the Cabinet for further discussion of these aspects.

The Cabinet—

(1) Approved C (66) 149 and C (66) 150, subject to the amplification of the Annex to C (66) 149 indicated by the Prime Minister in his summing up of their discussion.
(2) Agreed that a statement should be made in the House of Commons on the following day on the position of the Government in relation to the European Economic Community.

(3) Took note that the Prime Minister would circulate for their consideration on the following day the draft of such a statement.

(4) Invited the Foreign Secretary to inform forthwith the other member Governments of the European Free Trade Association that a statement of the Government's policy would be made the following day and to invite the Heads of Government to a conference in London early in December.

(5) Invited the Foreign Secretary to inform the other member Governments of the European Free Trade Association and the Governments of the United States of the broad terms of the Government's statement of policy shortly before it was made in the House of Commons.

(6) Invited the Commonwealth Secretary to inform all Commonwealth Governments, in terms which might vary according to their degree of interest in the issue, and the Government of the Irish Republic of the terms of the Government statement simultaneously with its announcement, or shortly before it was made.

(7) Took note that the Foreign Secretary would circulate a paper on the modalities of the visits by the Prime Minister and himself to the capitals of the Six.

(8) Invited the First Secretary of State, in consultation with the Foreign Secretary, to arrange for a representative to visit Stockholm immediately with a message for the Swedish Minister of Commerce on the lines agreed in their discussion.

CONFIDENTIAL

3. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C (66) 148) on proposals for the new decimal coinage.

The Chancellor of the Exchequer said that the proposals of the Ministerial Committee on Decimal Currency, based ultimately upon the recommendations of the 1961 Committee of Inquiry on Decimal Currency under the chairmanship of the Earl of Halsbury (the Halsbury Committee), were:

(i) The new minor unit should be called a penny (in the transitional period, new penny), not a cent.

(ii) The sequence of coin denominations in the new system should be \( \frac{1}{2}, 1, 2, 5, 10 \) and 50 new pence. It would be possible to introduce a 20 or 25 new penny coin later, if the need arose.
(iii) The \( \frac{1}{2} \), 1 and 2 new penny coins should be of bronze, in weight/value relationship, of the sizes recommended by the Halsbury Committee.

(iv) The 5 and 10 new penny coins should be of cupro-nickel, of the same size as their present-day equivalents.

(v) A new 50 new penny coin should be introduced instead of the 10s. note.

(vi) The halfpenny should be withdrawn before decimalisation and should not be replaced by a quarter penny in the decimal system.

In discussion the proposals were generally agreed and the following points were made:

(a) The main case for replacing the 10s. note with a 50 new penny coin was that the average life of 10s. notes was becoming shorter and the cost of maintaining their issue was as a result increasing steadily. Over the years, therefore, the cost of maintaining a note issue would be larger than that of maintaining the equivalent issue of coins. A change to a coin might, however, give rise to some public confusion, and the public might in the event prefer to continue to use notes for this denomination. Further consideration should therefore be given to the possibility of the 10s. note being withdrawn somewhat later, so that there would be a period during which 10s. notes and 50 new penny coins would be in circulation together and there would be an opportunity of assessing the public preference.

(b) The loss of the present halfpenny would have some effect on prices in the food and certain other trades and there would be some tendency to round up prices that included the odd halfpenny. On the other hand traders would have several years to prepare for the withdrawal of the halfpenny, and there would be scope for adjustments in quantity or size to offset price changes, up or down. Some quantities would in any case be due for change, in the process of the change to metric systems of weights and measures. It would, however, be necessary for the Government and the Decimal Currency Board to carry out a sustained effort to minimise any increases in prices as a result of the withdrawal of the halfpenny. A particular problem for the Post Office would be that an increase of a new halfpenny in the letter rate would bring in £30 million, which might be more than the Post Office required at any particular time. This problem could, however, be overcome without the necessity of having a new quarter penny coin by issuing stamps in denominations of a new quarter penny and selling them in pairs.

The Prime Minister, summing up the discussion, said that the Cabinet endorsed the conclusions of the Ministerial Committee on Decimal Currency, subject to further study by the Chancellor of the Exchequer and the Decimal Currency Board of the possibility of the 10s. note being withdrawn somewhat later, on the lines suggested.
in discussion. Some misgivings had been expressed about the proposal to withdraw the halfpenny and not to replace it with a new (decimal) farthing. It was clear that the retention of a new farthing would add to the difficulty and cost of the change to a decimal currency, and it seemed likely that the need for the present halfpenny (or a decimal equivalent) would continue to diminish. The objections to withdrawing the halfpenny could be overcome or avoided in a variety of ways, as suggested in discussion. The general view was therefore that a policy decision should now be taken to demonetise the halfpenny in 1970 and not to replace it in the decimal system. If in 1970 the expectations on which that decision was founded seemed not to be being realised, it would at that stage be open to the Cabinet to review the decision before the halfpenny was demonetised.

The Cabinet—

(1) Invited the Chancellor of the Exchequer to consider further, in the light of advice from the Decimal Currency Board, the possibility of retaining 10s. notes in circulation, together with the new coins of 50 pennies, for a time after decimalisation, in order to give an opportunity of assessing public preference as between a note and a coin for this denomination.

(2) Subject to Conclusion (1), approved C (66) 148.

Cabinet Office, S.W.1.
9th November, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 10th November, 1966, at 10 a.m.

Present:

The Right Hon. HAROLD WILSON, M.P., Prime Minister

The Right Hon. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs

The Right Hon. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs

The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer

The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Commonwealth Affairs

The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence

The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland

The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade

The Right Hon. ANTHONY CROSSLAND, M.P., Secretary of State for Education and Science

The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal

The Right Hon. FRED PHART, M.P., Minister of Agriculture, Fisheries and Food

The Right Hon. CLEWDYN HUGHES, M.P., Secretary of State for Wales

The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:

The Right Hon. KENNETH ROBINSON, M.P., Minister of Health (Item 5)

The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Item 6)

The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The Right Hon. EDWARD SHORT, M.P., Postmaster-General (Item 7)

The Right Hon. JOHN SILEN, M.P., Parliamentary Secretary, Treasury

Secretariat:

Sir BURKE TREND

Mr. P. ROGERS

Mr. W. A. NIELD

Mr. L. ERRINGTON

Mr. K. BARNES

Mr. R. T. ARMSTRONG

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

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2. The Prime Minister said that it would shortly be necessary for the Cabinet to resume their discussion of the question whether Ministers should accept invitations to give evidence to Royal Commissions; and for this purpose the Minister of Housing and Local Government would circulate a report of his discussion with the Chairman of the Royal Commission on English Local Government. Meanwhile, a number of Ministers had received invitations to give evidence to the Commission; these should be held in suspense until the Cabinet had given further consideration to the issue of principle involved.

The Cabinet—

Agreed that, pending further discussion, Ministers should take no action as regards invitations to give evidence to Royal Commissions.

SECRET

3. The Cabinet had before them a note by the Secretary of the Cabinet (C (66) 155), to which were attached the drafts of a Parliamentary statement to be made by the Prime Minister and of a supplementary answer on the position of the Government in relation to the European Economic Community (EEC).

In discussion of the draft statement the following points were made:

(a) It was suggested that the term "entry" should not be used at various points in the draft in relation to possible United Kingdom membership of the EEC. It was, however, the general view that any other term would not be relevant to the issues which must be investigated, and would also give rise to damaging misunderstanding of the Government’s position.

(b) It was suggested that the draft statement should make it clear that the visits by the Prime Minister and Foreign Secretary were not only to investigate the terms which we might hope to secure in negotiation for entry into the Community, but also, as had been agreed in the Cabinet’s earlier discussion, to urge the member countries of the EEC to adopt a forthcoming attitude towards the Kennedy Round of tariff negotiations. It was, however, the general view that this latter aspect could more appropriately be brought out in reply to a supplementary question.
(c) It was suggested that the statement should refer to consultations with other Commonwealth Governments "at all stages". It was, however, argued that this would unduly hamper the Government in their investigations and in subsequent negotiations and would also be liable to lead to embarrassing leakages of information on the progress of those investigations. The term "throughout" would be preferable. It was also agreed that, if the question were raised of the desirability of holding a conference with other Commonwealth Governments in parallel with the proposed conference of Heads of Government of the European Free Trade Association (EFTA), the Government could reasonably stand on the position that there was a substantial difference between the two groups, in that a number of our partners in EFTA were likely to wish to join the EEC themselves, unlike the other members of the Commonwealth. Furthermore, there were frequent Commonwealth Meetings which would afford ample opportunity for discussion of these matters on a Commonwealth basis.

(d) It was suggested that the draft answer to a supplementary question about the Treaty of Rome should not state that the Treaty was not "in itself" an impediment to United Kingdom entry into the Community. There was general agreement, however, that these words should be retained and that the remainder of the statement adequately covered the reservations which the Government would need to make. It would, however, be preferable to delete the words "the terms of" (the Treaty) since it would no doubt be necessary, if we were to accede to the Treaty and perhaps in consequence of any adaptations which we might negotiate, to amend its precise terms.

Several other drafting amendments were also agreed.

The Cabinet—

Approved the draft statement and draft answer to a supplementary question attached to C(66) 155, subject to the amendments agreed in discussion.

4. The Foreign Secretary said that he had previously considered whether the United Kingdom should vote in the United Nations General Assembly not only for the admission to the United Nations of the People's Republic of China, but also in favour of regarding this issue as a procedural question (which could be passed by a simple majority) rather than as an important question (on which a two-thirds majority was required). He had come to the view that in existing international circumstances it would not on the next occasion be appropriate for the Government to change the stand they had previously maintained that this was an important question. In the following year, however, we might seek to organise a wider measure of support, not only for the admission of the People's Republic of China, but also for a vote in favour of regarding this as a procedural issue.
The Prime Minister said that there had been a warm response from the Soviet Government to the proposal that the Soviet Prime Minister, Mr. Kosygin, should visit the United Kingdom the following year. The date would probably be early in February. This was a further indication that the attitude of the Soviet Government on a number of international issues might become more flexible.

The Cabinet—

Took note of the statements by the Prime Minister and the Foreign Secretary.

5. The Cabinet had before them a note by the First Secretary of State and Secretary of State for Economic Affairs (C (66) 151) to which was attached a draft White Paper on the Government's policy on prices and incomes during the period of severe restraint.

The First Secretary of State said that the draft which he had circulated would now need extensive revision in the light of his further consultations with the Confederation of British Industry (CBI) and Trades Union Congress (TUC) and of further consideration by the Ministerial Committee on Prices and Incomes of the problems which would arise in the public sector. He hoped to circulate a revised draft for consideration by the Cabinet on Tuesday of the following week.

The attitude of both the CBI and the TUC as revealed during his consultations was somewhat ambivalent. On the one hand they were anxious to be consulted about the policy to be followed during the period of severe restraint, but on the other they saw disadvantages in being associated too closely with the promulgation of criteria for regulating prices and incomes. The CBI had said that they would be able to ensure observance of the criteria by their members without the intervention of the Government. This could not be accepted since they could not be expected to be as firm in restraining price increases as the Government would wish. On the other hand, it was important not to rebuff them since the Government would need the maximum help from them if there were to be continued restraint on prices and incomes after the first half of 1967. It would in any event be desirable to have early consultation with the CBI before making any Orders under Part IV of the Prices and Incomes Act, though this would not preclude the Government from dealing direct on such issues with the firms concerned. The TUC were divided, some members holding that the TUC's own vetting machinery should be the principal instrument for ensuring restraint on incomes, while others were reluctant to see
the TUC assume such a responsibility. Nevertheless it might still be possible to draft the passages in the White Paper relating to vetting in a way acceptable to both the CBI and the TUC as well as to the Government.

Before the White Paper was published, some Ministers concerned with pay in the public sector would need to consult the management and staff sides in their respective fields. Where arrangements had already been made for such consultations, they should, if possible, now be postponed until the Cabinet had approved a revised draft. The consultations could be carried out quickly and it should be possible to complete them in time to allow publication of the White Paper by the end of the following week or shortly after.

The Minister of Housing and Local Government said that he had arranged consultations with representatives of local authorities for the following day. The local authorities were fully aware of the consultations that had taken place with other bodies and a postponement of the discussions would damage relations with them. We could rely on those concerned to keep the discussions strictly confidential.

In discussion the following points were made:

(a) The revisions which would need to be made to the draft White Paper were not so radical as to make it essential to postpone the consultations with the local authorities.

(b) Arrangements for the notification of increases of prices should cover charges for services as well as prices of goods, particularly having regard to experience in such cases as the imposition of increased charges by the Road Haulage Association contrary to the Government's wishes.

(c) After the standstill, a number of applications for increased fares in passenger transport would probably be made to the Traffic Commissioners. If the Commissioners approved any such applications, the question would arise whether their decision should be overruled by the exercise of powers under Part IV of the Prices and Incomes Act. Such decisions would need to be considered in accordance with the criteria for prices and charges during the period of severe restraint and it might prove necessary to reverse the decisions by an Order under Part IV.

(d) The criteria for prices in paragraph II 5 of the draft would mean that some increases would be justified during the period of severe restraint. Too restrictive criteria would, however, adversely affect industrial investment and it was essential that this should be avoided. The criteria envisaged that there might be exceptional circumstances in which, without some increase in price, "the receipts of an enterprise are not adequate to enable it to maintain efficiency and undertake desirable investment". The CBI had objected to the word "desirable" in this passage on the ground that the Government would not be in a position to judge which investment was desirable and which was not. Nevertheless the word should be retained, since otherwise this criterion might prove too wide.
(e) It was suggested that it should be made clear in paragraph II 5 of the draft that increases of prices might be justified to enable an enterprise to recoup increases in costs which had arisen during or before the standstill. The general view was, however, that this would be undesirable since it might lead to pressure for a corresponding measure of retrospection in respect of incomes.

(f) It was urged that the passage on the rents of local authority housing (paragraph III 2) should not be in such terms as to encourage local authorities to hold down rents where this would lead to a consequential increase in rates. The deferment of increases of rents during the standstill was creating particular difficulties in Scotland, where in addition to the repercussions on rates there had been a consequential reduction in the amount of Exchequer grant to certain local authorities. Nevertheless there would be disadvantages in so drafting this section as to seem to invite increases in rents and it was the general view that the existing draft, which did not rule out increases, struck the right balance.

(g) The form in which the White Paper was presented might be further considered with a view to bringing out the salient points more prominently. It was pointed out, however, that the wording of the crucial passages in the White Paper would be primarily determined by the course of negotiation, and could not subsequently be amended solely for presentational reasons. On the other hand the public presentation of the White Paper would be of great importance in gaining acceptance of the policy. A simpler and shorter document should therefore be prepared for issue to the Press at the time of publication.

(h) The Government should avoid making any commitments at the present time which would limit their freedom of action in relation to prices and incomes in the period following that of severe restraint. There would also be grave objection at that time to any extension of the currency of the compulsory powers in Part IV of the Prices and Incomes Act: the activation of Part II of the Act might prove to be the right course.

(i) The White Paper should be published with the minimum of delay since the Departments concerned would need as much time as possible to formulate guidance in response to requests for its detailed interpretation before the period of severe restraint began.

The Prime Minister, summing up the discussions, said that the First Secretary of State should now arrange for the draft to be revised in the light of the discussion and circulated for consideration by the Cabinet on the following Tuesday. Arrangements should also be made for the preparation of a simpler explanatory document to be available for release to the Press at the time of publication. Ministers concerned with pay in the public sector who were proposing to consult management or staff organisations on the content of the White Paper should not do so until the draft had been approved by the Cabinet, except where there were special circumstances rendering
it undesirable to postpone arrangements which had already been made, as in the case mentioned by the Minister of Housing and Local Government.

The Cabinet—

(1) Invited the First Secretary of State to arrange for a revised version of the draft White Paper annexed to C (66) 151 to be circulated for consideration by the Cabinet, on 15th November.

(2) Invited the First Secretary of State to arrange for the preparation of a suitable Press release to accompany the publication of the White Paper.

(3) Agreed that the Ministers concerned with pay in the public sector should postpone consultations with management and staff sides until after the draft White Paper had been approved by Cabinet, except in cases where postponement would prejudice good relations with the organisations concerned.

6. The Cabinet considered memoranda by the Chancellor of the Exchequer (C (66) 152) and the Minister of Housing and Local Government (C (66) 154) about current expenditure by local authorities in England and Wales in 1967-68 and 1968-69.

The Chancellor of the Exchequer said that the current expenditure of local authorities in England and Wales had been growing rapidly over the last few years, and they had now submitted estimates for further substantial increases in 1967-68 and 1968-69. There was general agreement between Departments that it would be reasonable to propose reductions of £127 million in the estimates for 1967-68 and £140 million in the estimates for 1968-69 to take account of over-estimating. Even after these reductions, however, the estimates would still exceed the figures in the public expenditure survey by £52 million in 1967-68 and £74 million in 1968-69. The Ministerial Committee on Public Expenditure had come to the conclusion that, at a time when the Government themselves were having to restrict the growth of their expenditure in various desirable fields, it would be reasonable to expect local authorities to accept some restraint on the rate of growth of their expenditure and the development of their services. The Committee therefore proposed that, for the purposes of negotiations on the rate support grant, the estimates of expenditure should be further reduced by £30 million in 1967-68 and £45 million in 1968-69. It would be for local authorities to decide how to restrict their expenditure in consequence, though it would be the basis of the Government's proposals that the restriction should be in respect of miscellaneous environmental services rather than on services such as education and local health.

The Minister of Housing and Local Government said that the rate of growth in local authority expenditure represented partly the
increased cost of services (including higher loan charges) and partly inevitable and indeed desirable expansion of services. It would be difficult for local authorities to change the pattern of their expenditure at short notice. They had statutory duties to comply with. The standstill on the rents of council houses had added to the burden that had to be carried on rates. In these circumstances local authorities might be reluctant to co-operate in the reductions proposed by the Committee on Public Expenditure; and the Government had no power to direct them. They would regard the attitude proposed, particularly in the context of the first year under the new grant system, as a breach of faith and as going back on pledges that had been given by the Government. While some local authorities might be able to reduce expenditure, it seemed likely that many of them would not alter their plans; in this case the only effect of what the Committee on Public Expenditure proposed would be to increase the rates. If the Cabinet decided that it was necessary to seek the further reductions, he would wish to be in a position to say that it was the view of the Government that in the interests of the economy as a whole the expenditure of local authorities should not exceed the total which would result.

In discussion the following points were made:

(a) A decision on this matter was being sought before the Cabinet considered public expenditure in 1967-68 as a whole, because of the need to start negotiations with local authorities. It was, however, difficult to take a view on this proposal without knowing what further proposals the Committee on Public Expenditure might make for reductions in expenditure in 1967-68 which would affect local authorities.

(b) Any general statement which the Minister of Housing might make on the lines he had suggested would need to be qualified in order to take account of the further decisions which the Cabinet might take when they came to review the programme of public expenditure and to avoid prejudicing the Government’s position in subsequently presenting such decisions to local authorities. It would be important in these circumstances to say nothing that might be construed as final agreement by the Government to a particular level of local authority expenditure.

(c) There was probably scope for restricting expenditure on inessential services and on general administration in local government. Many local authorities were already concerned about the rate of growth of their expenditure, and many were anxious to avoid increasing rate poundages in the coming year. They might not in practice find too unwelcome a reduction in expenditure for which they could blame the Government.

(d) If the Cabinet approved the proposals of the Ministerial Committee on Public Expenditure, it should be on the basis that if in the negotiations officials encountered strong objections, which they considered to be well founded, they should report back in order that Ministers might review the matter.
(e) The negotiations on the rate support grant were country­wide, and it was not possible to operate differentially in favour of local authorities in development areas where the proposals might operate harshly in present circumstances. There might, however, be scope for the Board of Trade to give assistance for particular services required for industrial development in development areas under existing powers or in other ways and the problem of these areas should be considered on a wider basis.

The Prime Minister, summing up the discussion, said that the Cabinet were in general agreement with the proposals made by the Ministerial Committee on Public Expenditure, on the understanding that, if the further reductions proposed met with strenuous and well founded objections, there would be an opportunity for Ministers to consider the matter further. While it would not be possible to discriminate in favour of development areas in negotiations on the rate support grant, the President of the Board of Trade should consider more generally what further measures could be taken to maintain the level of economic activity in those areas.

The Cabinet—

(1) Approved C (66) 152, subject to the understanding indicated by the Prime Minister in his summing up of their discussion.

(2) Invited the President of the Board of Trade to circulate a paper to the Ministerial Steering Committee on Economic Policy, on further measures which might be taken to avoid an excessive decline in the level of economic activity in development areas during the next few months.

7. The Cabinet considered a memorandum by the Lord President of the Council and the Lord Privy Seal (C (66) 147) on televising Parliamentary proceedings.

The Lord President said that the Select Committee on Broadcasting of Proceedings in the House of Commons had now recommended that recordings of the proceedings of the House could be made available to the broadcasting organisations to be recorded and edited for use in their radio and television programmes. The Select Committee had, however, also recommended that, before a final decision was reached, an experiment on closed circuits, in sound and vision, should be conducted for Members of Parliament only. The House of Lords had already decided in principle that it would welcome the televising of some of its proceedings for an experimental period, and a Select Committee had been set up to consider how this could best be carried into effect. This Committee was likely to recommend to the House of Lords that it should co-operate with the Commons in a joint experiment. It would be necessary to arrange shortly for the subject to be debated in both Houses.
The House of Commons Select Committee had envisaged an experiment lasting two months in the period immediately after Christmas, when the broadcasting authorities could most easily make staff and equipment available. However, any experiment which excluded simultaneous televising of the proceedings of the House of Lords would be unrealistic, and consultation with the broadcasting authorities had shown that, while very willing to mount an experiment, they would have difficulty in making available the specialist staff and equipment to cover proceedings in both Houses for as long as two months. It was doubtful in any event whether an experiment for as long as this was necessary and, in view of the heavy costs involved, the experiment should last no longer than was necessary to enable conclusions to be drawn. He and the Lord Privy Seal recommended, therefore, that the experiment should be limited to five weeks, during which the two broadcasting authorities would operate alternately. It was essential that, in addition to closed circuit transmission, the experiment should also include specimen edited programmes since it would be largely on these that it would be judged. It was desirable that the experiment should extend to all aspects of the proceedings of the House which were likely to be comprised within programmes broadcast under permanent arrangements, and consequently the experiment should include the televising of proceedings in a Standing Committee and possibly also of a Select Committee. In addition, during the final week of the experiment the House of Lords would be covered. The BBC would also provide specimen edited programmes on radio as well as television.

The Select Committee had recommended that the additional cost falling on the broadcasting authorities as a result of the experiment should be borne by public funds, and this would necessitate supplementary estimates for £150,000 and £18,000 respectively for the House of Commons and the House of Lords votes. The supervision of the experiment in the Commons would be conducted under the aegis of a new sub-committee of the Select Committee on House of Commons Services. The House of Lords experiment would be supervised by the Television and Administration Committees acting jointly.

With the Lord Privy Seal he sought the Cabinet's agreement that proposals for an experiment on these lines should be put to both Houses in the forthcoming debates. It was likely that the Opposition would support an experiment although they might be opposed to its extension to Standing Committees or Select Committees.

In discussion it was suggested that it would be important that no indication should be given at the present stage that the Government accepted in principle the televising of proceedings of Parliament or favoured any particular form of permanent arrangements. It was clearly impracticable to arrange for the proceedings of Parliament to be broadcast continuously, and it was
suggested that, if the editing of short excerpts was left to the broadcasting authorities themselves, there was a risk both that they would not be sufficiently responsible and that the editors would be subject to continuous complaint and pressure from individual Members. It would be important in any event to ensure that excerpts were used solely in straightforward reporting of parliamentary proceedings, or at most news programmes, and that they should not be used in the magazine type of programme. It was also suggested that if the broadcast programmes were relatively short there would be criticism of the cost of the arrangements. It was pointed out, however, that whatever views might be held as to the desirability of televising Parliament, or might be formed as a result of the experiment, it would be difficult for the Government to oppose an experiment, confined to closed circuit television, in view of the recommendation of the Select Committee, more particularly if, as seemed likely, a majority in both Houses supported it.

In further discussion of the proposed experiment it was suggested that the introduction of the necessary supplementary estimates in the current financial year would provoke the criticism that this expenditure would be particularly inopportune at a time when Government spending in the social services field was being severely restricted. It was suggested that it might be right to require the broadcasting authorities themselves to meet the cost of the experiment in view of the potential benefits to them of permanent arrangements for televising Parliament. On the other hand, it was pointed out that the Select Committee had recommended that Parliament should bear the cost of the experiment and that control could best be maintained over it on this basis; and that the broadcasting authorities would be unlikely to agree to proceed with the experiment if they had to pay for it. Deferment of the experiment might, however, be taken as indicating that the Government were in fact opposed to it.

In further discussion the following main points were made:

(a) If the experiment were deferred it was unlikely that it could be mounted before January 1968 since it was only in the period following the Christmas Recess that the broadcasting authorities could make available the specialist staff and equipment.

(b) It would be desirable to exclude the Press from the experimental transmissions. There would, however, be strong pressure from the Press to view them and it might be necessary to arrange for one open day.

(c) If the Commons debate preceded the report of the House of Lords Select Committee, care would have to be taken not to anticipate the conclusions of the latter.

The Prime Minister, summing up the discussion, said that, without commitment to any permanent arrangements for televising the proceedings of Parliament, the Cabinet on balance agreed that the Government spokesmen in the forthcoming debates should indicate that the Government would be prepared to provide the
facilities for an experiment on the lines proposed by the Lord President and the Lord Privy Seal. The issue should be left to a free vote but it should be made clear that, in view of the restrictions imposed on public expenditure generally, the Government would think it right that any experiment should be deferred, if necessary until the early part of 1968.

The Cabinet—

Invited the Lord President and the Lord Privy Seal to arrange for the debates in both Houses on televising proceedings of Parliament to be conducted on the lines indicated by the Prime Minister in his summing up of their discussion.

Cabinet Office, S.W.1,
10th November, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 15th November, 1966, at 10 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. FREDERICK LEE, M.P., Secretary of State for the Colonies
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology
The Right Hon. MICHAEL STEWART, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. RICHARD CROSSMAN, M.P., Lord President of the Council
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M.P., Minister without Portfolio
The Right Hon. ARTHUR BOTTOMLEY, M.P., Minister of Overseas Development
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. RICHARD MARSH, M.P., Minister of Power
The following were also present:

The Right Hon. KENNETH ROBINSON, M.P., Minister of Health
The Right Hon. MARGARET HERBISON, M.P., Minister of Social Security (Item 2)
The Right Hon. FREDERICK MULLEY, M.P., Minister of Aviation (Item 2)
The Right Hon. EDWARD SHORT, M.P., Postmaster-General (Item 1)
The Right Hon. REGINALD PRENTICE, M.P., Minister of Public Building and Works (Item 2)
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Item 2)
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury
Mr. EDWARD REDHEAD, M.P., Minister of State, Department of Education and Science

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. L. ERRINGTON
Mr. K. BARNES
Mr. R. T. ARMSTRONG

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I. The Cabinet considered two memoranda by the First Secretary of State and Secretary of State for Economic Affairs, covering a draft of a White Paper on Prices and Incomes Criteria during the Period of Severe Restraint (C(66) 167) and on the treatment of pay in the public services during the period of severe restraint (C(66) 150).

**Draft White Paper**

The First Secretary of State said that in paragraph I 2 of the draft, the last sentence indicated the measure of agreement which he had reached in his consultations with representatives of the Confederation of British Industry (CBI) and the Trades Union Congress (TUC), but it was still possible that the General Council of the TUC would have difficulty in accepting the present wording. It might therefore be necessary to modify the sentence in the light of further information about the attitude of the TUC, but it would be important to retain some reference to the extent of agreement reached if further consultations warranted this.

The last sentence in paragraph II 5 set out the circumstances in which increases of prices might be permissible during the period of severe restraint. In previous drafts this sentence had referred to exceptional circumstances in which the receipts of an enterprise were not adequate without some increase in prices to enable it to undertake "desirable investment". The CBI had objected to the word "desirable" on the grounds that the Government could not be the judge of the desirability of investment projects; they had, however, been prepared to accept the phrase "necessary investment", which was acceptable from the Government's point of view.

Paragraph IV 16 contained an indication of what the criteria for incomes would be after the end of the period of severe restraint. While the first sentence was generally acceptable, the TUC had felt difficulty in accepting the rest of the paragraph because they thought that it prejudged the results of consultations about future policy on incomes which were yet to take place. The White Paper should make clear the need for continued restraint after the first half of 1967, but if the retention of the paragraph (other than the first sentence) would provoke a hostile reaction from the TUC, it would be better to omit it. The essential point could in any case be made in public statements accompanying publication of the White Paper.

In discussion the following points were made:

(a) Paragraphs II 10–12 on the obligations of firms to give prior notification of increases of price to the appropriate Department should be more precise. Earlier drafts had explicitly required prior notification of proposed price increases from firms employing 100 workers or more. There was some danger that, if the requirements were not precise, firms would increase prices because they had not appreciated what their obligations were. On the other
hand, if the obligation were specifically confined to firms employing 100 workers or more, smaller firms might regard themselves as free to increase prices. The First Secretary of State should consider further with the President of the Board of Trade whether the paragraph should be expanded to set out more clearly the requirements for prior notification.

(b) The statement in paragraph IV 6 that the Government would continue to give a high priority to measures designed to meet family needs might need to be reviewed in the light of the Cabinet’s discussion on the next item of their agenda on the introduction of a scheme for family endowment. It was further pointed out that paragraph IV 6 did not specifically refer to the compression of differentials which would necessarily follow the granting of increases to the lowest paid workers. As now drafted, the paragraph could be interpreted as meaning that the lowest paid workers in each industry would be eligible for pay increases; this was not the intention. It might help from this point of view to refer throughout the paragraph (not just in the first sentence) to “the worst-off members of the community” rather than to “the lowest paid workers”. On the other hand, it was argued that the paragraph made the essential point that any increases would have to be confined to the lowest paid. The effect of the criterion as set out in the draft would be to throw on to the unions the responsibility of choosing between accepting the compression of differentials or forfeiting increases for their lowest paid workers. If claims to restore differentials were pressed after an increase had been granted to the lowest paid, it might be necessary to invoke the compulsory powers under Part IV. There were dangers in elaborating the paragraph further and it was doubtful whether the phrase “worst-off members of the community” would in practice be interpreted more restrictively than the phrase “lowest paid workers”.

The Prime Minister, summing up the discussion on this paragraph, said that the general view of the Cabinet was that the present wording of the paragraph should stand, except that the reference to measures designed to meet family needs would need to be reviewed in the light of the Cabinet’s decision on the introduction of a family endowment scheme. It would, however, be desirable in the public presentation of the White Paper to make the point clearly that it was not the intention to allow increases to the lowest paid workers in each industry, and that any increases would be conditional on the acceptance by other workers of the resulting compression of differentials.

(c) In the penultimate line of paragraph IV 11 it was suggested that the phrase “a subsequent commitment” meant a commitment to a subsequent increase. The paragraph should be amended to make the meaning clear.

(d) On paragraph IV 16, dealing with the criteria after June 1967, there was general agreement with the proposal by the First Secretary of State that the paragraph (other than the first sentence) should be omitted if its retention would provoke a hostile state
from the TUC. If the passage in question were omitted, it might also be necessary to redraft the last sentence of paragraph 15. It was suggested that in paragraph IV 16 that Government should take credit for the stabilisation of the cost of living achieved during the standstill period; the general view, however, was that this point would be better made in the public presentation of the White Paper.

(e) On paragraph IV 18, it was suggested that the reference in the first sentence to the application of incomes "criteria" to pensions was not sufficiently clear, and it was generally agreed that it would be preferable to say that the "same considerations" applied to proposed increases in pensions as applied to proposed increases in employment incomes. A similar amendment should be made in the third sentence of the paragraph.

The First Secretary of State said that the problem of pay in the public services was linked to that of the treatment of salary reviews in private industry, and decisions on the one would affect the line to be taken on the other. The difficulty arose from the fact that increments of a fixed amount within a pre-determined scale, of the type common in the public services, had been excluded from the standstill. The predominant practice in private industry was to review the salaries of managerial and executive staff at pre-determined times but to leave to the employer's discretion the amount of any increase granted; and no discretionary increases of this kind had been permitted during the standstill. The CBI had pressed strongly for such increases to be allowed during the period of severe restraint and had argued that if this were not done, those in private industry would be getting less favourable treatment than public servants. If no concession were made, it had to be recognised that employers might adopt various devices to get round the prohibition, and it would be difficult to invoke the powers under Part IV to deal with the salaries of individuals. Moreover, those firms who observed the severe restraint criteria would be at risk of losing their staff to other employers who were less scrupulous. On the other hand, in most cases salary reviews in private industry were made at the end of the year; if no increases were allowed in these cases during the period of severe restraint, this would simply impose a six months' deferment which corresponded to the general deferment under the standstill provisions. The staff affected by salary reviews were not among the lowest paid. If any concession were made to the CBI in this matter, the TUC would be bound to press for corresponding treatment for manual workers. If the Government were to resist any concession on salaries in private industry, there was all the more need to ensure severe restraint in the public services.

The Ministerial Committee on Prices and Incomes had reached a substantial measure of agreement on the treatment of the public services, as set out in his memorandum. They had agreed on the treatment of both non-industrial and industrial civil servants. In addition to civil servants, there were a number of cases of other public service employees where there were commitments to review
pay from an agreed operative date before 30th June, 1967, but where the amount of any increase was yet to be determined. The Ministerial Committee had agreed in the case of all these groups that no increase should be actually paid before 1st July, 1967, except where it was justified under the proposed criteria for the period of severe restraint, and that where increases after 1st July, 1967, would be substantial, they should be paid in instalments. There was also the problem of whether to allow retrospection where increases were granted to these groups after 1st July, 1967, and here also there was agreement on two of the three groups of employees concerned. First, there were those with an agreed operative date before the beginning of the standstill; the Committee agreed that for this group retrospection to a date six months after the agreed operative date should be allowed. Secondly, there was a group of employees whose agreed operative date fell during the period of severe restraint; the Committee agreed that in these cases there should be no retrospection. There was, however, a difference of view about the degree of retrospection to be allowed in the case of the third group — i.e., those whose agreed operative date fell between 20th July, 1966, and 31st December, 1966. There were three possible courses in relation to this group:

(i) To allow no retrospection at all. This would be the most desirable course from the point of view of maintaining severe restraint generally.

(ii) To allow retrospection to a date six months later than the agreed operative date in all cases. The number of employees involved was 325,000 and if retrospection were allowed for such substantial numbers, there would be a danger of undermining the whole policy of severe restraint.

(iii) To allow no retrospection to cases in this group with the sole exception of the police: the police would be allowed an increase on 1st July, 1967, retrospective to their agreed operative date plus six months, which would mean retrospection to 1st March, 1967.

His view, which was shared by the Chancellor of the Exchequer, was that course (iii) should be adopted provided it was possible to confine exceptional treatment to the case of the police; if this could not be done, then course (i) should be adopted.

The Home Secretary said there was a strong case for allowing retrospection in the case of the police. Wastage in the police force was now running at a level 50 per cent higher than last year. While the rate of recruitment was reasonable, it was the loss of trained men which presented the most serious problem. Course (iii) would raise an acute problem as regards the Fire Service who would press for equivalent treatment. He was, however, satisfied that it would be possible to resist such a claim by the Fire Service and he accordingly recommended the adoption of course (iii).

In discussion it was suggested that the police were not the only case deserving exceptional treatment. Equally strong arguments
could be put forward for allowing retrospection to other groups of workers, for example in the National Health Service where some of those concerned were among the lowest paid. Public service pay, in accordance with existing agreements, was regulated on the basis of “fair comparisons” and this necessarily involved retrospection in determining their pay. If during the period of severe restraint no increases were to be allowed on grounds of comparability and if in addition the degree of retrospection were to be severely limited, the effect would be to penalise the public sector as compared with private industry. Course (ii), which would allow retrospection in all the cases in question, was therefore the right course to adopt.

On the other hand it was argued that to allow retrospection in all these cases would mean that increases would be paid in respect of the period of severe restraint, the amount of which was not determined by reference to the proposed criteria for that period. This could undermine the whole policy of severe restraint. In considering whether a limitation on the degree of retrospection would unduly penalise the public sector it should be remembered that public service employees had greater security of tenure than staff in private industry and this was of some importance in present circumstances. If retrospection were allowed to all the cases in question, it would become impossible to resist the demand for a concession on discretionary salary reviews in private industry, which would in turn lead to strong pressure by the TUC for corresponding treatment for manual workers. It should be possible to defend making an exception in the case of the police: they would still not receive any increase until 1st July, 1967, by which time it would be two years and nine months since their last increase.

The Prime Minister, summing up this part of the discussion, said that the balance of view in the Cabinet favoured the third of the possible courses outlined by the First Secretary of State. Paragraph IV 11A should be accordingly retained in the draft White Paper and paragraphs IV 12B and C should be omitted. A specific reference to the treatment of the police should be added to paragraph 11A, after consultation between the First Secretary of State and the Home Secretary. The First Secretary of State should consider further whether paragraph 11A should be left in the section of the draft dealing with existing commitments generally, or whether it should be moved to the section which related to the public services. There was general agreement that no provision should be made in the White Paper for discretionary increases in salaries in the private sector during the period of severe restraint.

On timing, there was general agreement that the White Paper should be published in the early part of the week beginning 21st November, but it would be desirable to avoid publication coinciding with any major announcement on Rhodesia. It would be appropriate for the First Secretary of State to make a statement in Parliament immediately before publication.
The Cabinet—

(1) Agreed that where there were existing commitments to review the pay of public service employees from an operative date falling between 20th July, 1966, and 31st December, 1966, increases resulting from these reviews should not be paid until after 1st July, 1967, and should not be retrospective, except in the case of the police where retrospection to 1st March, 1967, should be allowed.

(2) Agreed that no provision should be made in the White Paper for discretionary increases in salaries in private industry during the period of severe restraint.

(3) Invited the First Secretary of State to revise the draft White Paper annexed to C (66) 167 on the lines agreed in discussion.

(4) Invited the First Secretary of State, in consultation with the Lord President of the Council, to arrange for publication of the White Paper in the early part of the week beginning 21st November, and to make an announcement in Parliament immediately before publication.

2. The Cabinet had before them a memorandum by the Chancellor of the Exchequer, covering a report by the Ministerial Committee on Public Expenditure (C (66) 158), and memoranda by the Minister of Social Security (C (66) 161), the Secretary of State for Education and Science (C (66) 166) and the Minister of Housing and Local Government (C (66) 168).

The Chancellor of the Exchequer said that the report of the Ministerial Committee set out proposals for containing the rate of increase of public expenditure, which was now well in excess of the planned rate of 4\% per cent per annum. In 1967-68 it would rise by more than 8 per cent (at constant prices) above the level of 1966-67, unless the increase were curtailed. Defence expenditure had been restrained, so that the increases were solely on civil expenditure, which had been rising must faster than outlays in the rest of the economy. A considerable shift in the use of resources had already taken place between the private and public sectors, and was being financed by increasing taxation each year and restricting any general increase in the level of personal consumption. The Committee considered that attention should now be turned to the question whether the Government’s present priorities for expenditure were right, and to the need to leave room, when the time came for reflation, for first priority to be given to expenditure which would directly benefit productivity, exports, and import saving.

The planned rate of increase in public expenditure of 4\% per cent per annum on constant prices was equivalent in 1967-68 to £526 million. Against this Departments had proposed increases amounting to £1,037 million, and the Committee recommended a
reduction of some £277 million in these. This allowed £50 million for additional programmes, against which claims for £92 million, mainly in respect of additional housing investment and provision for child poverty, still remained to be considered. The preparation of the estimates now made it urgent to take decisions on the Committee's proposals, set out in Annex C of their report, for containing the increase in public expenditure. It might be convenient to go through these proposals item by item.

The Secretary of State for Defence said that he would seek to achieve the proposed reduction of £50 million in expenditure in 1967–68. It must, however, be recognised that this involved a further cut in the already reduced rate of expenditure which had been agreed in consequence of the Defence Review. Furthermore, unlike the proposals in respect of nearly all other Departments, it represented a reduction in the existing rate of expenditure and not in programmes which would, even after the reductions proposed, still provide for an increase on the expenditure for the current year. There were, moreover, serious practical difficulties in reducing expenditure quickly in a field like defence, in view of its relative inflexibility.

In discussion it was urged that in view of the damaging effect of the reductions which were proposed in other programmes there should on a balance of priorities be a yet further reduction in defence expenditure. It was, however, the general view that a further reduction would be impracticable in the coming year and that in any event reductions in defence expenditure could only be effected as part of an orderly programme, carefully worked out over a period of time.

The Cabinet—

(1) Approved the proposals of the Ministerial Committee on Public Expenditure that defence expenditure for 1967–68 should be limited to £2,149 million.

The Home Secretary said that he could achieve savings of £2 million in the expenditure proposed on civil defence as hitherto defined. This reduction would not necessarily, however, be adequate to enable the Civil Defence budget to absorb the cost of the Home Defence Force, unless the rate of recruitment for that force were such that there would be considerable under-expenditure on the estimate for 1967–68. Otherwise, in order to restrict total Civil Defence expenditure on that basis to £22 million it would be necessary to abolish the Civil Defence Corps. This would not be acceptable in present circumstances, nor would it be justified on the basis of the priority to be accorded for civil defence purposes to the Corps on the one hand and the Home Defence Force on the other.

In discussion it was agreed that the future development of the Home Defence Force should be further considered by the Secretary of State for Defence and that thereafter the Ministerial Committee...
on Home Defence should consider how a total budget for civil
defence of £22 million in 1967–68 could best be allocated.
Meanwhile, the provision of that amount in the estimates was agreed.

The Cabinet—

(2) Approved the proposals of the Ministerial Committee on
Public Expenditure that civil defence expenditure,
including the expenditure on the Home Defence Force,
for 1967–68 should be limited to £22 million.

(3) Invited the Home Secretary to arrange for the Ministerial
Committee on Home Defence to consider, in the light of
the discussion, how this expenditure should be allocated.

The Foreign Secretary said that he accepted the reduction of
£4.5 million proposed in the provision for oversea information,
though what would amount to a further reduction could not be
accepted in consequence of any additional charges on this head
that might arise from any changes that might later be agreed on the
Vote for the Department of Education and Science, e.g., in respect
of university fees which would affect students from overseas,
including those assisted by grants from the United Kingdom
Government.

In discussion it was urged that a reduction of this order was
unjustifiable having regard to the need for increased expenditure
on information services to counter the effect on our influence of the
prospective reduction of our defence commitments. It was, however,
the general view that the reduction proposed should be accepted.

The Cabinet—

(4) Approved the proposals of the Ministerial Committee on
Public Expenditure that expenditure on other oversea
services for 1967–68 should be limited to £108.9 million.

The Minister of Transport said that she accepted the proposal
for a cut of £6.2 million in the expenditure proposed for the
construction and maintenance of minor roads and car parks.

In discussion it was emphasised that expenditure on roads, like
that on defence, required to be planned several years ahead;
without this it was impossible to achieve economy in the construction
of roads. A substantial part of the programme of major roads was
related to motorways, though the proportion devoted to urban
roads was increasing each year. So far as Scotland was concerned,
the proposed reduction would affect important roads as well as
minor ones within a development area.

The Cabinet—

(5) Approved the proposals of the Ministerial Committee on
Public Expenditure to limit public expenditure on roads
to £497.2 million in 1967–68.

The Minister of Transport said that the proposed reduction of
£5 million in the railway deficit in 1967–68 could only be achieved
by selective increases in charges, starting within the period of severe
restraint.

SECRET
In discussion it was pointed out that, whilst the railway deficit for the United Kingdom might be the lowest in Europe, it was rising substantially each year; the loss of coal receipts might continue to be a substantial factor as natural gas replaced solid fuel. It was suggested that the proposal that some of the new gas pipelines might be laid alongside railway tracks would be worth investigation.

The Cabinet—

(6) Approved the proposal of the Ministerial Committee on Public Expenditure that the prospective level of expenditure on the railways deficit should be reduced by £5 million in 1967-68.

(7) Invited the Minister of Power and the Minister of Transport to investigate the possibility of laying gas transmission pipelines alongside railway tracks.

Agreement was expressed with the Committee’s proposals for the limitation of public expenditure in 1967-68 in respect of farm structure, ports, airports, other transport, assistance to industry, other agriculture and industrial research in respect of technology and atomic energy.

The Cabinet—

(8) Noted that as a result of delay in the passage of the Agriculture Bill, expenditure on farm structure in 1967-68 would be £2·7 million less than was provided for in the basic public expenditure programme, and approved proposals of the Ministerial Committee on Public Expenditure for the limitation of public expenditure in 1967-68 as follows:

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<td>Ports</td>
<td>32·7</td>
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<tr>
<td>Airports</td>
<td>24·0</td>
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<tr>
<td>Other transport</td>
<td>36·5</td>
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<td>Assistance to industry:</td>
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<td>Board of Trade</td>
<td>57·6</td>
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<td>Aviation</td>
<td>46·4</td>
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<td>Other agriculture</td>
<td>84·4</td>
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<td>Industrial research:</td>
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<tr>
<td>Technology</td>
<td>32·0</td>
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<tr>
<td>Atomic Energy Authority (AEA)</td>
<td>59·5</td>
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The Minister of Aviation said that he accepted a reduction of £3·5 million, but the further reduction of £2·1 million proposed would entail the abandonment of the BLACK ARROW programme on space technology. He had already accepted a reduction of this programme from an estimated expenditure of £43·7 million to £26·5 million over eight years: its abolition would mean that we would no longer be in a position to carry out any effective national
work in space technology, nor effectively to support our commitments to international organisations such as the European Space Research Organisation and the European Launcher Development Organisation. Nor should we retain the capacity to evaluate launcher techniques. This course might therefore entail damaging consequences for us in a field of unknown potentiality.

In discussion it was recalled that the Ministerial Committee on Science and Technology had on balance agreed that the BLACK ARROW programme should in principle be carried out, on the ground that we should retain a national capability in this sphere, subject to the consideration of the expenditure involved in the light of other programmes of public expenditure in 1967-68. Considerable doubt was, however, expressed about the justification for this expenditure in view of the reductions which were envisaged in other programmes.

The Prime Minister, summing up this part of the discussion, said that it would be desirable for the Cabinet to have before them the range of considerations which had led the Ministerial Committee on Science and Technology to come to their view on the importance of the BLACK ARROW programme. He would arrange for the relevant papers to be circulated to the Cabinet and for discussion on this item of expenditure to be resumed after the discussion of other items.

The Cabinet—

(9) Agreed to resume consideration of expenditure as industrial technology (aviation) after discussing the remaining proposals of the Ministerial Committee on Public Expenditure.

The Minister of Housing and Local Government said that he was prepared to accept all the proposals of the Public Expenditure Committee, save for the suggestion that the introduction of the option mortgage scheme should be postponed from October 1967 to 1st April, 1968, for new as well as for existing borrowers. The Committee proposed a total saving of £15 million on the option mortgage subsidy, as compared with the figures in the basic programme. This was made up of: £7.5 million resulting from the inevitable delay in introducing the scheme, which could not now come into operation before October 1967; £4.1 million for the deferment from October 1967 to 1st April, 1968, of rights of existing borrowers to switch to option mortgages; and £3.4 million for deferment from October 1967 to April 1968 of the introduction of the scheme for new borrowers. The introduction of the scheme had already been delayed because of the general election. A second delay could have unfortunate consequences, and could even lead a number of potential house buyers to defer purchases, in the belief that better terms would be available later.

In discussion it was argued that further deferment of the introduction of the option mortgage scheme would reduce yet further the rate of private house building. On the other hand it
was pointed out that those who entered into mortgages before the introduction of the scheme would have the right to switch when the scheme came into operation. While it was desirable to have the scheme in operation without undue delay, there was no overriding reason for preferring October 1967 to April 1968 and there might be advantage from the point of view of confidence overseas in the deferment proposed.

*The Prime Minister*, summing up this part of the discussion, said that on balance the Cabinet accepted the proposal of the Chancellor of the Exchequer that the introduction of the option mortgage subsidy should be deferred, for new as well as for existing borrowers, until 1st April, 1968. It would however be important, in order to avoid damaging effects upon the housing programme, publicly to emphasise by all appropriate means that those who entered into mortgage commitments before 1st April, 1968, would be able to switch to the option mortgage scheme, if they so desired, after that date, and need not therefore defer arrangements for buying houses on mortgage.

The Cabinet—

(10) Agreed that the introduction of the option mortgage subsidy scheme should be deferred until 1st April, 1968, for new as well as for existing borrowers.

(11) Approved the proposals of the Ministerial Committee on Public Expenditure that expenditure on housing subsidies and grants in 1967–68 should be limited to £220·8 million.

*The Minister of Housing and Local Government* said that unless action was taken now to increase approvals for public sector housing in 1967, it might well be that no more than 400,000 houses, or even fewer, would be completed in Great Britain in 1968. In that event the chances of achieving the Government's declared target of 500,000 houses in 1970 could be seriously prejudiced. There was a danger that completions in 1968 would be less than in 1967, and very little higher than in 1964. It was expected that in 1967 220,000 houses would be started in the public sector, and 180,000 in the private sector. Current forecasts for the private sector represented a serious decline from the levels of previous years, attributable largely to the inability of potential customers to get mortgages from the building societies. In order to offset the effects of this in 1968, he proposed that 15,000 approvals should be added to the programmes for local authorities in England and Wales, and 2,800 approvals should be added to the programme for new towns, in 1967–68.

*The Chancellor of the Exchequer* recalled that the Cabinet's approval had originally been given for 150,000 starts for local authorities in England and Wales for 1966, and 155,000 in 1967. The Cabinet had subsequently authorised a further 11,000 approvals in 1966, bringing the figure for that year up to 161,000. The Minister
of Housing was therefore proposing not only that the programme for 1967 should be higher by 5,000 approvals than the original programme in 1966, but further that an extra 15,000 approvals should now be added (apart from the additional approvals proposed for new towns). In his view this proposal rested on assumptions about private housing which took insufficient account of the volatility of performance in this sector: though the number of starts in private housing had declined substantially, it could well revive at short notice if additional finance became available, and particularly if interest rates fell at all. Moreover it would be premature to take decisions to add to the public sector housing programme in advance of a review of housing needs, which might suggest the need for some adjustment in the overall target of 500,000 houses in 1970, and in advance of the review of longer-term priorities in public expenditure to which the Public Expenditure Committee would shortly be proceeding. It was arguable that, if a shortfall in private housing released resources which could be made available for public expenditure, they would be better employed on other programmes than housing. Studies were now nearly completed showing that the cost to the Exchequer of a house in the public sector housing programme was approximately twice as great as that for a private house, after allowing for tax relief on mortgage interest, though there was no significant difference between the cost to the Exchequer of a private house and a local authority house built for sale, provided that it was sold reasonably quickly.

In discussion considerable support was expressed for the view that it would be difficult for the Government to go back on the pledge to reach a total of 500,000 houses in 1970. The need for this number was however under review interdepartmentally, taking account of local authority programmes for demolition and of various sociological factors. There was some reason to think that local authorities were demolishing houses which still had some years of useful life in them. It was hoped that this review would be completed by the end of the year. If as a result of that review it was decided that the target of 500,000 houses in 1970 should stand, the case for an immediate addition to the public sector housing programme would be considerably strengthened. It was suggested that in the meantime nothing should be done that would prejudice the prospect of achieving that target; but it was pointed out that decisions on the number of public sector approvals for 1967 need not be taken yet. It was suggested that insufficient attention was being given to the possibility of reducing the interval between approvals and completions in the public sector housing programme. It was also suggested that on the basis of previous experience it might be over-optimistic to expect an early revival in private housing starts. One possibility in these circumstances might be to give greater encouragement to local authorities to build houses for sale.

The Prime Minister, summing up this part of the discussion, said that he would call a meeting of a group of Ministers (MISC 113) to give further study to problems of the housing programme. The group should have before them a memorandum showing the
comparative cost to the Exchequer of houses built by local authorities and privately built houses. They should consider whether enough was being done to reduce the interval between approvals and completions of local authority houses. They should also seek to establish a greater measure of agreement among the Ministers concerned on the housing prospects for 1967 and 1968. In the meantime the Cabinet should take no decision on the proposal by the Minister of Housing and Local Government for additions to the public sector housing programme in 1967-68, a final decision on which could be deferred for a time and taken in due course in the light of the longer-term review of housing needs and of the further study by the group of Ministers of housing prospects and forecasts. At this stage no provision should be made in the public expenditure programme for the additional approvals proposed by the Minister of Housing and Local Government.

The Cabinet—

(12) Took note that the Prime Minister would arrange for a meeting of a group of Ministers (MISC 113) to undertake further consideration of matters relevant to the housing programme, on the lines indicated in his summing up of their discussion and to report to the Cabinet in due course.

(13) Agreed that for the present no additional provision should be made for public sector housing investment in the public expenditure programme.

The Cabinet—

(14) Agreed to resume their discussion of the public expenditure programme for 1967-68 at a subsequent meeting.

Cabinet Office, S.W.1.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 17th November, 1966, at 9.30 a.m.

Present:

The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. FREDERICK LEE, M.P., Secretary of State for the Colonies
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:

The Right Hon. KENNETH ROBINSON, M.P., Minister of Health (Item 4)
The Right Hon. FREDERICK MULLEY, M.P., Minister of Aviation (Item 4)
Mr. EDWARD REDHEAD, M.P., Minister of State, Department of Education and Science (Item 4)

The Right Hon. MICHAEL STEWART, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. RICHARD CROSSMAN, M.P., Lord President of the Council

The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. DOUGLAS HIGHTON, M.P., Minister without Portfolio
The Right Hon. ARTHUR BOTTOMLEY, M.P., Minister of Overseas Development
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. RICHARD MARSH, M.P., Minister of Power (Items 1-3)

The Right Hon. KENNETH ROBINSON, M.P., Minister of Social Security (Item 4)
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Item 4)
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury
Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. L. Errington
Mr. R. T. Armstrong
Miss P. A. Hooper

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

The First Secretary of State recalled that in previous discussion of the draft White Paper on Prices and Incomes Criteria during the Period of Severe Restraint the Cabinet had agreed that a simpler explanatory document should be prepared for release to the Press when the White Paper itself was published. On further consideration, he doubted whether this would be appropriate: the Press conferences which he proposed to hold, especially with the industrial correspondents, might be more effective without such a document.

In discussion it was the general view that the public presentation of the White Paper, the terms of which were unavoidably involved and difficult of interpretation, would be a matter of great importance. To this end, it would be desirable for the First Secretary of State to explain the measures to an appropriate group of Members of Parliament and to see both the Lobby and the industrial correspondents. There were conflicting considerations relating to the preparation of a simpler explanatory statement for any of these purposes and this would be a matter for him to consider in the light of the discussion.

The Cabinet—

Invited the First Secretary of State to have regard to the points raised in discussion in considering the public presentation of the White Paper on Prices and Incomes Criteria during the Period of Severe Restraint.

2. The Foreign Secretary said that a dispute had developed between the Government of Iran, on the one hand, and the international oil consortium on the other, primarily over the level of oil production in Iran: it might reach a critical stage in the near future, calling for urgent Ministerial consideration. The Shah was personally involved. One difficulty which we might face in respect of our own interests was the reluctance of the United States members of the consortium to accept the need for some concession to the views of the Iranian Government and there was a risk that the latter might take unilateral action.

Some of the members of the Soviet delegation at present paying what was nominally a parliamentary visit to the United Kingdom were of particular importance and it would be helpful if, wherever practicable, senior Ministers could meet them.
The Commonwealth Secretary said that there was little outward change in the situation in Nigeria, which remained tense. We were playing a part in the efforts which were being made to achieve a meeting between Colonel Gowon, the Head of the Military Government, and Colonel Ojukwu, Military Governor, Eastern Region, to discuss a modus vivendi between the Northern and Eastern Regions.

There had been no further disturbances on the Copper Belt in Zambia. We had been the subject of vicious attacks in recent speeches by President Kaunda, both in Zambia and at the United Nations. It was noteworthy that these coincided with a request from the Zambian High Commissioner that we should provide additional assistance to Zambia in supplying railway wagons.

The Cabinet—

Took note of the statements by the Foreign and Commonwealth Secretaries.

3. The Cabinet considered a memorandum by the Lord President of the Council (C (66) 163) on parliamentary procedure and specialist committees.

The Lord President said that there would shortly be a debate in the House of Commons on the recommendations of the Select Committee of Procedure. These had been considered by the Ministerial Committee on Parliamentary Procedure, which had agreed that a number of changes should be proposed.

The recommendations on financial procedure of the Select Committee were generally acceptable: any necessary legislation could probably be included in a Finance Bill. The Opposition would support the appointment of a Select Committee on Science and Technology and had suggested that it might start with a study of the annual reports of the Research Councils and the policy of the University Grants Committee towards science and technology. The Opposition would also have accepted as an experiment in the current Session a committee on the work of a single Department: but the Ministerial Committee had considered that, quite apart from the difficulty of finding a suitable Ministry, there would be difficulty in manning a second Specialist Committee, bearing in mind the need to establish a new Select Committee to supervise the work of the Parliamentary Commissioner. The proposal to establish a Specialist Committee to cover the work of a single Department should not therefore be pursued for the present Session.

The Select Committee had recommended that, experimentally, there should be two morning sittings a week on the lines proposed to them by his predecessor, save that adjournment debates and certain other business should not be moved to the morning. The Ministerial Committee considered that this might prejudice the success of the
experiment since there was unlikely to be sufficient non-controversial business to fill the morning sittings. It was therefore proposed that Ministerial statements of secondary importance, which at present were generally made as answers to written questions, should be taken in the mornings and, further, that a new form of debate on topical questions should be introduced on one of the mornings as an experiment. The procedure for raising these debates would be the same as for applications under Standing Order No. 9, except that applications would not have to be raised at the first opportunity, and the element of urgency, as at present understood, would not apply. If leave were given, the debate would take place on the next available opportunity in the same week; it might last for one-and-a-half hours; the duration of speeches might be limited and divisions and counts would be barred. These new debates were likely to be popular with back benchers and might relieve the pressure for the relaxation of Standing Order No. 9: the Speaker, who had been consulted, was generally in favour, provided that the necessary Sessional Order did not involve too much being left to his discretion in dealing with applications. The Ministerial Committee considered that the morning sittings should be held on Monday and Wednesday for preference, or alternatively on Tuesday and Wednesday.

The Select Committee had also recommended that an extra quarter-of-an-hour should be provided for questions on Mondays to Thursdays, and that Friday sittings should be extended by an hour, but it had seemed to the Ministerial Committee that it would be preferable to gain experience of the other changes before reaching any decision on these proposals. He had also discussed with the Opposition the possibility of reducing the number of Royal Commissions for Bills, and hoped to reach agreement with them that there should be only one of the present type of Commissions for Bills and that this would take place at the end of the Session. A short Bill might be required. He proposed, in recommending all these proposals to the House, to invite the Select Committee on Procedure to concentrate on producing within a year a major report on all other aspects of procedural reform: they might, however, be given authority to appoint a Sub-Committee to deal with any minor points on which early recommendations would be useful. Despite the Opposition's decision to allow a free vote on morning sittings, there should be a Whip for Government supporters in any divisions following the debate.

In discussion, there was general agreement, in view of the Prime Minister's announcement on 21st April and the readiness of the Opposition to accept the idea of two specialised committees including an experimental committee on the work of a single Department, that it would be desirable that the Government's proposals should not be limited to the setting up of a single Select Committee on Science and Technology. The Select Committee needed to supervise the work of the Parliamentary Commissioner would be no substitute for a Committee on the work of a Department. There was reason to believe that the Opposition would accept a proposal for a second
Specialist Committee in respect of the Ministry of Agriculture, Fisheries and Food. The Chairman of such a committee should be a Government supporter and it would be necessary for the Minister of Agriculture to maintain a close control of the topics studied by the committee. Although the object should be to study the work of the Ministry of Agriculture, policy in England and Wales could not be wholly separated from that for Scotland and the Minister of Agriculture should consult with the Secretaries of State for Scotland and for Wales in framing detailed proposals for the new committee.

In further discussion it was pointed out that the pressure for morning sittings, and much of that for topical debates, had largely developed since the 1964 election among back benchers whose first experience of Parliament had been at a time of exceptional pressure. Morning sittings would be resisted by the Opposition and would also make it difficult for Ministers to fulfil their proper role in their Departments. Ministerial statements and topical debates would be particularly inconvenient as they would often involve senior Ministers. The object of introducing morning sittings was primarily to enable the House to rise earlier in the evening: it was not consistent with this approach to create new types of debate which would add to the total of Parliamentary business.

On the other hand it was argued that the House had been encouraged to hope for some measure of Parliamentary reform and that feeling in favour of morning sittings was by no means limited to recently elected Members. The proposed business for the experimental morning sittings should save some time at the end of the Parliamentary day, although the Government would need to reserve the right to arrange late business if necessary. The Whip would not be used for business taken in the morning, and there would be no possibility of a count; senior Ministers' departmental work should not therefore be much affected. It was important that the experiment should not fail because of a lack of interesting business, and the suggestions for topical debates might also forestall pressure for the relaxation of Standing Order No. 9.

In further discussion of the proposed business for morning sittings, it was suggested that adjournment debates, despite the views of the Select Committee on Procedure, should be taken in the morning. There should not be much difficulty in filling the remaining time in morning sittings with uncontroversial business; if further debates were needed it would be better not to link them with the procedure under Standing Order No. 9. If topical debates were to take place at all, their subjects should be chosen by the Government, not left to the discretion of the Speaker. But it might be better to avoid topical debates, and allocate any extra time to debates lasting, perhaps, an hour, on regional subjects, for which there was a growing demand.

The following points were also made:

(a) It was generally acceptable, and would be most convenient for the staff of the House, that morning sittings should be on Mondays and Wednesdays.
Although the Opposition were likely to allow their Members a free vote on morning sittings, and there was some pressure for the Government to do likewise, steps should be taken to ensure that Government supporters voted in sufficient numbers to ensure that the necessary Sessional Orders implementing the proposed changes in procedure were carried.

The Prime Minister, summing up the discussion, said that the Cabinet were agreed that a specialist committee on science and technology should be set up and favoured the appointment of one, experimentally for one year, on the work of the Ministry of Agriculture, Fisheries and Food. The Minister of Agriculture should now consider the proposal further, in consultation with the Secretaries of State for Scotland and for Wales. The Cabinet were agreed in principle that, as an experiment during the current Session, there should be two morning sittings a week, on Mondays and Wednesdays. The business taken in the mornings should include adjournment debates and might also include short debates on regional matters. Otherwise the Cabinet approved the proposals of the Ministerial Committee on Parliamentary Procedure. He would discuss with the Lord President the draft of the statement to be made in the forthcoming debate in the light of the Cabinet’s views and would, if necessary, arrange for it to be further discussed by Ministers.

The Cabinet—

(1) Invited the Minister of Agriculture, Fisheries and Food, in consultation with the Secretary of State for Scotland and the Secretary of State for Wales, to consider in the light of the discussion the possible establishment of a Select Committee on the work of his Department.

(2) Agreed in principle that there should be experimental morning sittings on Mondays and Wednesdays, and that the business to be taken should be as proposed by the Select Committee on Procedure, with the addition of adjournment debates and, if time permitted, short debates on regional matters.

(3) Approved the remaining proposals in C (66) 163.

(4) Agreed that there should not be a free vote as far as Government supporters were concerned in the forthcoming debate on procedure in the House of Commons.

(5) Took note that the Prime Minister would consider, with the Lord President of the Council, in the light of the discussion, the statement to be made in the debate on the Government’s proposals.
4. The Cabinet resumed their discussion of a memorandum by the Chancellor of the Exchequer (C (66) 158) covering a report by the Committee on Public Expenditure, and memoranda by the Minister of Social Security (C (66) 157 and 161), the Minister without Portfolio (C (66) 159), the Lord President of the Council (C (66) 160) and the Secretary of State for Education and Science (C (66) 166).

The Chancellor of the Exchequer said that the proposed reduction of £12 million in expenditure on local authority "other environmental services" related to capital expenditure, and was therefore separate from the reduction of £30 million in current expenditure on miscellaneous environmental services which had been discussed by the Cabinet the previous week (CC (66) 56th Conclusions, Minute 6). The cuts would involve reductions in capital expenditure on parks and pleasure grounds, and in some less essential work on water supply and sewerage schemes.

In discussion it was pointed out that the Department of Education and Science had been encouraging schools to join with local authorities in projects for swimming baths. Some of these "dual user" schemes might be frustrated or delayed by the reductions now proposed. It was however accepted that the proposals allowed a margin to provide for works which were urgently necessary and works in areas of high unemployment.

The Cabinet—

(1) Approved the proposal of the Committee on Public Expenditure that capital expenditure on other environmental services in 1967-68 should be reduced by £12 million.

The Home Secretary said that the reductions proposed by the Committee on Public Expenditure in expenditure on police and prisons would mean that the rate of increase in that expenditure was less than the average rate of increase in public expenditure in 1967-68, despite the importance of maintaining law and order and the serious consequences that might arise if the Government appeared to be failing to take the steps necessary to do so. He could accept reductions of £600,000, which would result from deferring work on the police college and police training centres, but he would be placed in serious difficulty by any proposal that further reductions should be made. It was particularly important that he should have approval for additional expenditure of £2.5 million on communications equipment and patrol cars for the police.

In discussion it was pointed out that the proposed expenditure on communications equipment and patrol cars was an "additional" programme for the purposes of this exercise, and would be for separate discussion. The Committee on Public Expenditure had been asked to recommend a reduction of £6.8 million in expenditure on police and prisons, but had accepted that the reduction should not exceed £1 million. This would leave the Home Secretary free...
to continue to build up the police establishment and to recruit prison officers.

The Prime Minister said that in view of the differing considerations, the issue should be further discussed after decisions had been taken on the remaining items. Meanwhile the proposal that expenditure on police and prisons in 1967–68 should be reduced by £1 million should stand.

The Cabinet—

(2) Agreed to resume consideration of expenditure on police and prisons after discussing the remaining proposals of the Committee on Public Expenditure.

There was general agreement with the proposals of the Committee on Public Expenditure for reducing miscellaneous expenditure on education and increasing fees for evening institutes and for further education. The proposal to increase fees for overseas students at universities should be considered further in connection with the aid programme. It was agreed that a cut in the grants to direct grant schools at this stage might prejudice the willingness of these schools to play their part in plans for comprehensive education; moreover, a reduction in the capitation grants to direct grant schools would mean an increase of the order of £25 a year in fees for pupils, which would in many cases fall upon local authorities. This proposal should not therefore be pursued, on the understanding that the Secretary of State for Education and Science would find savings of £1 million by other means. It was accepted that the proposed reductions in vacation grants for students and increases in parental contributions would not only cause an immediate adverse reaction among students and their parents but would also prejudice the chances of introducing major changes in the system of student support, with the firm prospect of substantial long-term savings, from September 1968.

The Cabinet—

(3) Approved the proposal of the Committee on Public Expenditure for a saving of £3·8 million in miscellaneous expenditure on education in 1967–68.

(4) Approved the proposal of the Committee on Public Expenditure that savings of £2·2 million in 1967–68 should be realised by raising the fees for evening institutes and for further education.

(5) Invited the Chancellor of the Exchequer, the Secretary of State for Education and Science and the Minister of Overseas Development to give further consideration, in connection with the aid programme, to the proposal for increasing fees for overseas students at universities.

(6) Agreed that there should be no reduction in the capitation grants to direct grant schools, on the understanding that the Secretary of State for Education and Science would
achieve savings of £1 million in his programme by other means.

(7) Agreed that there should be no reduction in vacation grants for students and no increase in parental contributions for students in advance of the major changes in the system of student support which the Secretary of State for Education and Science was planning to introduce from September 1968.

The Chancellor of the Exchequer said that the proposed increase in charges for school meals would save £20 million in a full year and £12 million in 1967–68. The cost of meals had grown steadily since charges were last increased in 1957 to 1s. and was now 2s. 6d. The proposed charge of 1s. 6d. would roughly restore the 1957 relationship to the cost of meals. The position of families with lower incomes would be safeguarded by the new supplementary benefit provisions, which would have the effect that a family with three children would not have to bear the charges until its net income reached £15 a week on average. The balance of opinion in the Committee on Public Expenditure supported the proposed increased charge, provided that some arrangement were made to improve the position of the poorer families: the possibilities of doing this within an acceptable limit of additional expenditure required further consideration.

The Ministerial Committee on Social Services had favoured an increase of family allowances, associated with a reduction of income tax child allowances, which would restrict the benefit of the increase to those paying less than the standard rate of tax. There were however substantial objections both of policy and practice to such a scheme, which would involve a major disturbance of the tax position of 4 million families for the sake of a relatively small minority of families in need. The implications of such a scheme required fuller study, but the introduction of the additional charges should not be made conditional on any improvements in family allowances which would cost more than the amount saved by the extra charges. In present economic circumstances it was essential that any additional expenditure should be concentrated on the limited area of need, which was confined to the 160,000 families shown by the recent Ministry of Social Security survey to have incomes below the new supplementary benefit level. Such a concentration could not be achieved through an adjustment of tax allowances. Moreover, such a scheme would have the effect that husbands who were, or as a result became, tax payers, would suffer a reduction in net pay which would be widely unpopular, which would reduce their taxable capacity, and which might stimulate wage claims notwithstanding the extra family allowances payable to their wives. Nor could the Inland Revenue bring such a scheme into operation from April 1967, even if it were acceptable in principle. On the other hand, a means-tested type of scheme could be introduced in autumn 1967 and could give more help to the poorest families, and at lower cost, than any scheme not involving a means test. Further study should be given to the possibility of devising an
acceptable scheme of this nature for introduction in 1967 at a cost of around £10 million in that year.

The Minister of State, Department of Education and Science, said that, the National Plan had stated that educational spending would increase faster than the average for all services, yet notwithstanding this statement, and the close link between education and long-term economic growth, the proposed reductions in educational expenditure would reverse this priority. In the context of educational expenditure, however, the proposed increase in the charge for school meals could be accepted. The poorest families who had been getting school meals free would continue to do so, and the new supplementary benefit scales would result in some children qualifying for free meals who did not qualify at present.

The Minister without Portfolio said that half of the proposed total reductions in expenditure would come from the social services field. It was desirable that the effects of these reductions should be considered together, and in particular that the proposed increase in charges for school meals and welfare milk should be considered in parallel with the level of family allowances. The Ministry of Social Security survey had shown that, while there were about 160,000 families (with 500,000 children) with incomes below the new supplementary benefit level, there were also a large number of families with incomes very little higher. These families would be adversely affected by the proposed increase in charges for school meals and the abolition of free milk. Quite apart, however, from the proposal for higher charges, there was much public concern with the problem of poverty among families with children and, when the Ministry’s survey was published next year, there would be strong criticisms if nothing had been done to help those families.

The majority of the Ministerial Committee on Social Services were opposed in principle to any extension of means-tested payments in this field; such payments to persons in full-time work were calculated to destroy incentives and, even if introduced only as an interim measure, would be likely to result in the indefinite postponement of any more radical reform of family endowment. The majority of the Committee, therefore, would advocate an increase of family allowances, associated with a reduction of income tax child allowances. While the introduction of such a scheme from April 1967 might impose severe difficulties on the Inland Revenue, the possibility of its introduction later should be further studied.

In discussion there was general agreement that an increase in the charges for school meals should be conditional on the development of an acceptable scheme for helping the poorer families and that the practical implications, as well as the implications for policy, of an increase in family allowances, associated with a reduction of income tax child allowances, should be further examined as a means of giving this help. Such a scheme would be of assistance to the Government’s policy on incomes and would enable the Government
to avoid the criticism that would otherwise arise when the results of the Ministry's survey were published.

In further discussion it was suggested that, if such a scheme proved acceptable in principle, there would be advantage if it could be introduced in autumn 1967 at the same time as it was proposed to increase the charges for school meals. It was also suggested that the proposed increases in the charge for welfare milk should be deferred to the autumn, since similar considerations arose in respect of them. It was pointed out, however, that the reduction of the income tax child allowance in the middle of the tax year would present the Inland Revenue with the substantial administrative problem of recoding some 4 million cases. Further, a new or increased tax liability would be created retrospectively in respect of the preceding months of the tax year, and this would double the actual payments to be made in the remainder of that year, so imposing an unacceptable burden on tax payers with families. The possibility of avoiding this effect would need to be further considered.

The Prime Minister, summing up this part of the discussion, said that the Cabinet would be prepared to agree that the charge for school meals should be increased from 1s. to 1s. 6d. and the price of welfare milk from 4d. to 6d. a pint in the autumn of 1967, conditionally on the working out of an acceptable family endowment scheme which would, amongst other things, help to reduce the impact of these increases on families less well able to afford them. The Chancellor of the Exchequer and the Minister without Portfolio, as Chairman of the Ministerial Committee on Social Services, should now discuss how the further consideration of family endowment should be handled. In reviewing the range of schemes, they should examine further the implications, for social and taxation policies and also for tax administration, of schemes combining increases in family allowances concurrent with reductions of income tax child allowances within acceptable limits of additional expenditure, and coming into effect in the autumn of 1967. Any scheme involving tax allowances should seek to avoid the imposition of retrospective tax liabilities in the course of the financial year. They should report to the Cabinet in time to enable a final decision to be taken on the provision to be included in the Estimates for 1967-68. Meanwhile the Estimates should provisionally be prepared on the basis of the increased charges. The statement that the Government would continue to give a high priority to the measures designed to meet family needs should consequently be retained in the draft White Paper on Prices and Incomes criteria during the period of severe restraint.

The Cabinet—

(8) Approved the proposal of the Ministerial Committee on Public Expenditure that the charge for school meals should be increased by 6d. in September 1967, subject to an acceptable scheme being devised for improving the provision for poorer families.
(9) Agreed that the charge for welfare milk should be increased to 6d. a pint from September 1967, subject to the condition in Conclusion (8).

(10) Invited the Chancellor of the Exchequer, in consultation with the Minister without Portfolio, to arrange for urgent consideration to be given to an acceptable family endowment scheme in accordance with the Prime Minister’s summing up of their discussion.

(11) Agreed to resume their discussion of family endowment in the light of Conclusion (10).

Pensions

The Minister of Social Security said that the proposal by the Committee on Public Expenditure that the uprating of pension benefits on the next occasion should be confined to a rise of 10s., to take effect in November 1967, would not accord with the pledge given by the Labour Party in their Election Manifesto that pensions should be raised to keep in step with the level of earnings. The proposal was, moreover, substantially less favourable to pensioners than any action taken by the previous Administration during their period of office. The increases which had been made in schemes of supplementary benefit did not cover all cases of hardship and the present proposal would reduce the comparative level of the standard of living of old people and the sick substantially below that of the rest of the community. The rise in pensions should therefore be 13s. Even this would be 1s. less than required to keep them in line with the rise in the level of earnings but taken in conjunction with the improvement in supplementary benefits would be acceptable. Given our present serious financial difficulties the increase might however be delayed until October 1967, so reducing by £53 million the level of expenditure which she had previously proposed.

In discussion it was the general view that, however regrettably, our present economic circumstances made it necessary to accept that the increase should be no higher than 10s. It was, furthermore, pointed out that this increase would mean that the present Administration had raised the level of pensions by 22s. 6d. in a period of three years compared with a total increase of 37s. 6d. over the 13 years of office of the previous Administration. Furthermore, there had been recent increases in supplementary benefits, which would be still further increased by some 5 per cent in the autumn of 1967, and these had effected a further substantial improvement in the general level of social benefits.

It was also suggested that the delay between the announcement of a decision in Parliament to raise benefits and the payment of the increases in the following October would subject the Government to severe criticism, similar to that which had occurred on the occasion of the previous rise in pensions. It was, however, the general view that provided it were made clear at the time of the original announcement that the decision to pay the benefits from the following autumn was one deliberately taken on financial grounds, and was not due to administrative delays, any criticism should not be serious.
The Cabinet—

(12) Agreed that pension benefits should be uprated by 10s. for the pension for the single person (and other benefits correspondingly) with effect from the end of October 1967.

The Home Secretary said that the proposal by the Committee on Public Expenditure to reduce expenditure on administrative and miscellaneous services by £5.6 million included reductions totalling £1.8 million in expenditure on courts and on fire services. He could accept a reduction of £800,000 but the higher figure would mean that he would be unable to increase manpower in the fire services, and would have to reduce expenditure on fire appliances by 50 per cent in 1967-68. It would also mean that no new court buildings could be started until 1968.

The Lord Chancellor said that the lack of an adequate number of courts was causing serious congestion and delays in the hearings of cases both in London and in the provinces. The United Kingdom was spending relatively less than any other Western democracy on the administration of justice.

The Prime Minister said that the Cabinet would need to complete their discussion on expenditure on administrative and miscellaneous services, and to resume their consideration of expenditure on industrial technology (aviation) and police and prisons, at a further meeting the following week.

The Cabinet—

(13) Agreed to resume their discussion of the public expenditure programme for 1967-68 at a subsequent meeting.

Cabinet Office, S.W.1.

17th November, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Tuesday, 22nd November, 1966,
at 10 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. MICHAEL STEWART, M.P., First Secretary of State and Secretary of State for Economic Affairs (Items 1 and 2)
The Right Hon. LORD GARDNER, Lord Chancellor.
The Right Hon. RICHARD CROSSMAN, M.P., Lord President of the Council
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M.P., Minister without Portfolio
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. FREDERICK LEE, M.P., Secretary of State for the Colonies
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:
The Right Hon. FREDERICK MULLEY, M.P., Minister of Aviation (Items 1-4)
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Items 1-4)

The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer (Items 2-4)
The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FREDERICK LEE, M.P., Junior Minister of Agriculture, Fisheries and Food (Items 1-4)
The Right Hon. CLEDYWN HUGHES, M.P., Secretary of State for Wales
The Right Hon. RICHARD MARSH, M.P., Minister of Power (Item 5)

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. K. BARNES
Mr. R. T. ARMSTRONG

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1. The First Secretary of State said that he had been shown in confidence a copy of the statement which the Trades Union Congress (TUC) were proposing to issue after the publication of the White Paper on Prices and Incomes Criteria during the Period of Severe Restraint. While the statement would record that the TUC would have due regard to the criteria, it would make it clear that they did not regard themselves as bound by them, and as now drafted it was sharply critical of certain sections of the White Paper. In particular, the TUC regarded the Government's position on dividends as disingenuous, they considered the sections on prices to be too mild in relation to the section on wages, and they feared that the effect of what was said about productivity agreements would serve to discourage such agreements (though there were known to be several waiting to go forward). The TUC also thought that the public services were being treated unfairly. The criticisms were stronger than the discussions with the representatives of the TUC had led him to expect, but it was clear that, even if criticisms on these lines had been voiced earlier, it would have been impossible for the Government completely to meet them. He would be meeting the General-Secretary of the TUC later in the day, and would endeavour to persuade him to modify the statement, pointing out the possible dangers inherent in an overt division of opinion between the Government and the TUC on prices and incomes policy. It was unlikely, however, that the general line of the TUC's note could be altered. In general, there were signs that the TUC line on prices and incomes policy was beginning increasingly to diverge from that of the Government.

The Cabinet—

Took note of the statement by the First Secretary of State on the reaction of the Trades Union Congress to the White Paper on Prices and Incomes Criteria in the Period of Severe Restraint

2. The Cabinet resumed their discussion of a memorandum by the Chancellor of the Exchequer (C (66) 158) covering a report by the Committee on Public Expenditure, a note by the Secretary of the Cabinet (C (66) 169) covering a report on space technology by the Official Committee on Science and Technology, and a memorandum by the First Secretary of State and Secretary of State for Economic Affairs (C (66) 170) on finance for container ships.

The Home Secretary said that he was prepared to accept a reduction of £2 million (as opposed to the £2.9 million allowed for in the proposals by the Committee on Public Expenditure) in his share of expenditure on administrative and miscellaneous services in 1967-68. In so far as this affected the fire services it might need to be taken into account in negotiations with local authorities on the rate support grant.
The Cabinet—

(1) Agreed that provision for administrative and miscellaneous expenditure in 1967–68 should be reduced by £4.7 million.

The Home Secretary said that in the light of previous discussion and further consideration he was reluctantly prepared to accept the reductions proposed by the Committee on Public Expenditure in expenditure on police and prisons in 1967–68.

The Cabinet—

(2) Approved the proposals of the Committee on Public Expenditure that expenditure on police and prisons in 1967–68 should be reduced by £1 million.

The Minister of Aviation said that the BLACK ARROW programme on space technology had already been reduced from £43.7 million to £26.5 million over eight years. The extramural expenditure in 1967–68 would be £2.1 million. If the project were cancelled, cancellation charges of £0.4 million would be incurred in 1967–68, reducing the net saving to £1.7 million. The BLACK ARROW programme could not be regarded as an alternative to our contribution to the European Launcher Development Organisation (ELDO) and the European Space Research Organisation (ESRO). It was necessary to maintain a national space programme both to sustain our technological contributions to ELDO and ESRO and to reap their benefits and to retain a national capability in these fields. It would be inappropriate to cancel the BLACK ARROW programme at a time when we were making proposals for a European technological community. For the sake of keeping the BLACK ARROW programme in being he would be prepared to investigate the possibility of making further cuts of £1 million in the aeronautical research programme, though expenditure on his Vote for that programme in 1967–68 had already been reduced by £700,000.

In discussion it was suggested that we were unlikely to derive any economic, military or political benefit from the BLACK ARROW programme and that by cancelling it we should not be opting out of space technology: our five-year programme of work in the space field amounted to £90 million, of which BLACK ARROW only accounted for some £16 million. Nor was the programme justified by its indirect technological benefits: greater benefits in the industrial field generally would accrue from the expenditure of a similar amount of money on programmes directly related to particular industries. Such resources as we could make available for development projects could most advantageously be concentrated on projects with a low ratio of expenditure on research and development to production costs: in other words, on smaller projects with large sales prospects.

On the other hand it was argued that the level of expenditure now proposed for the BLACK ARROW programme was a small price to pay for the maintenance of a national space capability (especially as this concerned the field of communications, where we had hitherto held a commanding lead) and that this was indeed a
necessary complement to our international collaboration. In the context of our relationship with Europe, there would be political benefits to be gained from continuing with the programme. To argue that it was never right to proceed with a research and development project unless direct economic benefits could be foreseen would be to take too narrow a view and to limit the scope for technological progress. If the programme were continued, we should however seek to obtain a contribution to its cost by the industrial firms concerned. In any event, if such programmes were to be undertaken at all, they should be carried out resolutely and with all appropriate urgency.

The Prime Minister, summing up the discussion, said that there was general agreement that the BLACK ARROW programme should not be cancelled without some further evaluation of its priority in relation to other research and development expenditure of a technological nature. Now that the Ministry of Aviation's remaining functions were to be taken over by the Minister of Technology, the Minister of Technology would be in a position to evaluate this programme in relation to other research and development programmes, both within and outside the defence field. The BLACK ARROW programme should continue for a further year. If at the end of the year the Minister of Technology, after undertaking such an evaluation, considered that the BLACK ARROW programme should have priority over other programmes and was prepared to make savings elsewhere in order to make this possible, the BLACK ARROW programme could go ahead; if on the other hand he decided that other programmes were more important, then BLACK ARROW could be brought to an end. In the meantime the Minister of Aviation should examine as a matter of urgency the possibility of making further savings in expenditure on aeronautical research in 1967–68, with a view to achieving further reductions of £1 million in his own Vote and Defence Votes taken together.

The Cabinet—

(3) Agreed that the BLACK ARROW programme should continue through 1967–68, and approved expenditure of £2 1 million in 1967–68 accordingly.

(4) Invited the Minister of Technology, in consultation as appropriate with the Secretary of State for Defence, to arrange for an evaluation of the BLACK ARROW programme and its priority in relation to other research and development projects, on the lines indicated by the Prime Minister.

(5) Invited the Minister of Aviation, in consultation with the Chancellor of the Exchequer and the Secretary of State for Defence, to consider means of reducing expenditure on aeronautical research in 1967–68 by £1 million in total (on Ministry of Aviation and Defence Votes together).
Finance for Container Ships

The First Secretary of State said that the Ministerial Committee on Economic Development had agreed that provision should be included in the Bill to set up the Shipbuilding Industry Board for an additional credit of £30 million to be made available to shipping firms placing orders for United Kingdom ships, where the orders would enable an important development of ship design or construction to be undertaken in United Kingdom yards and would contribute to the formation of groups in shipbuilding which would be to the longer term advantage of the industry. The immediate purpose of this provision would be to enable United Kingdom shipbuilders to compete on level credit terms with Japanese shipbuilders for orders shortly to be placed by a United Kingdom consortium for container ships to the value of £27 million. Expenditure on this account repayable over the loan period might amount to £10 million in 1967-68. The total cost to the Exchequer of grants to bridge the gap between the Exchequer lending rate and the lower interest rates available from overseas competitors would amount to a maximum of about £1 1/2 million spread over the period of the loans. The Ministry of Technology would consider whether any compensating saving for the grant could be secured elsewhere in their estimates.

The Cabinet—

(6) Took note, with approval, of the decision of the Ministerial Committee on Economic Development that provision should be included in the Bill to set up a Shipbuilding Industry Board on the lines indicated by the First Secretary of State.

Defence

The Lord Chancellor said that, at a time when the Government were severely restricting the growth of social expenditure, the level of Government expenditure on defence was still too high. In the longer term significant savings could be achieved only by not placing new orders for major weapons and equipment. It was for consideration whether the Government should now announce that, in view of the economic situation, they had decided not for the time being to place the order for a sixth attack submarine (which was due to be placed early in 1967).

The Secretary of State for Defence said that it was important for the maintenance of the labour force in shipyards and for economy in construction costs to keep an even flow of orders to shipbuilders. These objectives would be frustrated if the order for a sixth attack submarine were to be deferred. The shipbuilding programme had been extensively considered in the Defence Review, and the need for this submarine (which had no connection with the Polaris programme) had been fully established and was not now in question. He hoped to be able to achieve the reduction of £50 million in defence expenditure in 1967-68 for which the Chancellor of the Exchequer had asked, and in the longer term further reductions in defence expenditure might be achieved as a result of further studies which were now in progress. It would be wrong to take piecemeal decisions on particular orders.
After discussion, in which stress was laid upon the importance of putting to good use resources released by reductions in the defence programme, The Prime Minister, summing up, said that defence expenditure had to be considered as a whole. To take a decision on a particular project as a public gesture might seriously interfere with sensible defence planning. The results of the further studies to which the Secretary of State for Defence had referred would in due course be brought before Ministers, who would then have to balance the economic advantages of further reductions in defence expenditure against the potential defence risks and political consequences which such reductions would entail.

The Cabinet—

(7) Took note, with approval, of the Prime Minister's summing up of their discussion on defence.

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3. The Cabinet considered a memorandum by the President of the Board of Trade (C (66) 165) about export credit for the sale of BAC-111 aircraft to the Indian Airlines Corporation (IAC).

The President of the Board of Trade said it was necessary to resolve a difference of view which had arisen in the Sub-Committee on External Economic Policy of the Ministerial Committee on Economic Development on a proposal that the present limit of £20 million on officially insured business with India on credit terms in excess of five years should be waived in order to make possible the sale of BAC-111 aircraft to the IAC. The IAC would shortly need to replace its fleet of Viscounts and the first choice for a replacement would probably be the BAC-111, in which case the order would be worth £9·5 million. The Indians had made it clear that they would require credit spread over ten years. The £20 million limit was however already fully subscribed and he had therefore proposed that the limit should be lifted to make the sale possible. This proposal had been supported by a majority of the Sub-Committee but the Treasury Ministers had been unable to accept it. The difficulty was whether, given the present and prospective state of the Indian economy, there was sufficient likelihood of repayment to justify extending credit cover for a sale of this kind. It was clear that, if the sale of BAC-111s were prevented, the Indians would meet their needs by buying from one of our competitors. Those Ministers who favoured extension of the limit argued that, even on the most pessimistic assumption about the prospects of repayment, down payments would exceed the import content of the aircraft and there would therefore be a net benefit to the balance of payments. Further benefits would follow from the sale of spares which would be paid for in cash and from the boost to the sales prospects of the BAC-111 in other markets. The Indians had always been punctilious in settling commercial debts and there was no reason to suppose that
they would change this policy. While they were expected to ask for the refinancing of their intergovernmental debt, there was no reason why the British share of refinancing should be higher if the Indians bought British aircraft rather than foreign. There were severe obstacles to the sale of British aircraft in many overseas markets; if the sale were allowed to go by default, this would greatly damage morale in the industry. Nor could it be assumed that, if the order were lost, the manufacturing resources involved would be devoted to exports elsewhere. The £20 million limit should therefore be waived to permit this particular sale.

In discussion it was pointed out that the Advisory Council of the Export Credits Guarantee Departments (ECGD) had not been prepared to accept this credit for insurance on normal commercial terms; any decision to provide cover for it would therefore have to be taken by the Government in the national interest. In the light of the grave position of the Indian economy, with imports greatly in excess of exports and with a very large deficit financed by aid, it could well be, if the proposed sale went through, that the resulting debt would have to be refinanced and that we with other creditors would be expected to bear our due share of the burden. To raise the present limit on credit cover would, on this view, mean providing special assistance to the aircraft industry, which was not recommended by the Plowden Report. The sale should therefore only be allowed to go through if the transaction were regarded as aid and the necessary finance were provided as part of the aid programme.

On the other hand it was pointed out that India's credit-worthiness had recently been improved since the $900 million of non-project aid which the World Bank thought was necessary to meet her needs would now be available. To prevent the sale would have a serious effect on our relations with India, and would be particularly unfortunate in view of the impending Indian general election there. The Indians would certainly buy aircraft elsewhere and if any part of the debt had in the event to be refinanced, we should still be under pressure to use our aid programme for that purpose. While in that event the financial burden upon us would be no less than if the aircraft were British our aid would then be devoted to refinancing debts arising from purchases from our competitors. It was not the case that the Advisory Council of the ECGD had taken the view that the transaction was commercially unsound: it was in fact precluded from considering cover on terms in excess of five years, and the present sale fell into that category.

The Prime Minister, summing up the discussion, said that on balance the Cabinet took the view that the Government would be justified in waiving the £20 million limit to meet this case.

The Cabinet—

Agreed that the £20 million limit on officially insured business with India on credit terms in excess of five years should be raised to accommodate the sale of BAC-111 aircraft to the Indian Airlines Corporation.
4. The Cabinet considered a memorandum by the President of the Board of Trade (C (66) 164) about credit cover for exports to Argentina.

The President of the Board of Trade said that the Sub-Committee of the Ministerial Committee on Economic Development had been unable to reach agreement on his proposal that the percentage risk on capital goods exports to Argentina which was covered by the Export Credits Guarantee Department (ECGD) under Section 2 of the Export Guarantee Act 1949 should be raised from the present figure of 75 per cent to 90 per cent. The limit was fixed in March 1965 when it was also decided that cover under Section 2 should be subject to a limit of £6 million on debts maturing in any one year. Since the limit of 75 per cent had been imposed, there had been virtually no business covered under Section 2 and there was no doubt that the main reason for this was that exporters were not prepared to take on this type of business unless the percentage of risk officially insured was brought up to the normal level of 90 per cent.

A majority of the Sub-Committee had supported the proposal. Cover up to the normal 90 per cent was available for exports to other Latin American countries, whose credit-worthiness was not significantly different from that of Argentina. It had not been necessary to refinance more than 10 per cent of the Argentine business to the value of £143 million covered by the ECGD between 1955 and 1965, and the benefits to our balance of payments over this period had thus been considerable. It could not be assumed that, if we did not sell our capital goods to Argentina, we should be able to export them to more credit-worthy markets. A substantial order for aircraft was at stake, as Handley Page were at present negotiating a contract for the supply of aircraft worth £8–9 million to the Argentine armed services. Argentina offered a promising market for aircraft exports but this could not be exploited if the industry were required to carry an excessive percentage of risk.

In the Sub-Committee’s discussion, the Chief Secretary, Treasury, had suggested a compromise whereby the percentage limit would be lifted to 90 per cent but the limit on annual maturities would be reduced from £6 million to £3 million. This proposal had not however commended itself to the majority of the Sub-Committee. A decision to allow cover up to an annual limit of £6 million had been taken in 1965 but had been rendered valueless by the 75 per cent limit on percentage cover. It was illogical now to reduce the first limit because the second was being increased.

In discussion it was suggested that our past experience of the need to refinance a proportion of Argentine debts was likely to be repeated in the future. The policies of the present Argentine Government were not reassuring. It was notable that West Germany was now reducing the percentage of credit cover on exports to
Argentina from 80 per cent to 75 per cent. While only 10 per cent of Argentine business covered by ECGD had had to be refinanced over the period of 1955–65, some £40 million of the debt incurred during that period was still outstanding at the end of 1965. An important factor limiting exports to Argentina was the imposition of restrictions by the Argentinians themselves. If we were to extend more liberal credit terms, there was a strong possibility that our aid programme would suffer in consequence of the need to refinance part of the debts, to the detriment of exports under tied aid to other markets.

It was argued on the other hand that the export of capital goods to Argentina was of considerable importance to some of our major industries and it was justifiable to incur some degree of risk in order to secure a reasonable share of this trade. There were good prospects of sales to Argentina of further aircraft and of naval vessels which would be frustrated if the present limit on percentage cover were maintained. Whilst it was right to control export credit for Argentina by means of limits on the amount of cover granted, the present limit of 75 per cent cover had proved too stringent; and might with advantage be extended to 90 per cent cover, with an upper limit of £4½ million, instead of the present £6 million, on annual maturities.

The Prime Minister, summing up the discussion, said that on balance the Cabinet agreed that, while an increase in the percentage cover from 75 per cent to 90 per cent would be justified, it would be desirable to circumscribe the risks involved by some reduction of the present limit of £6 million on annual maturities. A limit of £4½ million should be sufficient to accommodate the major part of business now in prospect.

The Cabinet—

(1) Agreed that the percentage risk on exports to Argentina covered by the Export Credits Guarantee Department under Section 2 of the Export Guarantee Act 1949 should be raised to 90 per cent.

(2) Agreed that the limit on annual maturities of debts covered in accordance with Conclusion (1) should be £4½ million.

5. The Cabinet considered a memorandum by the Minister of Housing and Local Government (C (66) 162) about invitations which the Royal Commission on English Local Government had issued to various Ministers to give evidence to them, informally and without publication.

The Minister of Housing and Local Government said that the Chairman of the Royal Commission had told him that they had greatly valued the informal discussions which they had already had with certain Ministers, which they regarded as complementing departmental evidence; but he would nevertheless fully understand
if Ministers, individually or collectively, considered that no further consultation of such kind should take place. As the Cabinet had agreed at their previous discussion he had explained to the Chairman the objections to such consultations but he hoped to continue his own personal contacts with the Chairman.

He had also considered the evidence which his Ministry were proposing to give to the Royal Commission and had given instructions that it should be couched in such a form as not to prejudge whatever decisions the Government might eventually wish to reach on the Commission’s recommendations. This evidence was being concerted with the other Ministries primarily concerned and would then come before the Home Affairs Committee.

In discussion it was argued that there was objection in principle to Ministers giving evidence to Royal Commissions, however informally, on the ground that this would inhibit the Government’s freedom of action in taking decisions in the light of the Commission’s eventual report. It was suggested that similar considerations applied to evidence by officials which might appear to indicate a governmental conclusion on the issues before the Commission. There was, however, general agreement that it was essential that the machinery of government should provide for Royal Commissions all the relevant facts and considerations in order to enable them to carry out their task. Much would inevitably depend on the issues in question: for example, a Royal Commission concerned with the law on divorce would have less need for departmental evidence than would a Royal Commission on Local Government. It would, however, be important that evidence by Ministries should be so framed as not to imply that the Government as such were pressing a particular course of action upon the Royal Commission, nor should it be in such terms as to embarrass the Government politically, or to inhibit their subsequent freedom of action in the light of the Commission’s report.

In further discussion it was the general view that different considerations applied to evidence given by Ministries and evidence by Ministers. There were three possible stages in evidence by Ministries; the provision of the facts; the administrative and technical considerations arising from those facts which were relevant to each Ministry’s own task; and the conclusions which might be drawn from the first two stages as to the solution of the problem. The facts must be made available as fully and freely as the Commission might require and each Ministry should also put forward in evidence an analysis of the various administrative and technical considerations relevant to their own task. It would be acceptable, and indeed desirable, that this analysis might, if the facts so warranted, give a clear lead as to the requirements of an individual Ministry in the field in question. It would not, however, be appropriate that the evidence should specifically propose a solution to the problem, whether in respect of a particular Ministry or, a fortiori, in respect of the Government as a whole: nor should there be any submission
of evidence agreed between Ministries which put forward a solution on behalf of Whitehall as a whole. In submitting evidence of this nature, it would be appropriate that the evidence should first be submitted by each Ministry to their Minister to ensure that he was not opposed to it in principle, and that no part of it would be politically embarrassing, but it would be neither necessary nor desirable that the Minister should be called upon to approve the evidence as such.

As regards Ministers themselves, it was the general view that on balance it would be wrong that Ministers should decline to make their knowledge and experience available to a Royal Commission if the Commission so desired. Much would no doubt turn in practice on the views of the Chairman on the course which should be followed in this regard. It would be preferable that Ministers should give evidence after the submission of evidence by their Ministries and essential that their own evidence should be informal and not on the record. It was, however, recognised that there was a special difficulty in respect of Scottish Commissions, since whereas in respect of England each Ministry and Minister might appropriately give evidence on the considerations relevant to their particular task without involving a collective governmental view on the solution, in Scotland one Minister was responsible for the whole range of issues and his evidence might therefore be viewed as constituting a greater degree of governmental commitment. There was, furthermore, a particular difficulty in respect of the Royal Commission on Scottish Local Government, in that two members of the Commission were Members of Parliament and there would be therefore a greater risk of political embarrassment if the Secretary of State for Scotland were to give evidence, however informally.

The Cabinet—

(1) Agreed that individual Ministries should give evidence to Royal Commissions on the facts and on the full range of administrative and technical considerations relevant to each Ministry's task, but that this evidence should not indicate any general governmental view on the solutions which should be devised to the problems before the Royal Commission.

(2) Agreed that, save where special considerations arose on the lines indicated in discussion, Ministers should feel free to accept invitations from the Chairman of Royal Commissions to give evidence provided that this were done informally and not on the record and that it did not purport to put forward a collective governmental view on the conclusions which should emerge.

Cabinet Office, S.W.1,
22nd November, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 24th November, 1966, at 10 a.m.

Present:

The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. MICHAEL STEWART, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. DENIS HEaley, M.P., Secretary of State for Defence
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Cledwyn Hughes, M.P., Secretary of State for Wales
The Right Hon. RICHARD MARSH, M.P., Minister of Power (Item 3)

The following were also present:

Mrs. EIRENE WHITE, M.P., Minister of State for Foreign Affairs (Items 2 and 3)

The Right Hon. JOSEPH HAILEY, M.P., Parliamentary Secretary, Treasury

Secretariat:

Sir BURKE TREND
Mr. P. ROGERS
Mr. D. S. LASKEY

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

2. The Minister of State for Foreign Affairs said that the High Commissioner for South Arabia had come to London for consultations with the Foreign Secretary. One of the most difficult issues for discussion was the action which should be taken on the report by Mr. R. Bowen, Q.C., on the procedure in Aden for the arrest, interrogation and detention of persons suspected of terrorist activities. The report made it clear that there had been no recent substantial allegations of improper practices in these respects, but allegations which had been made about a year ago had not been adequately pursued by the staff of the High Commissioner. The publication of the report in the near future might prejudice our prospect of obtaining satisfactory agreement to a United Nations Mission to South Arabia.

The Secretary of State for Defence said that the allegations in Mr. Bowen’s report particularly related to three men who were no longer in Aden, but who were subject to military discipline. He was considering whether there was a case for military proceedings against them. It was possible that action which the Government might subsequently think it right to take might in certain circumstances have repercussions which would prejudice our prospect of successfully disengaging ourselves from South Arabia and of leaving behind an organised State.

In discussion it was the general view that the issues arising from Mr. Bowen’s report called for further consideration by the Ministers primarily concerned.

The Cabinet—

(1) Invited the Minister of State for Foreign Affairs, in consultation with the Secretary of State for Defence, to circulate a paper to the Defence and Oversea Policy Committee on the issues arising from Mr. Bowen’s report on the procedures in respect of detainees in Aden suspected of terrorist activities.

The Minister of State for Foreign Affairs said that the United Kingdom Representative at the United Nations and the staff of the Delegation had recently been under exceptional strain because of the highly contentious series of debates in the General Assembly and in other United Nations organs on South-West Africa, Rhodesia, South Arabia and Gibraltar. We had been under severe attack in the course of these debates and the United Kingdom Representative and his staff had shown great skill and resilience in rebutting them.
The Cabinet—

(2) Took note with approval, of the tribute paid by the Minister of State for Foreign Affairs to the work of the United Kingdom Representative at the United Nations and that of the staff of the United Kingdom Delegation.

3. The Cabinet considered a note by the Commonwealth Secretary (C (66) 172) covering a draft White Paper on Rhodesia.

The Prime Minister said that the reply from Mr. Smith, the head of the illegal regime, to the three questions which we had put to him was cleverly drafted with a view to influencing opinion in Rhodesia, the United Kingdom and South Africa. It amounted however to a complete rejection of our terms. On the constitutional arrangements the regime had resiled from their position before the illegal declaration of independence. The 1961 Constitution had never been intended to be a basis for independence and successive United Kingdom Governments had insisted that there must be additional safeguards for unimpeded progress to majority rule before independence could be granted. The regime now rejected these safeguards and were insisting that there should be provision for 15 European reserved seats to be added as Africans gained “A” Roll seats, the effect of which would be to impose an additional delay before majority rule of perhaps 10 years. They also proposed to abolish cross voting. They refused to entrench Section 37 of the Constitution and could thus delay majority rule indefinitely by creating additional “A” Roll seats which would be won by Europeans. The position adopted by the regime on the constitutional arrangements was the main ground on which a break must now be regarded as inevitable. They also rejected our proposals for a return to legality; this was also an important issue of principle since there could be no adequate test of Rhodesian opinion, in accordance with the fifth principle, while the illegal régime was still in power.

The Governor had strongly urged that the Commonwealth Secretary should again visit Salisbury before the break with the régime took place. He maintained that Mr. Smith’s reply indicated some move in our direction, although on this occasion the Chief Justice took a less sanguine view. If, however, the Governor’s request were refused he might well resign and claim that the United Kingdom Government were responsible for the failure to reach a settlement. This could be very damaging on the eve of our recourse to the United Nations and the Ministers principally concerned had therefore agreed that the Commonwealth Secretary should pay another brief visit to Salisbury in order to demonstrate that even at the last moment before our time limit expired at the end of November we had kept open the possibility of a settlement. Ministers had been confirmed in this view by the invitation to Mr. Smith to appear on an Independent Television programme in the United Kingdom. There could be no question of giving him a safe conduct; in any event
proceedings against him could be initiated by a private citizen and not only by the Government. In these circumstances it was unlikely that he would come to the United Kingdom, but the case for a visit by the Commonwealth Secretary to Salisbury was strengthened. The Commonwealth Secretary’s visit would be to the Governor and he would seek to persuade him to remain at his post. If the Governor nevertheless resigned when mandatory United Nations sanctions were imposed, we should need to consider what course to adopt under the 1961 Constitution. Under the 1961 Constitution the Chief Justice would act as Governor in the absence of the holder of that Office, but this might not prove the best longer term solution. There would be no question of the Commonwealth Secretary negotiating with the regime, but he would indicate his readiness to see Mr. Smith if the latter had any communication to make to him. If Mr. Smith asked for a meeting the Commonwealth Secretary would make it clear that we were not prepared to alter the timetable we had established and that unless, during his visit, Mr. Smith accepted our terms, we should go to the United Nations to seek approval for mandatory sanctions. It seemed in the highest degree improbable that Mr. Smith would accept our terms, including the assumption by the Governor of control over the Rhodesian armed forces and police, and the acceptance of a British military presence in Rhodesia; a break must therefore now be regarded as inevitable. The reasons for the Commonwealth Secretary’s visit had been explained by the United Kingdom Representative (Lord Caradon) at the United Nations and by the United Kingdom Special Representative in East and Central Africa (Mr. Malcolm MacDonald) to the Heads of Government in Kenya and Uganda.

Lord Caradon and Mr. Malcolm MacDonald had advised that we could not hope to restrict oil sanctions against Rhodesia to Mozambique. The Ministers principally concerned therefore took the view that the initial resolution which we would sponsor should deal only with selected Rhodesian exports but that we should be prepared to accept an amendment extending the resolution to include a general ban on oil supplies to Rhodesia. At the same time we should have to reserve our position on enforcement if the ban on oil supplies were not observed by Portugal or South Africa. We might contemplate enforcement action against Mozambique but economic war with South Africa could cost us over £200 million in exports (as well as further substantial consequences for our invisible earnings) and we could not contemplate damage to our trade of that order. A number of countries other than Portugal and South Africa had however failed to comply strictly with the voluntary ban on Rhodesian exports and a mandatory resolution should make these sanctions more effective.

In discussion general support was expressed for the visit by the Commonwealth Secretary to Salisbury on the basis described by the Prime Minister.

On the question of our attitude towards enforcement measures it was suggested that if we stated publicly at the United Nations that
we could not agree to any measures against South Africa, this would be severely criticised as being likely to nullify the effect of mandatory oil sanctions against Rhodesia. It might therefore be preferable for our position to be explained privately to Commonwealth countries rather than stated publicly. On the other hand if our position were not made clear to the South African Government they might well retaliate against our economic interests. It was pointed out that we had made our position clear at the Commonwealth Prime Ministers' Meeting and this was on record. Moreover, the question would certainly be raised in Parliament and would have to be answered. We could therefore indicate our position to the South African Government but need give them no commitment; we could draw attention to the risks which would arise if the Rhodesian problem remained unsolved, including the possibility that the Soviet Union might offer forces to the United Nations for use against Rhodesia or to enforce sanctions. There was an indication that the South African Government were very much concerned at these dangers and might be prepared to put pressure on the Rhodesian regime to reach a settlement acceptable to us.

In further discussion the point was made that by invoking mandatory sanctions at the United Nations and by the declaration that we should no longer be prepared to grant independence before majority rule, we should be starting out on a road the end of which was not clear. In particular, we could no longer expect to be able to reach a settlement with any European regime. Furthermore, although the immediate effect of mandatory sanctions on selected Rhodesian exports should not add significantly to the economic burden which the United Kingdom was already bearing, the risk of developments in Zambia which would interrupt copper supplies would remain, though attention could not be drawn to this in public and it must be expected that the new phase of the Rhodesian situation would add to our economic difficulties. If we were to retain the support of opinion in this country it would be necessary to explain as simply as possible the issues of principles which made a break unavoidable.

The Prime Minister, summing up this part of the discussion, said that the Cabinet would wish to consider the terms of the draft resolution on selected Rhodesian exports which we intended to introduce at the United Nations, and also on the embargo on oil imports into Rhodesia which we would be prepared to accept. A paper should also be circulated by the Commonwealth Secretary on the implications for the United Kingdom economy of the mandatory United Nations sanctions which were envisaged and of the consequences of economic confrontation with South Africa.

Timetable

The Prime Minister said that the Commonwealth Secretary would leave that night and would return to the United Kingdom on the morning of 28th November. Assuming that our terms had not been accepted he would himself make a statement in Parliament that afternoon. There would be advantage if the White Paper were issued simultaneously rather than on the following day. He would propose
to make a television broadcast on the same evening and there should be the fullest briefing of the United Kingdom and foreign Press. The Government had undertaken not to embark on any irrevocable action without affording an opportunity for discussion in Parliament and the Opposition might be offered a debate on 30th November and 1st December. If they chose to postpone the debate the Government could not be committed to deferring the action which we should have to take at the United Nations. Lord Caradon might initiate confidential discussions on our draft resolution on selective mandatory sanctions on 1st December and at the same time call for a meeting of the Security Council on 7th December. This would allow time for a meeting of the Commonwealth Sanctions Committee on 5th December.

The Cabinet then discussed the draft White Paper and the following main points were made—

(a) It should be made clear that, as the Prime Minister had pointed out, the illegal régime had resiled from the position adopted before the illegal declaration of independence on future constitutional arrangements. This might be brought out both at the end of paragraph 19 and in the concluding section.

(b) The final message to the régime, the draft of which was circulated at the meeting (the text of which is annexed to these minutes), should be included as Appendix F and a reference to it should appear in the main text, perhaps in paragraph 37. The message should include a refutation of the accusation in Mr. Smith’s reply to the three questions about the British assistance to Zambian broadcasting.

A number of other amendments were also agreed.

The Cabinet—

(1) Invited the Commonwealth Secretary to circulate a paper on the resolution to be introduced at the United Nations for mandatory sanctions on selected Rhodesian exports and a general oil embargo and on the implications of United Nations action for the United Kingdom economy, on the lines indicated by the Prime Minister in his summing up of the first part of their discussion.

(2) Took note, with approval, of the forthcoming visit by the Commonwealth Secretary to Rhodesia.

(3) Approved the timetable for future action indicated by the Prime Minister.

(4) Took note that the Prime Minister, in consultation with the Commonwealth Secretary and the Attorney General, would approve additional passages for the White Paper on the lines agreed in their discussion.

(5) Subject to Conclusion (4) above and the other amendments they had agreed, approved the White Paper.

Cabinet Office, S.W.1,
The British Government have studied the answers given to the three clarificatory questions which they have raised.

2. They note that, despite the insistent arguments on the Rhodesian side throughout the exploratory talks since last May on the need for safeguards against the premature advent of African rule, this is no longer advanced as the reason for not including Section 37 of the 1961 Constitution among the specially entrenched clauses: but that it remains Mr. Smith's position that Section 37 should not be so included. The power to use this section to control the pace of progress towards majority rule would therefore exist.

3. They note that Mr. Smith is not prepared to discuss or commit himself in any way on matters regarding the restoration of constitutional government "until the constitutional settlement has been disposed of and acknowledged by the British Government as having passed the test of acceptability". This also can only mean that Mr. Smith considers that the test of acceptability must take place before there has been a return to constitutionality.

4. No British Government which adhered to the fifth principle could possibly undertake in advance to impose a constitutional settlement if this had been shown to be unacceptable to the people of Rhodesia as a whole. The possibility of opinion expressing itself against the proposals for a settlement must be inherent in any fair and free test. In that event there would of course be a legal Government under the 1961 Constitution, appropriately modified.

5. It is also noted that, as regards the circumstances in which the testing of opinion might be carried out, Mr. Smith is prepared to go only as far as to recognise "the need to modify censorship" and the possibility of permitting persons in detention to make known their views to the testing authority.

6. In the light of these replies, the British Government are obliged to conclude that Mr. Smith is not ready to contemplate a constitutional settlement which would ensure unimpeded progress to majority rule, or to accept what must be the minimal requirements if the opinion of the people of Rhodesia as a whole is to be properly ascertained.

7. The matter now becomes a question for the British Parliament, to which the British Government will shortly be communicating full details of the recent exchanges and the position now reached.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 29th November, 1966, at 10 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Commonwealth Affairs (Item 1)
The Right Hon. DENIS HEALY, M.P., Secretary of State for Defence
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. CLEDWYN HUGHES, M.P., Secretary of State for Wales

The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

Also present:
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIeld
Mr. D. S. LASKHY
Mr. R. T. ARMSTRONG

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1. *The Cabinet had before them a note by the Commonwealth Secretary (C (66) 173) on mandatory sanctions against Rhodesia. The Commonwealth Secretary said that on his arrival in Salisbury the previous Friday he had made no attempt to arrange a meeting with Mr. Smith, the leader of the illegal regime, and had confined his initial discussions to those with the Governor. Mr. Smith had, however, asked for a meeting and had come to Government House on the Saturday morning accompanied by a colleague and by two Rhodesian officials. This meeting had revealed no disposition on Mr. Smith's part to move towards our terms for a settlement, but when he for his part had suggested that there was no value in continuing the discussion, Mr. Smith had then proposed that he and the Commonwealth Secretary should meet alone with the Governor. At the ensuing meeting, the Chief Justice, Sir Hugh Beadle, had joined them and they had discussed the three major questions which we had put to Mr. Smith and on which we had received unsatisfactory replies from him:

(i) On the first, that of unimpeded progress towards African majority rule, Mr. Smith had previously maintained throughout the need for the retention by the Rhodesian Government of a "braking mechanism to prevent what he termed premature African rule. In his reply to our question on this, however, Mr. Smith appeared to have conceded this issue and had stood only on the point that it was necessary under the constitution to have power to create additional seats in the Legislature to meet the requirements of a growing population. This however would still give the Rhodesian Government the power in practice to defer an African majority, perhaps indefinitely. In the present discussion, the Chief Justice had suggested that power could be given to the Delimitation Commission to prevent the creation of new seats being carried out in such a manner as to alter the racial balance in the Legislature. This would meet our own objective. Mr. Smith had appeared to accept this proposal, but maintained his view that in addition up to a further 15 European seats should be created seriatim at such time as Africans gained "A" Roll seats in order to gain a limited deferment of an African majority.

(ii) As regards the Senate, Mr. Smith had originally proposed that there should be 12 Africans in the Senate, six of whom would be Chiefs, and that the Senate should vote together with the Lower House on constitutional amendments, thus giving the Africans a "blocking quarter" of the total votes to prevent the amendment of the entrenched clauses of the constitution contrary to

* Previously recorded as a Confidential Annex.
African interests. This proposal was not acceptable to us, since it seemed probable that some, if not all, of the Chiefs would be likely to vote with the Europeans on such issues. Mr. Smith had now offered to abandon the proposal for a Senate altogether and to accept the addition of two “B” Roll seats, so giving the Africans a “blocking quarter” of the elected members of the Legislature by this means alone.

(iii) On the issue of the return to legality, Mr. Smith was not prepared to accept the creation of a broad-based interim government on the lines contemplated in our statement, but he had said for the first time that he was prepared to give up independence at this stage, given agreement on constitutional proposals which would provide for subsequent recognised independence. Under pressure from the Chief Justice he had in the discussion gone further and said that he would consider returning to the position obtaining before the illegal declaration of independence (i.d.i.), the test of the acceptability of the proposed new constitution being carried out subsequently.

At the end of the discussion he himself had made it clear that he had no authority from the Government to negotiate with Mr. Smith and apart from dictating a note of their discussion in the presence of Mr. Smith to ensure that there was no misunderstanding about it, he had not accepted proposals by Mr. Smith, either then or subsequently, that there should be a further discussion between them before he returned to the United Kingdom. Broadly speaking, the upshot of his visit was to reveal that while Mr. Smith had made certain moves towards our requirements, these were still inadequate. It appeared however that there was some weakening of the cohesion of the Rhodesia Front Party and it was clear that Mr. Smith was anxious to continue the discussions. In a subsequent message he had, for example, offered to reduce the phasing-in of the proposed 15 additional European seats, so that each one was created not to match each African gain of an “A” Roll seat, but in response to each gain by Africans of two “A” Roll seats. It was difficult to assess how far in the last resort Mr. Smith would be prepared to go to meet our requirements. It would, however, be difficult to justify breaking off the talks at this stage without any further attempt on our part to investigate whether the weakening in the régime would lead to their acceptance of our terms for a settlement.

The Prime Minister said that at a meeting on the previous day of the Ministers principally concerned it had been agreed that, since Mr. Smith had made, or appeared ready to make, some concessions on the three key issues which we had put to him, it would no longer be appropriate to make a statement or issue the White Paper in the way previously envisaged. Mr. Smith’s move might be purely tactical but it remained essential that if there were to be a break the responsibility for it should be seen to rest fully on the illegal régime. This might be particularly important in regard to the policy of the South African Government. It was perhaps rather more probable...
that Mr. Smith was now seriously concerned about the imposition of mandatory sanctions, the effect of which he might indeed overestimate. There were indications that South Africa, and perhaps also Portugal, were exerting strong pressure on him in favour of a settlement. The concessions which Mr. Smith had made and his apparent readiness to end the rebellion made it difficult to justify a break at this stage. Even if we could now do so it would be hard to defend such a decision some months hence if mandatory sanctions had by then imposed further burdens on our economy and if there were repercussions in Zambia affecting our copper supplies. It was not yet established that Mr. Smith had moved far enough to enable a settlement to be reached but we could not lightly reject the possibility that he would do so. On the other hand we could not abandon our timetable or defer by more than a few days the action which would have to be taken in default of a settlement, both at the United Nations and in regard to a debate on Rhodesia in Parliament. The Ministers principally concerned had therefore taken the view that there must be a final meeting to establish whether or not Mr. Smith would now accept a settlement on our terms. If he would not, we should proceed with action in the Security Council and, provided there were Commonwealth support, would make the declaration that there would be no independence before majority rule. In order to establish Mr. Smith's position it was proposed that he should be invited to a meeting with the Commonwealth Secretary and himself to which the Governor would also be invited. The meeting could be held on British territory outside the United Kingdom and Rhodesia. The purpose of the meeting would be to determine whether Mr. Smith was prepared to accept our terms and it would be made clear to him that he must have full authority to take decisions at it. Such a meeting could take place later in the present week but must be concluded by 3rd December. As the Commonwealth Secretary had indicated, it now seemed possible that agreement might be reached on future constitutional arrangements in conformity with the six principles. The position was much less clear in regard to the return to legality. Mr. Smith had previously maintained that the illegal régime must remain in power during the test of Rhodesian opinion in accordance with the fifth principle. He was now apparently prepared to agree that the return to legality and to the 1961 Constitution should take place before the test of Rhodesian opinion. There must, however, be safeguards to ensure that if that test rejected the constitutional arrangements proposed for independence the Rhodesian Government would not declare a second i.d.i. One such safeguard would be to have a Commonwealth force stationed at Kariba. This would help President Kaunda and would give us control over the important Zambesi crossing. A second safeguard would be to make it clear that our undertaking not to use force would not apply in the event of a second i.d.i. This would not mean that we should be committed to use force but there might be a case for a limited use of force in support of sanctions which would not be open to the objections applying to a military
campaign to occupy Rhodesia. The withdrawal of the undertaking
should be a sufficient deterrent against a new i.d.i.

In discussion it was on the one hand suggested that the proposed
meeting with Mr. Smith would involve negotiations with the illegal
régime—a procedure which we had hitherto declared to be
unacceptable. If the discussions at the meeting were based on the
outcome of the Commonwealth Secretary’s visit to Salisbury other
points of principle might be eroded. It would not be sufficient for
a settlement to be formally in accordance with the six principles
since what mattered would be the way in which the principles were
interpreted and applied. It had been suggested that the return to
legality might now be achieved by a return to the position existing
before i.d.i. This implied that the present régime would continue in
power with perhaps the addition of a few moderates and one or two
Africans; this was quite a different conception from that of a broadly­
based interim government, composed of members selected by us,
which would mark a new start towards multi­racial rule. A
continued British military presence in Rhodesia after independence
would be an essential safeguard of the new constitution; but it was
not clear that this would be one of the conditions on which we would
insist. Quite apart therefore from the objection in principle to
negotiation, it was difficult to form an opinion about the proposed
meeting without a prior decision on the precise terms which we
would regard as essential for a settlement.

On the other hand there was wide support in the Cabinet for the
proposed meeting. It was the general view that we must establish
whether or not Mr. Smith was now genuinely anxious for a settlement
and that this could not be done without definitive discussions with
him. The distinction between talks and negotiations was admittedly
difficult to draw: indeed it might be held to be somewhat unreal and
there could be no settlement or a return to legality without
discussions which amounted to negotiation. However we should still
be dealing with Mr. Smith as an individual and not as a Head of
Government. If, as some Ministers believed, Mr. Smith would not
agree to meet our conditions and was only seeking to place the
responsibility for a break on the United Kingdom Government, it
was still essential that we should demonstrate this to be the case.
Even on this view, the Commonwealth Secretary’s visit to Salisbury
was amply justified since, if it had not taken place, Mr. Smith would,
by declaring his willingness to make concessions, have been able to
represent the United Kingdom Government as responsible for the
break and for failure to reach a negotiated settlement. Given our
timetable, there was no practical alternative to a meeting between
the Prime Minister and Mr. Smith if this position were to be
clarified. If, as was perhaps more probable, Mr. Smith was now
anxious for a settlement and might be prepared to make the necessary
concessions the arguments for the proposed meeting were even more
compelling. A settlement which we could defend to public opinion
in this country and elsewhere would be a far better outcome than
recourse to the United Nations for mandatory sanctions and a
declaration that we would no longer be prepared to grant
independence before majority rule. We should in that event face a long conflict with no possibility of reaching a settlement with any conceivable European régime in Rhodesia. Grave damage could be inflicted on the United Kingdom economy and the United Nations might be discredited, while the outcome would be likely to be more harmful to the interest of the Rhodesian Africans themselves. Since Mr. Smith now seemed prepared to move towards our point of view, we must seize the opportunity of exploring and exploiting the possibility of a settlement.

As regards the terms on which we should insist, it was the general view of the Cabinet that it would be unwise to attempt to define these in detail before the meeting. The Prime Minister and the Commonwealth Secretary should have authority to negotiate within the terms of the six principles and in the light of the United Kingdom Government's statement of 15th October, bearing in mind the need for a settlement to be defensible to public opinion in this country, in the Commonwealth and in the United Nations. There must be some room for negotiation and the prospects of the meeting being successful would be prejudiced if Mr. Smith were faced with an ultimatum the precise terms of which had been laid down in advance. We should have to insist that a conclusion must be reached by 3rd December and that he should come to the meeting with full power to negotiate. He could, however, be provided with cypher facilities so that he could if necessary consult his colleagues within the limited period during which the meeting would last.

There was general agreement that although the precise details should not be defined in advance there were a number of points which would have to be covered in any settlement. We must insist on a more broadly based Rhodesian Government after the return to legality including some Africans. There would be a number of ways in which this might be achieved and so long as the principle was observed the details would be less important. It would also be essential that the rebellion should be seen to have ended before the new government was formed. There would have to be satisfactory arrangements in regard to the lifting of censorship, the release of at least some detainees and the resumption of political activities. It would be desirable to ensure the control by the Governor of the Rhodesian armed forces and police and some form of British or Commonwealth military presence in Rhodesia. We should also make clear that our undertaking not to use force would not apply in the event of a second i.d.i. It did not follow that we should use force and, indeed, there would still be grave military and political difficulties about the use even of limited force in support of sanctions. But the removal of the undertaking and of the assurance which this gave might have a considerable influence on Mr. Smith. The ultimate safeguard which we should retain would be the fifth principle which meant that any independence constitution must be approved by the people of Rhodesia as a whole. It would be for the United Kingdom Government to ensure that the test of Rhodesian opinion was
genuinely conducted but provided this were done it was illogical to argue that the Africans in Rhodesia could not be trusted to know what was in their best interests and at the same time to maintain that they were capable of assuming the government of the country. We must also bear in mind that the two African nationalist parties were deeply and bitterly divided and worked against each other. It seemed improbable that it would be possible for them to be represented in the interim government. Moreover, once constitutional rule had been re-established we should be in a position to resume the contacts with Rhodesia and the means of influencing European opinion there which we had lost since i.d.i. and which would continue to be denied to us if we imposed mandatory sanctions and declared that independence would not be granted before majority rule. Mr. Smith would have to make major concessions if a settlement were to be achieved and once he had done so it should be possible to ensure that he moved still further towards our point of view. Alternatively he might be disowned by the Rhodesia Front; in this event the whole situation would change and we might find the Rhodesian armed forces and police acting on the orders of the Governor and Mr. Smith against the extremists.

The Prime Minister, summing up the discussion, said that on balance the Cabinet were agreed that we should propose a meeting with Mr. Smith on the lines he had suggested. Sir Morrice James, a Deputy Under-Secretary of State in the Commonwealth Office, was on his way to Salisbury and would, in consequence of the Cabinet's agreement, now be instructed to put this proposal to the Governor and to Mr. Smith. If it were accepted he would announce the forthcoming meeting in Parliament on 30th November. Meanwhile the strictest secrecy must be observed. A point which was likely to be of great importance would be to give the Governor the assistance he would need in order to exercise effective control over the Rhodesian armed forces and police after a return to legality. The appointment of suitable advisers to serve on his staff might be the best way of ensuring this.

The Cabinet—

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

(2) Invited the Commonwealth Secretary, in consultation with the Secretary of State for Defence and the Home Secretary, to consider the means by which the Governor might be assisted in exercising control over the Rhodesian Armed Forces and police after the return to legality.

(3) Agreed to defer consideration of C (66) 173 until a later meeting.
2. The Prime Minister said that the President of the United States, President Johnson, had proposed that, in view of the delay (due to the change of Government in Germany) in the tripartite talks on the level and cost of British and American armed forces in Germany, the United States Government should place orders to the value of some £12.5 million in the United Kingdom in the near future, provided that we agreed to make no change in our "troop and supply dispositions in Germany" until the tripartite talks had been completed and that we then concerted with the United States Government on any changes in the light of these talks. This proposal had been considered by the Defence and Oversea Policy Committee which recommended that the offer be accepted.

The United States offer appeared to be based on the calculation that £12.5 million would amount to half the savings which they believed we could achieve in 1967-68 by logistic economies and the withdrawal of troops. In fact the savings we could achieve by unilateral action in the first six months of 1967 would probably be substantially less and even on purely financial terms, therefore, there was a strong case for accepting the President's offer. In addition there were of course strong political arguments against rejecting it. Acceptance must, however, be on certain clear conditions: the money must be received in 1967 and United States purchases in this country must be additional to what we would in any case sell to the United States, including sales under the offset arrangements in respect of our purchase of F-111A aircraft. The President had assured us that both these conditions would be met. We would also need to ensure that the United States purchases made a real contribution both to our balance of payments problem and to the reduction of unemployment in this country. But the most important condition was that our acceptance of a moratorium on the withdrawal of troops and on our logistic savings should be for a strictly limited period. The United States payment, together with whatever payments we might hope to receive from Germany, would still fall far short of the total costs in foreign exchange of our forces in Germany and we must be free to take such measures as we might consider necessary, not excluding the withdrawal of troops, in order to meet those costs in full in 1967-68. We should therefore make it clear in accepting the United States offer that, if by the end of June 1967 a satisfactory agreement had still not been reached in the tripartite talks, we should have to regard ourselves as free to take whatever measures seemed necessary to us to cover the balance of those costs in full after payments by Germany and the United States payment of £12.5 million.

In discussion there was general agreement that the offer of the United States Government should be accepted on the terms indicated by the Prime Minister. The following points were also made:

(a) At this stage it would be preferable to say as little as possible to the Federal German Government about the offer and to seek to
get a substantial increase in the German offer of offset payments. Thereafter it would be necessary for us, in concert with the United States Government, to resume discussions in the North Atlantic Treaty Organisation on troop reductions and logistic savings.

(b) There were strong arguments for initiating now the preparations necessary in the United Kingdom for providing accommodation, both for troops and for their families, on the assumption that it would be necessary to make withdrawals of troops in the second half of 1967, since otherwise our ability to make such withdrawals, if this proved necessary to meet our foreign exchange costs, would be severely hampered. On the other hand, it would be necessary in taking any such action not to give the United States Government the impression that we were prejudging the outcome of the tripartite talks, or that we intended, in any event, to act unilaterally thereafter. This aspect should be further considered by the Defence and Oversea Policy Committee at the same time as the Committee considered the programme for the construction of married quarters for troops withdrawn from other areas.

(c) The reply to President Johnson should make it clear that we expected the United States payment to be made in 1967, whether or not it proved necessary for us to withdraw troops in the second half of that year to achieve savings in foreign exchange on the conclusion of the moratorium which was envisaged.

The Cabinet—

(1) Agreed that the United States offer indicated by the Prime Minister should be accepted on the conditions which he had proposed and subject to the points made in discussion.

(2) Took note that the Prime Minister would arrange for the Defence and Oversea Policy Committee to consider in the light of the discussion the programme for the construction of barrack accommodation and married quarters for troops whom it might be necessary to withdraw from Germany in the second half of 1967, as well as for troops withdrawn from other theatres in accordance with the conclusions of the Defence Review.

*The Prime Minister said that the Ministerial Steering Committee on Economic Policy had been keeping developments in the economy since July under regular and careful review, especially the trends in unemployment, which had risen faster than had been expected in July, and in investment in private industry. It was now clear that the totality of the July measures had administered a shock to industry which, though in many respects salutary, had caused a significant downturn in industrial investment, which had not been contemplated at the time. The Steering Committee had considered
the case for a limited general reflation of demand and, specifically, for reducing the hire purchase down payment for motor cars. They would be reconsidering this in the New Year; at the moment, however, there was general agreement that such a relaxation would be premature: the motor industry needed to be given a little longer to complete the process of reducing its employment of surplus labour and to compete more vigorously for increased exports, and a relaxation of the hire purchase restrictions at present might be misinterpreted as a sign of uncertainty in the direction of policy. As regards investment, some members of the Steering Committee had felt that a direct stimulus to investment at this time was unlikely to lead to an increase in the level of investment, and that industrial investment was unlikely to begin to revive until industry began to feel more optimistic about market prospects. The view of most members of the Committee, however, was that some incentive should be given without delay: it was likely to have some direct effect, if only marginal, on the level of investment, and it would help to restore morale in industry by providing an indication of the Government's determination to reflate selectively at the right time and in the right way.

The Committee had considered two possible stimuli to investment:

(i) A suggestion by the Confederation of British Industry (CBI) that credit to the value of 80 per cent of investment grants for which the relevant expenditure had already been incurred should be made available against payments of corporation tax and income tax due on 1st January, 1967.

(ii) A proposal that initial allowance should be reintroduced on the net cost (cost less investment grant) of investment qualifying for grant.

The Committee had concluded that the first of these was preferable, if on further examination it proved to be administratively practicable; but that, if it were not practicable, the proposal for reintroducing initial allowances should go forward.

If the Cabinet agreed that some action should be taken to stimulate investment, it would be desirable to announce that action in the forthcoming economic debate in the House of Commons. If an announcement were deferred until the following week, there was a danger that the Government would be thought to be taking action in response to pressure from outside rather than in pursuance of a considered policy. The announcement of a scheme to stimulate investment should be accompanied by an announcement of such measures as could be agreed in the time available for mitigating the effects of the deflationary measures in the development areas.

The Chancellor of the Exchequer said that, since the meeting of the Ministerial Steering Committee on Economic Policy, he had urgently re-examined the administrative practicability of a scheme of tax credits on the lines of the suggestion made by the CBI. He was
satisfied as a result of that examination that it was not possible for the Inland Revenue to prepare and issue the necessary instructions in time for the scheme to come into operation at the beginning of 1967. Strong objections would undoubtedly be raised by accountants, who would be required to certify that investment expenditure appeared likely to qualify for grant; apart from anything else, it would be argued that the investment grant scheme was not sufficiently developed for accountants to be able to say with confidence whether particular expenditure would qualify for grant, and it would therefore be necessary to seek advice from the Board of Trade. There was also a danger that the introduction of this scheme could lead to a serious delay in the receipt of tax payments due in January 1967. It remained his view that the reintroduction of initial allowances would be entirely ineffective as a means of stimulating investment, as well as being inconsistent with the general policy of relying on selective grants rather than upon tax allowances as a means of encouraging investment. If the Cabinet considered that some action should be taken to stimulate investment, in his view the least unsatisfactory action would be to increase the rates of investment grant by 5 per cent (to 25 per cent outside development areas and 45 per cent inside development areas) for a limited period of time not exceeding two years. The cost of such a scheme would be £55 million in 1968–69, though no expenditure would be incurred in 1967–68. It was essential that the increase should be temporary, in order to produce an immediate stimulus to investment; but the introduction of a terminal date for the higher rates would present considerable technical and administrative difficulties, and the Government would no doubt come under pressure to maintain the higher rates indefinitely.

The First Secretary of State said that the Ministerial Committee on Environmental Planning had considered a memorandum by the President of the Board of Trade on possible measures to mitigate the effects of deflationary measures in the development areas. It should be possible, with the co-operation of the Departments concerned, to make more extensive use of the powers under the Local Employment Act of the Board of Trade to give assistance to basic services in development areas, to make more use of the powers to give assistance on the clearance of derelict sites, and perhaps to make a further announcement on Government training centres. Other proposals, for reinstating projects in the development areas that were to have been deferred as a result of the measures taken on 20th July, for giving preference to the development areas in placing Government contracts, and for slowing down the rate of colliery and railway closures, were being further considered. Enquiries were also being made to ascertain whether the guidance given to the banks on regional development was achieving the results intended.

In discussion there was general agreement that in the forthcoming economic debate the Government should announce action to stimulate industrial investment, and such measures in the development areas as could be settled in the time available. Other measures to maintain the level of activity in the development areas, including the restoration
of cuts in the investment programmes of nationalised industries in those areas, should be further considered by the Ministerial Committee on Environmental Planning.

On the choice of the scheme for stimulating investment, it was argued that reintroduction of initial allowances on the net cost of investment qualifying for investment grant would present no practical difficulties and would have the psychological advantage of being the measure most likely to commend itself to industry. On the other hand it was argued that, though small firms might prefer the reintroduction of initial allowances, many of the larger firms favoured the investment grant scheme, and an increase in the rates of investment grants, as a means of stimulating investment, would be more consistent with the general philosophy of the Government’s policy of replacing tax allowances by investment grants than would the reintroduction of initial allowances.

The Prime Minister, summing up the discussion, said that there was general agreement in the Cabinet on the desirability of announcing in the forthcoming economic debate action to stimulate industrial investment. The First Secretary of State, in consultation with the Chancellor of the Exchequer and the President of the Board of Trade, should consider urgently whether it would be possible to announce in the debate the introduction of proposals to increase the rates of investment grants to 25 per cent (and 45 per cent for development areas) for a period not exceeding two years. If it proved impossible to formulate proposals on these lines, initial allowances should be reintroduced on the net cost of investment qualifying for grant. The announcement of a scheme to stimulate investment should be supported by statements on measures to mitigate the effect of deflationary action in development areas, on the lines indicated by the First Secretary of State.

The Cabinet—

(1) Agreed that action to stimulate investment should be introduced, and announced in the forthcoming economic debate.

(2) Invited the First Secretary of State, in consultation with the Chancellor of the Exchequer and the President of the Board of Trade, urgently to examine the feasibility of increasing the rates of investment grants to 25 per cent (and 45 per cent in development areas) for a period of 18 months or two years, with a view to an announcement in the debate.

(3) Agreed that, if an acceptable scheme for increasing the rates of investment grants could not be devised, a decision to reintroduce initial allowances on the net cost of investment qualifying for investment grant should be announced in the debate.

(4) Invited the First Secretary of State, in consultation with the Chancellor of the Exchequer and the President of the
Board of Trade, to agree upon a statement to be made in the economic debate about measures to mitigate the effects of deflationary action in development areas.

(5) Invited the First Secretary of State to arrange for the Ministerial Committee on Environmental Planning to give consideration to further measures to maintain the level of activity in development areas, on the lines indicated in discussion.

Cabinet Office, S.W.1,

29th November, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 1st December, 1966, at 10 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. DENIS HEALY, M.P., Secretary of State for Defence
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. CLEDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:
- The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (items 5 and 6)
- The Right Hon. Sir ELWYN JONES, Q.C., M.P., Attorney-General (items 1-3)

The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. F. ROGERS
Mr. D. S. LASKEY
Mr. W. A. NIELD
Mr. R. T. ARMSTRONG
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The Lord President said that the arrangements for the debate on foreign affairs would depend on the outcome of the forthcoming meeting between the Prime Minister and his colleagues on the one hand and Mr. Smith, the leader of the illegal régime in Rhodesia, and his advisers on the other. As regards the Christmas Recess it was at present contemplated that Parliament would adjourn on Wednesday, 21st December and reassemble on Wednesday, 18th January, but this timetable might require reconsideration in the light of subsequent developments.

The Foreign Secretary said that his recent visit to Moscow had shown that the Soviet Government no longer maintained a wholly negative attitude on a number of major international issues. They wished to keep discussions in progress and believed that we could help to find a solution for some of them. A considerable part of his time had been devoted to discussions on Vietnam and, while the line taken by the Soviet leaders did not differ in substance from that which they had pursued hitherto, the tone of the discussion was less harsh: it appeared that they were anxious to know our views on various possible ways by which negotiations to end the conflict might be achieved and they recognised that, while the United States Government were anxious to bring hostilities to an end, the recent elections to Congress had increased pressure upon them to adopt sterner military measures.

The Soviet Government were clearly concerned to reach agreement on a treaty on the non-proliferation of nuclear weapons, though they were proving extremely difficult in negotiation on its text. On this issue, they preferred to deal directly with the United States Government. It would be necessary to concert in the near future between the United Kingdom Ministers concerned what attitude we should adopt on the issues of particular importance to our interests. In contrast to the Soviet attitude on this issue, however, there had been a setback to the possibility of securing a treaty to ban nuclear tests underground. It had been hoped that in consequence of the recent visit to Moscow by Sir Solly Zuckerman, the Chief Scientific Adviser to the Government, there might be a further meeting between United Kingdom, United States and Soviet scientists leading to an agreed scientific view on the level of explosions which could be detected without the necessity for inspections of the site. It appeared, however, that the Soviet scientists had gone beyond their brief in the discussions with Sir Solly Zuckerman and that the Soviet military
Rhodesia
(Previous Reference: CC (66) 61st Conclusions, Minute 1)
Mandatory Sanctions

authorities wished to maintain their freedom to continue underground tests.

As regards Europe, the Soviet leaders were concerned to secure agreement to the holding of a European Security Conference and were attracted by our proposals for a joint European declaration of principles. They had come no way to meet us on the discussions regarding the United Kingdom claims for compensation. He had warned them that we could not accept indefinite delay before distributing to the claimants the Russian assets which we held. At the very end of his visit they had made a very minor concession in relation to Mr. Gerald Brooke, in that they had agreed that the British Consul should be allowed to see him. This was not significant in itself, since under international law there was already the right to such visits, but it might indicate the possibility of a more substantial gesture at a later stage.

The Cabinet—

Took note of the statement by the Foreign Secretary and congratulated him on the outcome of his visit.

3. The Cabinet had before them a memorandum by the Commonwealth Secretary (C (66) 173), to which was attached a report by officials on the resolution to be introduced at the United Nations for mandatory sanctions on selected Rhodesian exports and for a general oil embargo.

The Commonwealth Secretary recalled that at the Meeting the previous September of Commonwealth Prime Ministers we had said that, given an assurance of the full support of Commonwealth representatives at the United Nations (UN) for our proposals, we should be prepared to agree to the passage by the Security Council of “resolutions under Chapter VII of the UN Charter providing for mandatory sanctions on certain selected exports from Rhodesia and, perhaps at a somewhat later stage, on the import of oil into Rhodesia via Mozambique”. In considering how best to implement this undertaking (action which would be contingent on the outcome of the forthcoming meeting with Mr. Smith, the leader of the illegal regime) the Ministers primarily concerned had been guided by the following considerations:

(i) The sanctions should cause the maximum economic damage to the illegal régime.

(ii) We needed to safeguard the economic interests of neighbouring friendly countries in Southern Africa, such as Zambia, Malawi and Botswana.

(iii) The sanctions must be sufficiently credible to preserve the existence of the multiracial Commonwealth.
(iv) The United Kingdom must in its own interest avoid being drawn into direct economic confrontation with South Africa.

In the light of these considerations Ministers had agreed that the resolution which we would co-sponsor in the Security Council should provide for mandatory sanctions on the export from Rhodesia of asbestos, iron ore, chrome, pig iron, sugar, tobacco, copper, meat and meat products and hides, skins and leather. Furthermore, in view of the possibility that British motor vehicle plants in Rhodesia might be used for the assembly of foreign cars, the possibility of a sanction should be held in reserve on the export by foreign manufacturing countries of assembly parts for Rhodesia: meanwhile, we should seek assurances from the British motor car manufacturers that they would reject any proposal by their Rhodesia subsidiaries to assemble motor vehicles manufactured in a country other than the United Kingdom. Parallel assurances should be sought from the Governments of countries with substantial motor industries. Consideration had also been given for the possibility of mandatory sanctions on new investment in Rhodesia, but this would be ineffective in the absence of the operation of a comprehensive system of exchange control by all members of the UN.

The proposal for a limited embargo on oil supplies from Rhodesia through Mozambique had been discussed early in the previous November with a number of friendly Governments and it appeared that there would be no hope of obtaining agreement at the Security Council for such a limitation. In the light of further discussions directed to securing African co-operation at the Security Council, it was therefore proposed that we should be prepared to accept a general oil embargo, although we need not commit ourselves at this stage to sponsoring it. The drafts of the consequent resolutions relating to selected mandatory sanctions and to the oil embargo were attached to his memorandum. A final decision had yet to be taken whether our vital reservation on oil sanctions—that we would on no account become involved in enforcement measures against South Africa—should be made openly at the UN, or whether it should be a matter for confidential understanding between members of the Commonwealth. On the one hand, a public statement would reassure the South Africans that we were not embarking on a course of confrontation and would hence avoid the possibility that, in anticipation of such a development, retaliatory action would be taken by the South African Government and South African firms, with consequent grave damage to our commercial and economic interest. Furthermore, if we made no public statement at this stage, it might be more difficult to resist subsequent pressure for more stringent measures of enforcement. On the other hand, a public statement at the outset might well be regarded by our African Commonwealth partners as giving public notice that South Africa could defy the UN resolution with impunity. The precise course which should be adopted in the light of these conflicting considerations would call for further discussion by the Ministers immediately concerned should
the forthcoming meeting between the Prime Minister and Mr. Smith fail to achieve a settlement. Subject to that aspect, the selected mandatory sanctions which were proposed should have little or no additional adverse effect upon our economy, since they comprised measures which we were already applying to the best of our ability on a voluntary basis, but they would make it more difficult for other countries to trade with Rhodesia.

In discussion there was general agreement with the proposals of the Commonwealth Secretary. It was noted that these had no implications for military action by the United Kingdom to enforce any of the measures which were contemplated. There was also general agreement with a suggestion that the proposed measures relating to the assembly of motor car parts in Rhodesia should be paralleled by action relating to aircraft parts.

The Cabinet—

(1) Agreed that, in the event of a failure to reach a settlement at the forthcoming meeting between the Prime Minister and Mr. Smith, the leader of the illegal régime in Rhodesia, action in respect of resolutions at the United Nations for mandatory sanctions relating to Rhodesia should be in accordance with the proposals in the report attached to C (66) 173, subject to the point agreed in discussion relating to aircraft parts.

(2) Took note that in the event of such action being necessary, the means by which we should make known our reservation on oil sanctions—that we would on no account be involved in enforcement measures against South Africa—would be a matter for further discussion between the Ministers primarily concerned.

The Prime Minister informed the Cabinet that Mr. Smith had now agreed to come to a meeting on the conditions which had been approved by the Cabinet at their previous discussion. It was clear that he had welcomed the proposal and was anxious to reach a settlement, but there still remained a wide gap between the terms which he was willing to concede and the minimum which was acceptable to us. It must therefore remain seriously in doubt whether the meeting would lead to a settlement. Undue expectations of success followed by a breakdown might have damaging consequences for our economy and it was important to make clear the fact that we were not entering into the discussions because of our concern at our economic position and that the mandatory sanctions which we envisaged would not involve further damaging economic consequences for us. One more hopeful aspect of the situation was that it appeared that the South African Government were bringing considerable pressure upon Mr. Smith to agree to a settlement.

The Ministers primarily concerned had discussed further since the last meeting of the Cabinet the terms on which we must insist in a settlement and he and his colleagues who would go to the meeting would, in the exercise of the discretion which had been given to them, be guided by the general views of the Cabinet on these issues.
The Foreign Secretary, speaking on behalf of the Cabinet, said that they were very conscious of the grave difficulties and extreme delicacy of the issues which would confront the Prime Minister and his colleagues at the forthcoming meeting and warmly assured him of their support and good wishes.

CONFIDENTIAL

4. The Cabinet considered a memorandum (C (66) 176) by the Minister of Housing and Local Government on local authority current expenditure (England and Wales) 1967-68 and 1968-69.

The Minister of Housing and Local Government recalled that on 10th November the Cabinet had approved proposals by the Chancellor of the Exchequer for further cuts, beyond reductions for over-estimating, of £30 million in 1967-68 and £45 million in 1968-69 in the estimates of local authority expenditure for the purpose of fixing the total of rate support grant, but had agreed that if these proposals met strong and well-founded objections, the matter should be reconsidered. He had accordingly, with the other Ministers concerned, met representatives of the local authorities. They had fully accepted that in the light of the present economic situation local authorities should play their part in reducing the rate of growth of public expenditure, but they had strongly emphasised two points: first, that the Government must make a clear statement of policy on the need to restrict the growth of public expenditure; and second, that the cuts in their expenditure as large as those Ministers had proposed could not in fact be achieved. They had asked that the total reductions in their estimates (including those in respect of overestimating) should be abated by £80 million and £90 million in the two years concerned, and had been told that their views would be considered, though without much hope being held out that they would prove acceptable. Since circulating his memorandum, he had discussed the matter with the Chancellor of the Exchequer and agreed that in all the circumstances it would be right to abate by £10 million in 1967-68 and £20 million in 1968-69 the further reductions provisionally approved by the Cabinet, so that the estimates of local authority current expenditure at mid-November 1966 prices, for the purpose of fixing the rate support grant would then be £2,557 million for 1967-68 and £2,726 million for 1968-69. If this solution were accepted by the Cabinet, officials of the Departments concerned should now meet to consider how the authorised expenditure should be allocated and how the decision should be presented to the local authorities.

The Chancellor of the Exchequer said that it was important that the local authorities should be given the backing of a firm Government statement on the need to restrict the growth of public expenditure, so as to make clear that the reductions now proposed represented a deliberate Government decision designed to encourage economy. The Government should also make it clear to them that it was hoped that the rates would not be increased.
In discussion the following points were made:

(a) The discussions between the Departments concerned and the Treasury about the final allocation of expenditure within the total which it was now proposed to authorise would afford Departments an opportunity to make any points to which they attached special importance.

(b) It would be necessary to make clear in the proposed statement by the Government that the reductions in local authority expenditure were not intended to affect expenditure on the high priority programmes of housing, schools and hospitals, which the Government had undertaken in July to exempt from their measures of economy.

The Cabinet—

(1) Agreed that the estimates of local authority current expenditure for the purpose of fixing the total of the rate support grant should be £2,557 million in 1967-68 and £2,726 million in 1968-69.

(2) Invited the Chancellor of the Exchequer and the Minister of Housing and Local Government to arrange for the allocation of this expenditure to be considered by the Departments concerned.

(3) Invited the Minister of Housing and Local Government to concert with the Chancellor of the Exchequer and the other Ministers concerned with local authority services a statement setting the Cabinet's decisions on reductions in local authority expenditure in the context of the present economic situation and of the need to restrain the growth of public expenditure generally.

5. The Cabinet considered a memorandum by the Minister of Housing and Local Government (C (66) 175) to which was attached a draft White Paper on the Government's Option Mortgage Scheme.

The Minister of Housing and Local Government said that subject to the Cabinet's approval of the draft it was proposed to publish the White Paper at the same time as the Housing Subsidies Bill on 5th December, 1966.

In discussion there was general agreement that a White Paper should be published on the lines of the draft; any further drafting amendments should not be allowed to blur the clarity of the account which the present draft gave of what was inevitably a complex scheme.

The following points were also made:

(a) The arrangements for endowment mortgages, as described in paragraph 9, had been agreed with the institutions concerned.

(b) Though the scheme would not be operative until 1st April, 1968, existing borrowers would in general have to make their choice not later than 31st December, 1967, whether to switch to the option mortgage scheme. The dates mentioned in paragraph 15 were thus consistent with the Government's decision on the operative date.
(c) Paragraph 17 put forward administrative and practical difficulties as the reason for not making the scheme operative until 1st April, 1968. It would be difficult to introduce the scheme before then, but not impossible, and the Government's decision to defer the date of operation until 1st April, 1968, had not been based primarily on grounds of administrative difficulty but rather on broad economic grounds. The validity of the reason given in the draft for delay was likely to be challenged in the House of Commons and elsewhere. Rather than attribute the delay to difficulties of this kind, it would be preferable to indicate in paragraph 17 simply that the Government had decided that the scheme should be fully operative from 1st April, 1968. A consequential amendment would need to be made in paragraph 25.

The Cabinet—

(1) Approved the draft White Paper on the Government's Option Mortgage Scheme attached to C (66) 175, subject to amendments on the lines agreed in discussion and subject also to any further amendments of a purely drafting nature.

(2) Invited the Minister of Housing and Local Government, in consultation with the Lord President of the Council, to arrange for the publication of the White Paper on 5th December, 1966.

6. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C (66) 174) to which was attached a draft White Paper on Decimal Currency in the United Kingdom.

The Chancellor of the Exchequer said that it was desirable that the White Paper should be published at an early date to announce the Government's decisions on the coinage, to explain the reasons for choosing the £-cent system of decimalising the currency and enable the necessary planning and preparations to proceed. He hoped that it would be possible shortly to set up the Decimal Currency Board; he had invited Sir William Fiske to be Chairman and Lord Erroll to be the Deputy Chairman of the Board.

In discussion it was suggested that the case for adopting the £-cent system was argued too defensively in the draft. Chapter III might be amended to avoid this impression. It was also suggested that the title "new penny" for the minor unit in the new system would be unnecessarily cumbersome. On the other hand it was pointed out that the word "new" would be retained only during the transitional period. Whatever official title might be given to the new minor unit, it was probable that the public would continue to call it a penny, and it would be better that official nomenclature should correspond with public use.
The Cabinet—

(1) Approved the draft White Paper on Decimal Currency attached to C(66) 174, subject to the revision of Chapter III on the lines suggested in discussion.

(2) Invited the Chancellor of the Exchequer, in consultation with the Lord President of the Council, to arrange for the publication of the White Paper on 12th December, 1966.

Cabinet Office, S.W.1,
1st December, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Sunday, 4th December, 1966,
at 2.30 p.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. DOUGLAS HOUGHTON, M.P., Minister without Portfolio
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGGROD, Lord Privy Seal
The Right Hon. FRED PERET, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. MICHAEL STEWART, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. RICHARD CROSSMAN, M.P., Lord President of the Council
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. RICHARD MARSH, M.P., Minister of Power
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:
The Right Hon. Sir ELWYN JONES, Q.C., M.P., Attorney-General
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:
SIR BURKE TREND
Mr. P. ROGERS
Mr. D. S. LASKEY
Mr. W. K. REID
Mr. M. J. MORIARTY

SECRET

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SECRET

Subject

RHODESIA
The Prime Minister said that he had just returned with the Commonwealth Secretary and the Attorney-General from his discussions on HMS Tiger with Mr. Smith, the leader of the illegal régime in Rhodesia. Although it had been agreed before these discussions took place that he and Mr. Smith would act as plenipotentiaries, Mr. Smith had insisted on referring back to his colleagues the result of their discussions and had at the last minute withheld his agreement to commend it to them. In these circumstances the Cabinet would also wish to have the opportunity to consider the outcome of the discussions before the Government were committed to acceptance.

The document (a copy of which is attached to these conclusions) which had been worked out between them was thus without commitment on either side. Both sides would decide by 12 noon Salisbury time (10 a.m. GMT) on Monday, 5th December, whether it was accepted in its entirety. For his part the Prime Minister (with the agreement of the Commonwealth Secretary and the Attorney-General who accompanied him) commended the document to the Cabinet.

The course which the discussions had followed was that on Friday, 2nd December, he and the Commonwealth Secretary had met privately with Mr. Smith and one of his moderate colleagues, Mr. Howman, and had made clear to them what would happen if agreement could not be reached. They had then opened the discussions, dealing first with the changes to be made in the 1961 Constitution in order to meet the Government's first, second, third and sixth principles. On these they had made substantial progress. But on the return to constitutional rule Mr. Smith had been intransigent, refusing to agree that there must be an immediate return to the 1961 Constitution or that a broadly-based government should be formed: he regarded both these as breaking points. Mr. Smith had also asked that the test of public opinion in Rhodesia in respect of the amendments to the 1961 Constitution should be conducted by a Royal Commission before a return to legality.

The United Kingdom Ministers had insisted that an interim government must first be formed under the 1961 Constitution. Thereafter a Royal Commission would be appointed to test Rhodesian public opinion and report whether or not the revised Constitution would be acceptable to the Rhodesian people as a whole. He had made it clear that, if subsequently independence were illegally declared for a second time, there could then be no question of legal independence before the attainment of majority rule; mandatory sanctions against Rhodesia would be sought and imposed; and there could be no further guarantee that the United Kingdom Government would not use force in applying such sanctions.

Early on Saturday morning, 3rd December, there had been a discussion between himself and the Commonwealth Secretary on the
one hand and Mr. Smith and Mr. Howman on the other, in which the Governor (Sir Humphrey Gibbs) and the Chief Justice (Sir Hugh Beadle) had joined. During the course of it Mr. Smith had indicated that on the whole he accepted the document, although he wanted to be convinced about the need to return to constitutional rule before Rhodesian public opinion was tested. Mr. Smith had freely discussed the composition of a broadly-based interim administration, if he were invited to form one in the period preceding independence. It was clear that Mr. Smith and his present colleagues were deeply divided and that he would remove some six of them from office and invite five other representatives of Rhodesian opinion to join his Cabinet. He appeared to welcome the prospect of a dissolution of the Legislature since it would enable him within four months of the return to legality to hold an election the result of which would be, in Mr. Smith’s opinion, that the more extreme Rhodesia Front supporters would lose their seats in the Legislature.

Later on the Saturday morning, however, Mr. Smith had said that he would have to consult his colleagues before he could accept the document and he had been offered facilities to telegraph to them to explain the stage reached in the discussions. He had been offered the chance of either accepting or rejecting the terms set out in the document. By 8 p.m. Mr. Smith had said that he would sign that the document was a correct record of the discussion but not to the effect that he would commend it to his colleagues. There followed three hours of discussions in which the United Kingdom Ministers had warned Mr. Smith, in the strongest terms, what the consequences of rejection would be; after that he and his party returned to Salisbury.

In discussion the Cabinet first considered the text of the document, which fell into three parts: (i) a constitution which provided for independence; (ii) the establishment of a Royal Commission to give effect to the Fourth Principle dealing with racial discrimination; and (iii) a return to legality and the Fifth Principle.

The Attorney-General summarised the balance of gain and loss, from the point of view of the African Rhodesians, in the draft settlement. On the credit side was the extension of the “B” Roll franchise to all Africans, men and women, aged 30 and above who satisfied conditions of citizenship and residence; this was particularly advantageous in view of the increased influence which the greater number of “B” Roll voters would have through cross-voting on “A” Roll elections. Mr. Smith had wished to abolish cross-voting for this reason. Next, there were two additional “B” Roll seats. Thirdly, a Senate would be created with eight elected African members out of a total membership of 24. Finally, the entrenchment of the whole of Chapter III of the 1961 Constitution had been secured, subject to a formula which excepted from entrenchment (subject to the conditions set out in it) the work of the Delimitation Commission. His advisers assured him that the effect of the formula would be that the quinquennial review of constituencies carried out by the Commission would work to the benefit of the African Rhodesians. Offset against these advantages was the concession by which 17 of
the 50 “A” Roll seats in the 1961 Constitution were made reserved European seats to balance the 17 “B” Roll seats. Although these seats had the advantage that in the longer run they gave effect to the Sixth Principle (on the preservation of the interests of the Europeans when these became a minority in the Government), the immediate effect would be, on whatever formula was adopted, somewhat to delay progress towards African majority rule.

In discussion the following main points were made:

**Governor-General**

(a) The provision in paragraph 1 that the Governor-General would be appointed on the advice of the Rhodesian Government related to the period after independence (until independence there would be a Governor and not a Governor-General) and was common form. The memorandum did not make this sufficiently clear to the public if it were published by itself; if it came to be published the point should be clarified in the accompanying commentary.

**Legislature**

(b) There was considerable uncertainty how soon African majority rule might come, because of the many factors involved: they included the rate at which Africans would qualify for the “A” Roll, and their willingness to register both on the “A” Roll and on the “B” Roll (which influenced “A” Roll voting through the cross-voting procedure). It was estimated that “B” Roll voters at present registered were sufficient to exercise the maximum possible influence over “A” Roll voting in half the “A” Roll constituencies; the extension of the “B” Roll franchise proposed in the next section of the memorandum would enable “B” Roll voters to exercise maximum influence in all “A” Roll constituencies. The estimate of the Chief Justice of Rhodesia (Sir Hugh Beadle) was that under the proposals in the memorandum, taken as a whole, African majority rule might come in seven to nine years; this compared with the estimates widely made of from 10 to 15 years under the 1961 Constitution.

(c) The effect of the two additional “B” Roll seats and the proposals for a Senate, taken together, was to give elected African representatives a “blocking quarter” of the total seats in the two Houses of the Legislature together, and so to enable them to reject amendments to the entrenched clauses in the Constitution. The added “B” Roll seats also gave the African a substantial advance towards the “blocking third” of Legislative Assembly seats needed to reject ordinary amendments of the Constitution, though the estimate given in the talks late the previous night, that they would have this blocking third when they had won two “A” Roll seats, seemed on consideration to be an overestimate. It had, however, never been our view that it would be practicable to secure an immediate blocking third for African members of the Legislative Assembly.

(d) The Labour Party when in Opposition had opposed the creation of European reserved seats in the Northern Rhodesian
Constitution. We had accepted the proposed European reserved seats in the talks with Mr. Smith in order to achieve the valuable gains of extra “B” Roll seats and a widened “B” Roll franchise. The interest now shown by the Rhodesians in reserved European seats, compared with their earlier lack of interest in this proposal, was of wide significance, since it indicated that they now took much more seriously the prospect of impending African majority rule, at which stage the reserved seats would give them a justifiable protection.

The proposal that for the purpose of electing Senators both the African and the European electorates should be divided into two, Mashonaland and Matabeleland, each electing half the Senators for each group, had been put forward in the talks to meet misgivings, felt both by the British and the Rhodesian sides, about the original proposal for indirect election of Senators by an electoral college made up of African representatives in the Legislative Assembly. This would give the latter an unacceptable degree of personal power in the early stages, when their number was so limited. The object of adopting the two main tribal areas for electoral purposes was simply to avoid the necessity for a further operation in delimitation to draw up constituencies for Senate elections; it did not mean that the Chiefs would exercise an influence over the course of voting.

Delimitation

(i) The formula in paragraph 4 had been devised by United Kingdom officials, in consultation with Sir Hugh Beadle, and would have the effect of protecting African interests and of preventing any improper interference by the majority party with the distribution of seats proportionate to the size of the electorate of each race. The way in which the Delimitation Commission operated could not affect one way or the other the rate of progress to African majority rule. The rate at which Africans qualified for the registered on the “A” Roll would, however, be significant for the work of the Commission; at present it was estimated that between 7,000 and 9,000 were qualified for the “A” Roll (though few had registered).

Chiefs and Senators

(g) The provision mentioned in paragraph 5 that a Chief could be removed from office only on the recommendation of an impartial judicial tribunal gave protection to an independent-minded Chief. Chiefs would be elected to the six seats in the Senate by the Council of Chiefs. Although not appointed by the Government they were subordinate to it to the extent that they received an official salary, which on their election to the Senate would be replaced by a Senator’s salary, giving somewhat greater independence. While in the short-term it would be realistic to regard the Chiefs as creatures of the Government of the day, the position could alter in the longer term as the political balance changed.

Powers of Senate

(h) In discussion with the Rhodesians on this point we had attached importance to giving the Senate positive functions so that it should not be merely a mechanism for blocking changes in the
constitution. As such it might well lack vitality; but its power to review (but not to delay or override) legislation other than that relating to the constitution might make it a useful training ground for Rhodesian politicians.

(i) The special legislative powers proposed for the Senate in respect of tribal land, law and custom (paragraph 6 (b)) had not been examined in detail in the time available; the underlying thought was that the chiefs, as the representatives of rural Africans would have special knowledge of tribal land and similar questions. It would however be necessary to ensure when drafting the necessary constitutional provisions that these powers did not entrench the Chiefs as a privileged minority in respect of land when there was an African majority in the Government.

Executive powers

(ii) The proposition that the Governor-General would act on the advice of Ministers related to the period after independence, and was common form.

Amendment of the Constitution

(k) The blocking mechanism here proposed, by which the whole of Chapter III of the Constitution was entrenched, gave us our requirements in full and removed what had for long been a major obstacle in discussions about a Rhodesian constitution. It was very satisfactory that provision had been secured for appeals to the Privy Council. In that connection the possibility of increasing the number of Rhodesian Privy Counsellors drawn from the judiciary had been offered in the talks. We had also agreed to setting a time limit for appealing to the Constitutional Commission and Privy Council against amending the Constitution, though this did not feature in the document itself.

Fourth principle relating to racial discrimination

(l) We had obtained under this heading as much as we could reasonably expect, in particular the inclusion within the scope of the Royal Commission of the land apportionment legislation and the competence of the Constitutional Council to consider pre-1961 legislation. The Royal Commission to study the question of racial discrimination and make recommendations would be set up before independence, the composition being discussed with the lawful Rhodesian Government, but we could not expect that it would report before independence, even though this might mean that independence was achieved while, for example, police powers were still in operation which the Royal Commission might subsequently condemn.

The Cabinet then turned to the discussion of Section III of the document regarding the return to legality and the Fifth Principle.

The Prime Minister said that this section as a whole must be considered in the light of certain major difficulties which had confronted us throughout. Before he and his colleagues left it had been agreed that they should seek the agreement of Mr. Smith to
some form of Commonwealth military presence in Rhodesia, perhaps preferably to be stationed at Kariba with Commonwealth military staff in Salisbury to deal with their logistic support. It had not in discussion proved possible to get acceptance of this proposal. He had however, in the terms which had been agreed before he left London, made it clear to Mr. Smith that if after the return to legality there were a second illegal declaration of independence (i.d.i.) or if after independence the constitution were overthrown by a coup d'état by Europeans, the United Kingdom Government would forthwith seek United Nations approval for the full range of mandatory sanctions which were at present in prospect and also would withdraw the commitment which they had previously made that they would not use force to seek a solution of the problem. Such action on our part after independence would be based on the fact that the treaty of independence would, like all international treaties, be registered at the United Nations, that we were a party to it, that Rhodesia presented an issue which was particularly sensitive to world opinion and therefore represented a threat to peace and that the United Kingdom in consequence reserved the right to intervene. While a substantial United Kingdom military presence in Rhodesia would have been the best possible guarantee against a second i.d.i., it must be recognised that it was neither acceptable to Mr. Smith nor could we ourselves contemplate the cost involved. The maintenance of a Commonwealth force at Kariba would have had a certain value, but again it had been recognised before he left that it would not have been able to offer any effective military opposition to Rhodesian forces if hostilities broke out. The deterrent to a second i.d.i. posed by the statement which he had made to Mr. Smith might well therefore prove at least as effective in practice as a military presence. He had also informed Mr. Smith that if we signed a Defence Agreement with Rhodesia, as was contemplated, we must reserve the right to offer a Defence Agreement to Zambia.

In discussion it was urged that, despite the difficulties, it was only the presence of a substantial United Kingdom military force in Rhodesia which could ensure the carrying out of a new Constitution. Furthermore, in considering the effect of the threats which had been made to Mr. Smith on the action which we should take if there were a second i.d.i., it must be recognised that the restraints imposed by our economic situation on the carrying through of mandatory sanctions would be no less constricting at that time than at present. Nor would the withdrawal of our commitment about not using force affect the realities of the situation, which made either invasion or any substantial use of force impracticable.

On the other hand, there was wide support for the view that in any event the difficulties which would be posed for Mr. Smith, or for any European rebel régime in Rhodesia, in seeking to declare a second i.d.i. would be substantially greater than in 1965, or than the further difficulties which would then be posed for the United Kingdom. Having once declared i.d.i. and having failed to make this effective, there would be a very strong political and psychological opposition in Rhodesia to any second attempt. The new Defence Council offered
a useful means of influencing opinion in the armed forces and presented a further obstacle to a renewed i.d.i. Furthermore, since existing and prospective economic sanctions had undoubtedly played a substantial part in achieving the prospect of a settlement, the threat of their renewal would be no less potent in influencing Rhodesian European opinion. On this view, the withdrawal of the United Kingdom commitment not to use force would have substantial value as posing a yet further deterrent. In any event, the United Kingdom could not afford the cost of providing the very substantial military forces which would be required to garrison Rhodesia, nor was this politically a practicable proposition. In these circumstances, there was general agreement that the position as it had emerged from the discussions with Mr. Smith should be accepted.

In further discussion the following points were made:

Dissolution of the Legislature (paragraph 11)

(m) The dissolution of the Legislature would admittedly have certain disadvantages. It would, for example, involve two elections within the course of a few months, since the paragraph contemplated a new election under the 1961 Constitution to be followed by an election under the new Constitution, with its wider franchise, either shortly before or immediately after independence. Furthermore, the acceptability to a new Constitution would undoubtedly be the major issue in the first election under the 1961 Constitution. On the other hand the continuance of the present Legislature, with its Rhodesia Front majority, would enable it at least to hinder, and perhaps to frustrate, the new broadly-based Government. It appeared also that there was a deep rift of political opinion among European Rhodesians. Mr. Smith had stated that he wished to get rid of some of his existing colleagues and also to seek different representatives of his party in the Legislature and an early election under the new Constitution would give a better prospect of more liberal opinion emerging. Although it might have been preferable to have a nominated broad-based Government in office until the new Constitution came into effect, this had not proved acceptable to Mr. Smith and the balance of advantage lay in dissolving the existing Legislature in the reasonable hope that this would facilitate the changed grouping of political opinion in Rhodesia which would be necessary if political life were to develop on the right lines. The holding of an election before the new Constitution would itself encourage the emergence of new political parties, a fact which was also relevant to the thorough testing of the acceptability of the new Constitution to the people of Rhodesia as a whole.

A broad-based Government (paragraph 12)

(n) Mr. Smith had indicated that he would be ready to accept in the new Government five Ministers, including two prominent Africans, who were not members of the Rhodesia Front. He envisaged reducing the Government from 13 to 12 which would mean that six of the present members would be dropped.
Censorship and detainees (paragraph 15)

(o) There was some justification for the régime’s argument that certain of the detainees had committed acts of violence or intimidation but could not be brought to trial because witnesses would not testify against them. The situation therefore had certain resemblances to the position in Aden and it had been difficult to find a satisfactory formula. The appointment of a United Kingdom representative to the Judicial Tribunal would help to ensure that the Tribunal worked effectively and expeditiously. There might be advantage if the United Kingdom representative were also a member of the Royal Commission appointed to test the acceptability of the new Constitution under the Fifth Principle.

Acceptability of the new Constitution (paragraph 17)

(p) It was accepted that the composition and terms of reference of the Royal Commission would be decided by the United Kingdom Government. The provision that this would be agreed with the interim administration would not in fact commit us to do more than consult them. The procedure which should be followed by the Royal Commission would be a matter for the Commission itself to determine. A full referendum would be impossible in less than 12 to 18 months, if only because there was no register of all Africans living in Rhodesia, many of whom indeed were citizens of Zambia and Malawi. Furthermore, it must be recognised that the widespread illiteracy would make such a referendum valueless. It should, however, in the period of four months which was envisaged, be possible for the Royal Commission thoroughly to test by other means the extent by which the proposed Constitution was generally acceptable.

The Treaty guaranteeing the Constitution (paragraph 19)

(q) The Treaty would automatically be registered with the United Nations in accordance with Article 102 of the Charter. If there were a serious breach of the Treaty we should be entitled to go at once to the United Nations and call for mandatory action under Chapter VII.

Discontinuance of sanctions (paragraph 21)

(r) Some of the sanctions would take a considerable time fully to dismantle. This should act as a deterrent against an attempt in Rhodesia to evade the terms of the agreement.

(s) It was noted that the document did not refer to the United Kingdom Government’s previous offer of assistance for an improved programme of African education. This had been mentioned, but given the present restriction of our aid programme because of our economic position it had been thought imprudent to enter into any commitment about granting aid to Rhodesia.

In a final general discussion of the document as a whole the view was expressed that, although the independence Constitution described in the document might be held to satisfy the six principles, there was no guarantee, such as would have been provided by the stationing of United Kingdom forces in Rhodesia, that the Constitution would be fairly operated. We admittedly faced a choice of evils but, on this
view, acceptance of the document would be more damaging than the consequences which might flow from recourse to the United Nations for mandatory sanctions.

The general view of the Cabinet was, however, that the document provided a realistic framework for an honourable settlement. If the Africans were prepared to co-operate in working the new Constitution majority rule should be achieved within a reasonable time, after two or three general elections. This assumption could not of course be guaranteed but was the responsibility of the Africans themselves. The parallel with the history of South Africa after the Union became independent must give cause for anxiety but the position was very different now from what it had been then. The influence of African and of world opinion had greatly increased and it seemed unlikely that a small group of Europeans in Rhodesia, even if South Africa were prepared to support them, would be able to stand out for long against the pressure of world opinion. The document itself suggested that Mr. Smith must now know that he could not prevent the achievement of an African majority within a reasonable time. If the document were accepted by the régime they might admittedly still attempt subsequently to go back on it by declaring a new i.d.i. But once they had given up their illegal independence they would find it much more difficult psychologically to attempt to seize it again. Even if they did so we should certainly be no worse off and might indeed be in a rather better position than we were now. The general view of the Cabinet was therefore that the document was acceptable and represented more than might reasonably have been expected as capable of achievement when the Cabinet gave the Prime Minister and his colleagues full authority for the discussions with Mr. Smith.

The Prime Minister, summing up the discussion, said that the general view of the Cabinet was that the document should be accepted. We had undertaken to inform Mr. Smith of our decision by 10 a.m. GMT on 5th December and there might be advantage in doing so at once, before the illegal régime considered their own decision. A message signifying our acceptance should therefore be telegraphed immediately to the Governor for transmission to Mr. Smith. There would also be advantage in informing the South African Government immediately and urging them to put pressure on Mr. Smith to agree. It had been made clear to Mr. Smith that the document must be accepted or rejected as a whole; if amendments were proposed or if no answer was received by the agreed time this would count as a rejection. It had been agreed that if the document were accepted we would concert with the régime about the time of publication; if it were rejected either side would be free to publish when it wished. A number of further points had still to be decided, particularly what, if anything, should be said about enforcing sanctions against South Africa if relations with the régime were finally broken off and mandatory sanctions against Rhodesia were authorised by the United Nations.
The Cabinet—

(1) Agreed that the document which had been under discussion should be accepted and congratulated the Prime Minister, the Commonwealth Secretary and the Attorney-General on the outcome of their discussions with Mr. Smith.

(2) Invited the Commonwealth Secretary to inform the Governor of Rhodesia forthwith that the United Kingdom Government accepted the document in its entirety; and to ask him to arrange for the régime in Salisbury to be similarly informed.

(3) Invited the Foreign Secretary to arrange for the South African Government to be similarly informed.

(4) Agreed that it should be made known publicly that the Cabinet had received a report from the Prime Minister about his discussions with Mr. Smith and fully supported the line he had taken.

Cabinet Office, S.W.1,
4th December, 1966.

The attached document was worked out by the British Prime Minister and Mr. Smith on HMS Tiger off Gibraltar on 2nd/3rd December, 1966.

It is without commitment on either side and both sides will decide by 12 noon (Salisbury time) on Monday, 5th December, 1966, whether it is accepted in its entirety.

(Signed) HAROLD WILSON.
(Signed) I. DOUGLAS SMITH.

Signed in my presence
HUMPHREY GIBBS,
Governor.

On board HMS Tiger
4th December, 1966

RHODESIA—INDEPENDENCE CONSTITUTION

I

The following are the principal changes which are to be made in the 1961 Constitution to meet the First, Second, Third and Sixth Principles.

1. The Governor
Governor General to be appointed on the advice of the Rhodesian Government.

2. The Legislature
The composition to be:

Legislative Assembly

33 “A” Roll seats
17 “B” Roll seats
17 Reserved European seats

Each block of seats to cover the whole country.
Senate

The composition to be:

12 European seats (elected by Europeans on the “A” Roll. Six members to represent Mashonaland and six members to represent Matabeleland).

8 African (elected by Africans on the “A” and “B” Rolls voting together. Four members to represent Mashonaland and four members to represent Matabeleland.)

6 Chiefs (elected by Chiefs Council).

3. Franchise

The “B” Roll franchise—to be extended to include all Africans over 30 who satisfy the citizenship and residence qualifications.

Reserved European seats—to be elected by the European electorate.

Cross voting to be retained and applied to all seats.

4. Delimitation

Alteration in the composition of both Houses and in number of seats to be effected by special entrenchment procedure. But the terms of reference of the Delimitation Commission are to incorporate the agreed formula as follows:

The overriding objective of the Commission is so to divide the constituencies that the proportion of those with a majority of African voters on the “A” Roll at the time of delimitation is the same as the proportion of African voters then on the “A” Roll for the country as a whole.

Subject to this, the Commission is to take into account the factors specified in Section 38.

5. Terms of Office of Senators

20 Elected members—as for Legislative Assembly.

6 Chiefs—as for Legislative Assembly although a Chief will vacate his office as a Senator if he ceases to be a Chief.

Chiefs are only to be removed from office on the recommendation of an impartial judicial tribunal.

6. Powers of Senate

The powers of the Senate will be:

(a) Review of legislation.

(b) Special legislative powers in respect of Tribal Land, Law and Custom.

(c) Amendment of Constitution—see below.

Members of the Senate may be appointed as Ministers.
7. Executive Powers
The Governor-General will act on Ministers' advice in all matters.

8. Amendment of the Constitution
Ordinary amendments of the Constitution will require, as now, a vote of two-thirds of the total membership of the Legislative Assembly.

The amendment of the Specially Entrenched provisions of the Constitution will require a vote of at least three-quarters of the total membership of both Houses voting together. In addition there will be a system of appeal against such an amendment. The amendment will not come into force until the time for appeal has expired or the appeal has been finally disposed of. The appeal will lie in the first instance to a Constitutional Commission in Rhodesia, consisting of the Chief Justice and other judges; with further appeal as of right to the Judicial Committee of the Privy Council. The permitted grounds of appeal will be that the amendment discriminates unjustly or has the effect of discriminating unjustly between the races or contravenes any of the provisions of the Declaration of Rights contained in the Constitution.

II

9. Fourth Principle
As a minimum requirement to give effect to the fourth principle, a Royal Commission will be set up without delay to study and make recommendations on the problems of racial discrimination, in particular Land Apportionment in Rhodesia, and the possibility of extending the competence of the Constitutional Council to embrace pre-1961 legislation: and a Standing Commission will keep the problems of racial discrimination under regular review.

III

10. Return to Legality and the Fifth Principle
An Order in Council will be made as soon as possible permitting the appointment by the Governor of a Prime Minister and other Ministers in Rhodesia.

11. The existing Legislature will be dissolved. The Governor will be invested with legislative powers, to be used on the advice of Ministers except in those cases where he is empowered to act in his own discretion. No later than four months from the date of dissolution of the Legislature, and on the assumption that the test of acceptability referred to in paragraph 17 below will have been completed in that interval, new elections will be held. If that test has shown that the new Constitution is acceptable to the people of Rhodesia as a whole, a further election, on the basis of that Constitution, will be held as soon as possible either immediately before or immediately after independence.
12. As soon as the Order in Council mentioned in paragraph 10 above is made, the Governor, in the full exercise of his constitutional powers, will invite Mr. Smith to head a broad-based interim Government which will include, in addition to representatives of existing political parties, independent members and Africans.

13. This Government will be appointed by the Governor in his discretion.

14. The restored constitutional Government will be based upon the 1961 Constitution, modified (by Order in Council which will be made as soon as possible) to provide that during the interim period before the first election is held Rhodesian Ministers will be appointed by and responsible to the Governor, who will normally act on their advice in all internal matters of administration but, as regards his ultimate responsibility for the maintenance of law and order and the protection of human right, will be advised, in his capacity as Commander-in-Chief of the Defence Forces, by a Defence and Security Council, comprising the responsible Ministers, together with the heads of the Defence Forces, the Chief of Police, and a representative of the British Government.

15. During the interim period, and before any testing of opinion under the Fifth Principle is carried out, censorship will be removed; and normal political activities will be permitted, provided they are conducted peacefully and democratically and without intimidation from any quarter. In this connection an impartial judicial tribunal, appointed by the Rhodesian Government, but including one British representative nominated by the Lord Chancellor, will be set up to consider the detention and restriction of persons on security grounds. Such detention and restriction will not be authorised unless the tribunal are affirmatively satisfied that the persons concerned have committed, or incited the commission of, acts of violence or intimidation.

16. As soon as possible after the return to legality, the British Government will negotiate with the legal Government the details of the constitutional settlement for an independent Rhodesia in accordance with the arrangements already agreed informally and described in Part I of this document.

17. The agreed settlement will be submitted to the test of acceptability to the people of Rhodesia as a whole by a Royal Commission whose composition and terms of reference will be agreed by the British Government with the legal interim Administration.

18. If the settlement is shown to be acceptable to the people of Rhodesia as a whole, the British Government will at the earliest possible date introduce the necessary legislation to grant independence to Rhodesia on this basis and will commend this legislation to Parliament.

19. The two Governments will also negotiate the terms of a Treaty guaranteeing the independence Constitution. They will also
enter into discussions on the desirability of negotiating an appropriate Defence Agreement for the purpose of regulating future defence relations between the two Governments.

20. If however the settlement is shown to be unacceptable to the people of Rhodesia as a whole, the two Governments will immediately confer together to consider what steps should be taken to devise alternative proposals for an independence Constitution.

21. On the restoration of legal government, the British Government will take all action in their power to bring about the immediate discontinuance of the economic and other sanctions at present in force.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 6th December, 1966, at 10 a.m.

Present:

The Right Hon. Harold Wilson, M.P., Prime Minister

The Right Hon. George Brown, M.P., Secretary of State for Foreign Affairs

The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer

The Right Hon. Herbert Bowden, M.P., Secretary of State for Commonwealth Affairs

The Right Hon. Denis Healey, M.P., Secretary of State for Defence

The Right Hon. William Ross, M.P., Secretary of State for Scotland

The Right Hon. Douglas Jay, M.P., President of the Board of Trade

The Right Hon. Anthony Greenwood, M.P., Minister of Housing and Local Government

The Right Hon. R. J. Gunter, M.P., Minister of Labour

The Right Hon. Barbara Castle, M.P., Minister of Transport

The Right Hon. Richard Marsh, M.P., Minister of Power

The Right Hon. Michael Stewart, M.P., First Secretary of State and Secretary of State for Economic Affairs

The Right Hon. Lord Gardiner, Lord Chancellor

The Right Hon. Richard Crossman, M.P., Lord President of the Council

The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department

The Right Hon. Douglas Houghton, M.P., Minister without Portfolio

The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science

The Right Hon. The Earl of Longford, Lord Privy Seal

The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food

The Right Hon. Cledwyn Hughes, M.P., Secretary of State for Wales

The Right Hon. Anthony Wedgwood Benn, M.P., Minister of Technology

The following were also present:

The Right Hon. George Thomson, M.P., Chancellor of the Duchy of Lancaster (Item 2)

The Right Hon. Sir Elwyn Jones, Q.C., M.P., Attorney-General (Item 1)

The Right Hon. John Silkin, M.P., Parliamentary Secretary, Treasury
SECRET

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. D. S. LASKEY
Mr. R. T. ARMSTRONG

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Meeting of FIN/EFTA Heads of Governments
Rhodesia

Preceding Reference: CC (66) 63rd Conclusions

1. The Prime Minister said that, as members of the Cabinet would already be aware, the illegal régime in Rhodesia had rejected the document which had been worked out at the meetings with Mr. Smith on HMS Tiger and which the Cabinet had for their part approved at their previous meeting. Mr. Smith's reply stated that the illegal régime agreed to accept the principal changes which were proposed in the 1961 Constitution as a basis for a constitution for independence in accordance with the six principles. The reply had however rejected the proposals relating to the return to legality in the following terms:

"While the constitutional outline is acceptable to us it would be irresponsible of us to abandon the 1965 Constitution, under which we are presently working, before we have assurances, without any shadow of doubt, that your constitutional proposals will be secured to us, instead of some possible constitution of an unknown nature or a situation in which a constitution might eventuate. In our view, Her Majesty's Government must carry out their responsibility for putting their constitutional proposals to the test of opinion of the people of Rhodesia as a whole before we could accept an agreed procedure to move from the 1965 Constitution to the new one. We are unable to accept the procedures which you suggest for the return to legality."

The Government must now take the action to which they were committed in such circumstances as a result of the Meeting in September of Commonwealth Prime Ministers: he had made a statement accordingly the previous evening in the House of Commons. In considering the detail of such action it would also be important as a matter of urgency publicly to correct the misrepresentations by the illegal régime about the substance of the working document which had been signed on board HMS Tiger. These misrepresentations related particularly to the question of direct rule, the control of the Rhodesian forces and the proposed dissolution of the Legislature. A Press statement might be issued by the Commonwealth Secretary giving the facts. Mr. Smith himself had welcomed the proposal for dissolution and new elections and had said that this might result in the elimination of about 30 of the more extreme members of his own party. He had also spoken of reducing the number of Ministers in the interim government from 13 to 12; with the addition of five moderates this would have meant dropping six members of the present régime. All this had been said in the presence of the Governor and Chief Justice and could be used publicly, although it might be preferable not to mention the names of the five moderates who had been considered for inclusion in the interim government since this might prejudice their position in Rhodesia. It would also be important to make clear that mandatory sanctions would not have a disastrous effect on our economy. We should not get the relief for the balance of payments which would have followed a settlement, but the continuation of
sanctions would have little additional effect on the internal economy of the United Kingdom.

In discussion it was suggested that our publicity should take account of the possibility, however unlikely this might be, of a split within the régime and a move to establish a more moderate government in Rhodesia before we were finally committed by our vote at the Security Council to a refusal to accept independence in Rhodesia before majority rule. In any event, we should at the least seek to widen the clear division of opinion which currently existed in Rhodesia, to discredit the extremists and to encourage the moderates. The long discussion by Mr. Smith and his colleagues in Salisbury about the working document showed that some members of the régime must have favoured its acceptance. We should seek to present the rejection as being the result of pressure by extremists concerned with the preservation of their personal political position, who had for this reason refused to accept proposals which were greatly in the interest of European Rhodesians as a whole. The true advantages of the proposals should be explained and developed. There was also evidence from several sources of a substantial body of moderate opinion in Rhodesia, as for example was witnessed by the 3,000 signatures in the Governor's Book on 11th November. No reliance could however now be placed on Mr. Smith himself; our hope had been that he would take the lead in forming a moderate government but at every critical stage he had given way to the extremists in the régime. Nevertheless, he still had a great personal following and if his place were taken by one of his even more extreme colleagues, such as Mr. Lardner Burke, the position of the régime would be much less strong, since the latter had no comparable political appeal in Rhodesia. We should do nothing to prevent this happening and should accordingly be free to refer to Mr. Smith's own statements about his willingness to be rid of the extremists in the régime and in the Legislative Assembly. This might best be done by the Commonwealth Secretary in a public statement. If the extremists expelled Mr. Smith it was just possible that he would ask the Governor to be allowed to form a new government prepared to accept the working document and that with the support of the Rhodesian forces and of moderate opinion this move might succeed. On this hypothesis it would not be in our interest to denigrate Mr. Smith and he could best be represented as a weak man who had given in to extremist views.

It seemed unlikely however that such a decided split would develop. The liberal element in Rhodesia had proved wholly ineffective and we could not count on any of the moderate members of the régime taking a stand against the extremists. Moreover, our own means of encouraging such developments were limited. A direct appeal by the United Kingdom Government was unlikely to be effective, particularly at the moment when we should be appealing for mandatory sanctions to the United Nations, a body which was regarded in Rhodesia as being under African control. The Governor was reported to be staunch and determined to
remain in office; but a public appeal by him for acceptance of the working document and a return to constitutional rule would not be effective and would only result in further weakening his position. Our publicity must therefore be confined to the dissemination of the facts, on the lines developed in discussion, in an attempt to discredit the extremists and widen the existing division of opinion.

It must also be accepted that in any event the time during which a movement might develop in Rhodesia for the formation of a moderate régime prepared to accept the working document was very limited. According to the terms of the Commonwealth Prime Ministers' communiqué we were committed to the declaration that independence would not be granted before majority rule, provided that the Commonwealth supported the action which was now proposed at the United Nations, and particularly the limitations on such action. It was possible that a Commonwealth country such as Zambia might press for the resolution imposing sanctions on Rhodesia to include provisions for enforcement action against South Africa. In that event we should be relieved of our obligation to declare that we would not grant independence before majority rule but on the assumption that we received Commonwealth support, and we should have to reaffirm our obligation in order to obtain such support, we could not evade this commitment and we might have to give effect to it at, or very shortly after, the meeting of the Security Council which had been called for 8th December.

Once such a declaration had been made we could no longer accept any settlement on the basis of the working document. We should then have to insist on a return to the 1961 Constitution without independence. Although we might consider that this would not amount to unconditional surrender and our declaration on no independence before majority rule did not imply that majority rule would follow at once or even in the near future, it must nevertheless be recognised that there would then no longer be any prospect of reaching a settlement with any European régime in Rhodesia. We should however be free to consider other possibilities than a return to the 1961 Constitution during the period before independence, including the suggestion for an Act of Union between the United Kingdom and Rhodesia. Mr. Smith himself had not belittled the effect of sanctions or the strength of the United Kingdom economy. As sanctions became more effective more people in Rhodesia might be ready for a return to the 1961 Constitution without independence. Nevertheless, it must be accepted that once our declaration had been made we should have to rely on economic pressure alone, and that propaganda would be ineffective. The Government should therefore review their long-term strategy on the assumption that there would be no immediate split leading to the formation of a moderate government in Rhodesia, that we should declare that we would not accept independence before majority rule and that the limited mandatory sanctions which we now envisaged would not result in any early end to the rebellion or a return to the 1961 Constitution.
In further discussion, the Cabinet considered and agreed the terms of a motion on Rhodesia to be put forward in both Houses of Parliament.

The Prime Minister, summing up the discussion, said that the Commonwealth Secretary and the Lord President should consider in the light of the discussion the immediate line to be taken in our publicity. A paper should also be prepared on our longer-term strategy, taking account of the probable effect of mandatory sanctions on Rhodesia and the way in which the situation was likely to develop there, including the possibility that the regime would shortly declare Rhodesia a republic. At the meeting of the Commonwealth Sanctions Committee later that day the Commonwealth Secretary might be guided on the question of enforcement action against South Africa by the terms of his own statement in Parliament the previous evening. The line which should be taken on this issue in the discussions in the Security Council should also be based on that statement and should be agreed in detail by the Ministers primarily concerned. The debate in the House of Commons on Rhodesia on 7th and 8th December might be on the basis of a Government Motion endorsing the Government’s decision to accept the working document, deploring its rejection by the illegal régime and supporting the Government’s decision to act in accordance with the agreement at the Commonwealth Prime Ministers’ Meeting. The same motion might be tabled for the debate in the House of Lords on 8th December. The United Kingdom representative at the United Nations had called for a meeting of the Security Council on 8th December; this would take place after the Parliamentary debates and the Government would therefore have fulfilled its undertaking to provide for Parliamentary discussion before irrevocable action was taken.

The Cabinet—

(1) Invited the Commonwealth Secretary, in consultation with the Lord President of the Council, to consider in the light of the discussion the arrangements for the Government’s publicity in Rhodesia and in the United Kingdom.

(2) Invited the Commonwealth Secretary to circulate for consideration the following week a paper on the longer-term strategy on the lines indicated by the Prime Minister in his summing up of their discussion.

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2. The Foreign Secretary said that the meeting of Heads of member Governments of the European Free Trade Association (EFTA) and of Finland which had taken place the previous day at Lancaster House, under the chairmanship of the Prime Minister, had gone well. The decision to call the meeting before the Prime Minister and he embarked upon visits to the Heads of member
Governments of the European Economic Community (EEC) had clearly been welcomed, and the atmosphere at the meeting had been friendly. The Prime Minister in his opening statement and he himself in a subsequent speech had explained the reasons for the timing of the United Kingdom initiative for a high level approach to the member Governments of the EEC. The initiative met with the unanimous support of the EFTA countries. The Minister of Economy of Portugal had drawn attention to some of the difficulties which closer association with the EEC would involve for his own country, and the President of the Swiss Federation had stressed the dangers of undue haste in the approach to the EEC. The Austrian Chancellor and the Finnish Prime Minister were concerned with the particular problems for their countries of combining a wider economic relationship with their political obligations. The Swedish Prime Minister had pressed strongly for further consultations as the high-level approach progressed, if necessary at short notice and at Prime Ministerial level. All delegations had emphasised the importance of maintaining the strength and cohesion of EFTA during the period of the approach and in subsequent negotiations, and had stressed the benefit of the EFTA market to the EEC and the consequent strength of the EFTA bargaining position in any negotiations with the EEC. All delegations had also emphasised that the new approach to the EEC should not be allowed to stand in the way of a successful outcome of the Kennedy Round. There had been no detailed discussion of the problems for the United Kingdom of entry into the EEC. The meeting had concluded with agreement upon a communiqué expressing support for the United Kingdom initiative and the intention of keeping in the closest consultation within EFTA, with reviews of the position as it developed at any level which the situation might require. It was understood that this could mean consultation at Prime Ministerial level, at Ministerial level in the course of regular EFTA meetings, or at official level. He had indicated that the March meeting of the EFTA Ministerial Council might provide an appropriate occasion for a progress report on the high-level approach, but it might well be that it would be desirable to hold another meeting at Prime Ministerial level if the United Kingdom decided to seek entry into the EEC.

He had informed the conference in confidence that the Prime Minister and he were proposing to visit Rome early in January—a proposal which had been warmly welcomed by the Italian Government—and to visit Paris later in the month, immediately after the meeting of the Council of Europe at Strasbourg. The meeting with the President of France would thus happen before the French elections in February, and it might be desirable to have a second meeting after the elections were over.

The Commonwealth Secretary said that it would be desirable to send a brief report of the conference to Commonwealth Governments.
In discussion it was suggested that further consideration would need to be given to possible methods of consultation with the Commonwealth Governments most closely concerned with the main subjects of our exploration with the countries of the EEC.

The Cabinet—

(1) Took note, with approval, of the statement by the Foreign Secretary on the meeting of EFTA Heads of Governments.

(2) Invited the Commonwealth Secretary to send a brief report of the conference to Commonwealth Governments.

Cabinet Office, S.W.1,
6th December, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 8th December, 1966, at 11.30 a.m.

Present:

The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. MICHAEL STEWART, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. RICHARD CROSSMAN, M.P., Lord President of the Council
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. DOUGLAS HOUGHTON, M.P., Minister without Portfolio
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal (Items 1–3)
The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. FREDERICK LEE, M.P., Secretary of State for the Colonies
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:

The Right Hon. FREDERICK MULLEY, M.P., Minister of Aviation (Item 5)
The Right Hon. GEORGE THOMSON, M.P., Chancellor of the Duchy of Lancaster (Items 2–5)
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. ANTHONY GREENWOOD, M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. CLEDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. RICHARD MARSH, M.P., Minister of Power (Items 1–4)
The Right Hon. EDWARD SHORT, M.P., Postmaster-General (Item 4)
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:

Mr. P. ROGERS
Mr. L. ERRINGTON
Mr. K. BARNES
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Germany

Broadcasting Draft White Paper

Beagle Aircraft Company
Parliament

1. The Cabinet were informed of the business to be taken in the House of Commons in the following week. Parliament would adjourn on Wednesday, 21st December and reassemble on Tuesday, 17th January.

Rhodesia

(Previous Reference: CC (66) 64th Conclusions, Minute 1)

SECRET

2. The Cabinet considered the action which the Government should take if the illegal regime in Rhodesia were to indicate that they would accept the proposal which had been put forward by the Opposition in the House of Commons for the immediate appointment of a Royal Commission to test public opinion in Rhodesia on the acceptability of the proposed new constitution. The proposal contemplated that the Royal Commission would conduct its work while the illegal regime continued in power and maintained their so-called independence. It was the general view of the Cabinet that a Commission in such circumstances would not be capable of carrying out any fair or adequate test of public opinion in Rhodesia even if censorship were to be lifted and political detainees released. This was primarily because it would appear, at least to the Africans of Rhodesia, that the choice before them was either acceptance of the proposed new constitution or the continuance of the illegal regime as it was at present constituted. Furthermore, many who might be opposed to the new constitution would, because of the prospect that the illegal regime would continue in power, not feel free to speak against it lest they might subsequently be victimised, or even put in detention. In any event, the proposal put forward by the Opposition did not indicate what attitude either they or the illegal regime would take if the Royal Commission, despite the difficulties of operating in such conditions, should come to the view that the proposed new constitution was not acceptable to the people of Rhodesia as a whole. For these reasons the proposal, even if the illegal regime purported to accept it, could not be accepted by the Government.

The Cabinet—

(1) Took note that the Prime Minister would be guided by the points raised in discussion in the continuance of the debate on Rhodesia that afternoon in the House of Commons.

In further discussion reference was made to the speech to be made later that day by the Foreign Secretary at the Security Council of the United Nations on mandatory sanctions relating to oil. There was general agreement that on the question of enforcement action it would be important that the speech should follow closely the line which had been taken by the Prime Minister in his statement in the House of Commons on Monday, 5th December and that the text should be agreed between Ministers primarily concerned.

The Cabinet—

(2) Invited the Chancellor of the Duchy of Lancaster to consider, in consultation with the Chancellor of the Exchequer an...
the Commonwealth Secretary and in the light of the
discussion, the text of the telegram to be sent to the
Foreign Secretary regarding the wording of his statement
in the Security Council on enforcement action against
South Africa in respect of mandatory sanctions.

SECRET

3. The Chancellor of the Duchy of Lancaster said that it would
be necessary to make an early public statement of the Government's
acceptance of the offer made by the President of the United States
for a United States payment to us of $35 million during 1967,
provided that the United Kingdom for her part did not disrupt the
tripartite talks with the United States and Germany by withdrawing
forces, or reducing their combat capability by making savings in their
logistic support, before the end of June 1967. Meanwhile, the
tripartite talks had resulted in a report to the North Atlantic Treaty
Organisation on the extent of the indications which the alliance
might expect to receive of any attack by the Soviet Union, but there
was as yet an unbridgeable gap between the position of the United
Kingdom on the one hand, and the United States and Federal
German Governments on the other, on the level of forces which
should be maintained by the alliance in Europe. This might be partly
due to the fact that neither the United States nor German
representatives were in a position to commit their Governments, the
latter because a new Federal Government was in process of
formation. It was possible that better progress might be achieved
towards reaching agreement early in the new year.

In discussion it was suggested that there might be objection to
a public statement regarding the United States offer of $35 million
on the ground that this might indicate that for the first time the
United Kingdom was accepting a subvention which imposed
restrictions upon her foreign policy. It was, however, the general
view that a statement could not in any event be avoided, since the
payment would inevitably become known. Moreover, it would
otherwise be embarrassing to explain the delay in the withdrawal of
our forces in order to reduce our foreign exchange costs in Germany:
the United States offer could thus properly be presented as
consistent with the line that the Government had taken throughout
that our forces would not be withdrawn provided that our foreign
exchange costs were met in one way or another.

The Cabinet—

Invited the Chancellor of the Duchy of Lancaster, in
consultation with the Chancellor of the Exchequer and the
Secretary of State for Defence, to consider further in the
light of the discussion the terms of the statement which
should be made before the end of the year about the
acceptance of the United States offer of $35 million related
to the maintenance of our forces in Germany at their
present level up to the end of June 1967.
4. The Cabinet considered a memorandum by the Postmaster-General (C(66) 177), to which was annexed a draft White Paper on Broadcasting Policy.

The Postmaster-General recalled that the Cabinet had agreed at a previous meeting that the White Paper should propose the setting up of a new Corporation, which should be financed from advertising revenue and which would take over the medium wavelength on which the British Broadcasting Corporation (BBC) broadcast its Light programme. The new Corporation would also be responsible for establishing a network of local broadcasting stations. Since it would take about two years to establish the new Corporation, the BBC would, in the meantime, be asked under these proposals to broadcast a continuous programme of popular music on the Light programme medium wavelength; the introduction of this new programme would coincide with the suppression of the "pirate" stations, under the legislation at present awaiting a Second Reading. The Cabinet had invited him to consult with the BBC and the Musicians' Union before publishing his White Paper.

From these consultations, however, it had become clear that the Musicians' Union would refuse to co-operate, not only with any new service which was financed from advertising, but also with the BBC in providing the interim music programme, if it were the Government's declared intention to hand it over later to the new service financed by advertising. Doubt would thus be cast on the credibility of the Government's two main proposals. While it was possible that the Union's objection might be overcome in the longer term, it was clear that it would not in these circumstances be possible for the BBC to introduce a continuous popular music programme in the meantime. The need to provide an alternative to the programmes by the "pirate" stations was paramount, and this need could only be met by authorising the BBC to provide the proposed music programme on a long-term basis and abandoning the proposal to establish a new service financed from advertising. The BBC would now propose to remodel the Light programme in order to include, not only more music, but music of a more popular type.

He also proposed that the BBC should conduct an experiment in local sound broadcasting by nine stations to establish not only the need for such a service but also the availability of local programme material and the possibility of procuring sufficient finance from local sources other than advertising. The proposed stations would be sufficiently widely spread to enable general conclusions to be drawn from the experiment. They would broadcast for some 18 hours a day, including perhaps six hours' broadcasting of local material. He would propose to set up a local broadcasting council for each station, which would play a formative part in the development of programme policy and content. While the BBC would seek to provide services for local bodies, such as the local
authority, local universities, chambers of trade, arts associations and churches and to obtain payments for them, it would be made clear that there should be no direct subvention from the rates. The White Paper would also make it clear that there was no permanent commitment to the BBC, or indeed to any particular form of constitution and finance, if a permanent service were eventually to be authorised.

In discussion it was suggested that the proposal to leave the popular music programme with the BBC, instead of transferring it later to a new Corporation to be financed from advertising, would expose the Government to criticism for giving way to the Union. Further, the introduction of advertising would provide a means of developing broadcasting and television in the future to an extent which would not be possible within the limitations of finance by licensing, and this advantage would be forgone. For these reasons it would be better to face the issue of advertising with the Union now rather than later and to maintain the earlier proposals approved by the Cabinet.

On the other hand, there was general recognition that, if the White Paper were to adhere to the proposals previously agreed, the opposition of the Union was likely to make it impossible for the BBC to introduce the popular music programme when it was needed. While the view was expressed that the introduction of finance by advertising would lead to a lowering of the standards of radio broadcasting, it would be important that, even if the proposal to establish a service financed by advertising were abandoned, at least for the time being, the White Paper should contain no indication that finance by advertising had been rejected in principle.

In further discussion of the proposal that the BBC should conduct an experiment in local sound broadcasting, doubt was expressed whether local finance was likely to be forthcoming on the scale required, and it was suggested that it might in practice be difficult, if the experiment were otherwise successful, to remove control from the BBC and to avoid finance by licensing. It was pointed out that the Government were currently asking local authorities for drastic reductions in their expenditure and that it would be inconsistent at the same time to suggest new forms of expenditure for local radio services. It was further suggested that there was already adequate domestic radio coverage and that the proposals to increase those services at the present time would be inopportune.

On the other hand, it was pointed out that local stations could meet local needs for which the present regional services could not cater. Consultation with local authorities had shown that a number of large towns favoured the establishment of local stations, and there was at least a possibility, which ought to be explored by experiment, that strongly based local systems might develop to the general benefit of the community as in the United States. The cost of the experiment would be no more than £50,000 a year per station and any extra expenditure by local authorities in respect of radio publicity services
were likely to be matched by reductions in expenditure on other forms of publicity. It would be difficult to conduct an experiment with fewer than the nine stations proposed, if reliable conclusions were to be drawn. The number could, however, be increased if any town later put forward proposals with an adequate assurance of financial support.

The Prime Minister, summing up the discussion, said that on a balance of considerations the Cabinet agreed that the White Paper on Broadcasting Policy should not propose the establishment of a new Corporation, financed by advertising, to take over from the BBC the proposed popular music programme which they would be authorised to broadcast on their Light programme medium wavelength. The Cabinet were also agreed that on balance it would be worthwhile instituting an experiment in local sound broadcasting, to be run by the BBC, involving perhaps nine stations. One purpose of the experiment would be to ascertain the extent to which local stations could be supported from local sources of finance, but it would be important that the White Paper should not, in referring to finance from local authority sources, appear to conflict with the present restrictions on local authority expenditure, and the timing of its publication would require careful consideration from that point of view. The White Paper should also avoid any indication that advertising had been rejected in principle as a source of finance.

The Cabinet—

(1) Invited the Postmaster-General, in consultation with the Secretary of State for Education and Science and the Minister of Housing and Local Government, to consider the wording of paragraph 41 of the draft White Paper in accordance with the summing up of their discussion by the Prime Minister.

(2) Subject to Conclusion (1), approved the White Paper annexed to C (66) 177 and invited the Postmaster-General, in consultation with the Lord President of the Council, to arrange for its early publication.

5. The First Secretary of State said that at a meeting the previous day of the Ministerial Committee on Economic Development most of the members had taken the view that the Government should not proceed with the acquisition of the Beagle Aircraft Company, contrary to the decision reached by the Government in the previous July.

That decision had been taken on the basis that the cost of purchase would be about £1½ million and that a further £2·4 million would have to be provided by the Government to offset losses which the Company was expected to incur up to 1970-71. Following the
decision in July, a price of £1·45 million had subsequently been negotiated but the agreement had not yet been signed on behalf of the Government. From further subsequent investigation of the Company’s prospects it had emerged that the expected losses up to 1970-71 would be £3·1 million as compared with the original estimate of £2·1 million. The return on the investment, calculated over a period of 13 years, was now estimated at only 3 per cent as against the estimate in July of 6·2 per cent. It would probably be possible in the light of the deterioration in the Company’s prospects to renegotiate the purchase price at a lower figure of perhaps £1 million, but even so the return on the investment would be only 4 per cent.

In the discussion at the Ministerial Committee, some Ministers had favoured completing the acquisition on the grounds that the Government were justified in taking some risk in view of the Company’s export potential; but the evidence on this was in his view doubtful. Most members of the Committee held that the Government would not be justified in going ahead in view of the lower expected return on capital. It was widely felt that if the present estimates of future prospects had been before Ministers in July the decision to acquire the Company would not have been taken. Moreover even the revised estimates might prove to be over optimistic. It would be disastrous to go ahead unless more efficient management of the Company could be secured, but experience with other publicly controlled firms was not encouraging in this respect. Other aircraft companies, notably Handley Page Limited and the General Dynamics Corporation of the United States, had investigated the position of the Company but had not been interested in acquiring it. For these reasons, most members of the Committee felt that the necessary expenditure could be more profitably devoted to other uses. A decision was urgently required, both because the Company were holding their Annual General Meeting the following week and because the Government were at present financing the Company at a cost of some £50,000 a week.

The Minister of Aviation said that the easiest course would be to proceed with acquisition, since the Government had already spent some £700,000 in covering the Company’s operating losses. But even before the revised estimates of future prospects had been obtained, the advantages of the project had been marginal from the Government’s point of view. The Company would have to export the major proportion of its output and this would be difficult since the main market was in the United States where the competition in light aircraft was severe. If there could be an assurance that the cost to the Exchequer would be limited to the present estimated losses, it might be justifiable to go ahead; but once the Government had acquired the Company it would be difficult to dispose of it, even if there were continuing heavy losses.

In discussion it was argued that the export prospects of the Company were not sufficient to justify acquisition by the Government. It was doubtful if the Company would succeed in
breaking into the American market where home manufacturers were producing aircraft of better quality at prices comparable with those of Beagle aircraft. It would be difficult for a small firm to develop the necessary marketing and after-sales organisation which was essential for the export trade. There were doubts about the technical quality of Beagle aircraft and there was no assurance that it would be possible to secure efficient management.

On the other hand it was argued that the increase of some £700,000 in the total of losses expected up to 1970–71 was not a sufficient ground for reversing the decision taken in July. This might in any case be partly offset by a lower purchase price. No new information had since emerged to suggest that the Company's export prospects would be worse than they were then thought to be. The Company's products had been among the most successful of our aircraft exports. Its export earnings in 1966 amounted to £2 million; a total of 387 aircraft had been sold abroad and 49 export orders were now in hand. The low return on the investment could be regarded as an export subsidy of a kind which would not infringe our international obligations. The United Kingdom should be able to compete in light aircraft better than in heavy aircraft where research and development formed a much larger element in costs. It should be possible to secure efficient management, bearing in mind that there would be less need for technical expertise than in the manufacture of heavy aircraft. If the Government now decided to withdraw, they would be criticised for vacillation and would incur outright losses probably in excess of £1 million.

In further discussion it was suggested that, if the Government decided to proceed with acquisition, the assistance of the Industrial Reorganisation Corporation should be sought in securing efficient management. The Corporation might consider the possibility of merging Beagle with another aircraft company, though it was arguable on the basis of United States experience that the manufacture of light aircraft was more economically carried out by a specialist firm.

The Prime Minister, summing up the discussion, said that the Cabinet were agreed on balance that the Government should proceed with the acquisition of the Beagle Aircraft Company. The Minister of Aviation should make an announcement accordingly and should pursue the necessary negotiations. In doing so he should seek agreement to a very substantially lower purchase price, in view of the present commercial prospects of the Company. The assistance of the Industrial Reorganisation Corporation should be sought for the purpose of securing efficient management for the Company, whether through merger with another company or by other means.

The Cabinet—

(1) Agreed that the Government should proceed with the acquisition of the Beagle Aircraft Company.
(2) Invited the Minister of Aviation to make an announcement accordingly and to proceed with the necessary negotiations on the lines indicated by the Prime Minister in his summing up of their discussion.

(3) Invited the First Secretary of State, in consultation with the Minister of Aviation, to seek the assistance of the Industrial Reorganisation Corporation in securing the efficient management of the Company, whether through merger with another company or by other means.

Cabinet Office, S.W.1,
8th December, 1966.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 13th December, 1966, at 10 a.m.

Present:
The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. George Brown, M.P., Secretary of State for Foreign Affairs
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Herbert Bowden, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. William Ross, M.P., Secretary of State for Scotland
The Right Hon. Douglas Jay, M.P., President of the Board of Trade
The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science
The Right Hon. The Earl of Longford, Lord Privy Seal
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Cledwyn Hughes, M.P., Secretary of State for Wales
The Right Hon. Richard Marsh, M.P., Minister of Power

The following were also present:
The Right Hon. Sir Elwyn Jones, Q.C., M.P., Attorney-General
The Right Hon. John Silkin, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. D. S. Laskey
Subject: RHODESIA
The Cabinet considered a memorandum by the Commonwealth Secretary (C (66) 179) on Rhodesia.

The Commonwealth Secretary said that at the Meeting of Commonwealth Prime Ministers the previous September we had gained their acquiescence in our further attempt to induce the illegal regime to end the rebellion. We had also made a commitment to proceed with mandatory sanctions, and to declare that we would not grant independence before majority rule, if the rebellion were not ended before the end of the year. The rejection by the illegal regime of the working document drawn up on HMS Tiger left us with no alternative but to proceed with that commitment. We were accordingly proposing in the Security Council of the United Nations that effective and selective mandatory sanctions should be imposed against Rhodesia. The prospect was that these would have a substantial, but not a crippling effect on the Rhodesian economy and would reduce its level by some 25 per cent compared with that prevailing before the illegal declaration of independence (i.d.i.) and with the reduction of some 15 per cent achieved by the present voluntary sanctions.

Nevertheless, the Rhodesians could withstand even severe mandatory sanctions provided they could count on the support of South Africa. The South African attitude had consistently been that they would not interfere with “normal trade” and that they would not undertake any economic boycotts. It seemed probable, therefore, that they would fail to comply with mandatory sanctions, in which event we could either do nothing, or prepare for measures leading to confrontation with South Africa, or invite consultation in these matters with the South African Government. The first would leave us open to violent attack in the United Nations and the Commonwealth, the second would involve unacceptable risks to our economy and we should therefore choose the third course, though it would be more effective if our exchanges with the South African Government were conducted unobtrusively. It was vital to our own interests that we should not allow mandatory sanctions to develop into economic warfare with South Africa.

After the outcome of the talks in HMS Tiger, and particularly after our undertaking came into force that we would not grant independence before majority rule, it would be virtually impossible to reach a settlement with the present regime and the most we could hope for was that over a long period opposition to the regime would assert itself. Meanwhile we should encourage the Governor to stay as a focus of loyalty and it would probably be in our interest to retain the British Residual Mission as long as it was open to us to do so. We should also make it clear to the Europeans in Rhodesia that though their independence under European rule was now precluded they could nevertheless look forward, if they returned to legality, to something on the lines of the 1961 Constitution. This
might mean a long period of Government prior to majority rule during which the Africans would be prepared for their responsibilities and the general administration of the country would continue much as before the i.d.i. It was possible that the illegal régime would declare a republic, in which event we should advise all public servants in Rhodesia not to continue to serve.

Before embarking on the present phase of action Ministers had considered possible alternative courses, including the military invasion of Rhodesia, mandatory sanctions against South Africa and handing our responsibility for Rhodesia over to the United Nations. There were overwhelming objections to any of these courses at the present time. Nevertheless, if mandatory sanctions should fail in their effect, it might well prove that although we could not as yet transfer responsibility to the United Nations this would in the longer term be the least damaging course open to us. Meanwhile, we should undoubtedly have grave difficulty in maintaining good relations with Commonwealth countries in Africa and we could not overlook the commitment we had given at the last Meeting of Commonwealth Prime Ministers that a further Meeting would be held soon if the illegal régime were not brought speedily to an end.

Our own interests were to achieve a settlement of the problem as speedily as possible but there now seemed to be no honourable way of doing this by agreement. Both for reasons of domestic policy and because of our external interests there was no alternative to our determination to end the rebellion. On the other hand, our own economic interests must equally be taken into account. The loss to our balance of payments already incurred by sanctions against Rhodesia was, in total, of the order of £50 million a year. A confrontation with South Africa would involve an annual loss of over £250 million of exports, a rise in the prices of our imports and a net loss of over £80 million of investment income and of invisible exports. We clearly could not afford to pay this price. Our economic interests in other African countries approximately balanced those in South Africa. Furthermore we were dependent on Zambia for 40 per cent of our copper imports, costing over £63 million in the first ten months of 1966: if these supplies were cut off the additional cost would be far greater. The Zambian Government had now indicated that they were ready to sign immediately the memorandum of understanding with us by which we would provide some £13 million towards the cost of their measures to improve transport, in order to make them less dependent upon transit through Rhodesia and upon Rhodesian supplies. We would thereby facilitate their imports of oil and other essential supplies and the export of copper. We should have to consider the action we should now take in relation to this agreement in the light of the vicious attacks on our policy which had recently been made at the United Nations by the Zambian Minister of Foreign Affairs.

In these circumstances, we should aim to bring economic sanctions against Rhodesia to the pitch of maximum effectiveness, limited only by the need to avoid confrontation with South Africa.
from whom we should seek as much practical help as could be secured. We should also seek to bring home to the Europeans in Rhodesia their isolation in the world and the hopelessness of any future under the present régime. We should also seek to explain to them what a settlement with us would now involve. At a later stage we might possibly look to use the good offices of other countries, particularly Australia and New Zealand. We must however face the prospect of a long period during which sanctions would continue and we should be subject to continuing criticism in the Commonwealth and at the United Nations. We must also face the fact that, if South Africa were prepared to give sufficient support to the illegal régime, Rhodesia might eventually fall within the South African orbit.

The Foreign Secretary said that the discussions which he had held during his recent visit to the United Nations to negotiate agreement on the resolution on mandatory sanctions had initially been most difficult and contentious, particularly with the representatives of other Commonwealth countries. A particular source of difficulty was that the representatives of Uganda and Nigeria on the Security Council had been put in the position of having to speak and negotiate there as representatives of a group of 36 African countries at the United Nations and not as representatives of their individual countries. They had, therefore, had relatively little freedom of manoeuvre, although they were personally most helpful. In general the pressure of African countries for measures which would lead to confrontation with South Africa had been held off for only a limited time. It had been necessary to undertake that we would make a periodic report to the Secretary-General of the United Nations on our assessment of the effect of sanctions: this report could then be attached to the report which he would in turn make to the Security Council. Nevertheless a clear understanding with the African members of the Commonwealth had been secured on an acceptable basis on which the resolution might go forward. The latest reports since his return indicated however that there was renewed pressure for a widening of the resolution in terms which we might not be able to accept. In particular the Zambian Minister of Foreign Affairs was pressing hard that the export of Rhodesian coal should be prohibited, although this would cut off the major supply for the Zambian copper mines. It appeared that he took the view that we should then compensate Zambia for the economic loss to her that would be involved.

In discussion there was general agreement with the Commonwealth Secretary's memorandum. It seemed most unlikely that there would be any immediate move by the moderates in Rhodesia to overthrow the régime. It was however possible that Mr. Smith might be expelled by his own extremist colleagues. This would have the advantage of making clear where the real power in Rhodesia now lay and might in the longer run therefore be advantageous to us. It would not however assist in bringing about
such a development if United Kingdom Ministers were openly to refer to the possibility, though we could make clear the extent to which Mr. Smith, during the discussions on HMS Tiger, was prepared to act against the extremists in his party.

It must however be assumed that the régime would continue in power for some time. If we received Commonwealth support for the action now proposed in the United Nations we should be committed to the related section of the Commonwealth Prime Ministers' communiqué; we should have to withdraw all previous proposals for a constitutional settlement and undertake not to submit to the United Kingdom Parliament any settlement involving independence before majority rule. We need not reiterate this in a formal declaration but it would have to be made clear in Parliament that this was the Government's position. This would much reduce any chance of a negotiated settlement and we must assume that the present Rhodesian régime would not at any time agree to end the rebellion and return to the 1961 Constitution without independence. We could not however foresee at this stage how the situation in Rhodesia would develop. There was unlikely to be any early break in morale but in time, as a result of the pressures exerted by sanctions and by our propaganda, there might arise an opposition to the régime and new men with whom we could deal. This process would inevitably involve negotiation with them and we must not be thought to be insistent on unconditional surrender. In negotiation we should of course have to insist on an ending of the rebellion and a return to constitutional rule and we could not accept any reversion to the proposals in the working document. We should not however simply envisage a return to the position existing before i.d.i. We should also need to have considered in advance the measures required for the education and training of the Africans so that Rhodesia could progress over a period to majority rule and to independence. This might involve financial and other assistance from the United Kingdom. It must also be recognised that, throughout the period between a return to constitutional rule and eventual independence, we should be subject to heavy and continuing international, and particularly African, pressure to advance the date of independence beyond the date which we considered reasonable. We should thus attract some of the odium which at present attached to Mr. Smith. However this might be, it would be important, while future developments were so uncertain, that we should not tie our hands by public declarations on the course which we might adopt in circumstances when such negotiations seemed possible and thus restrict our freedom of action. If for instance after the present stage at the United Nations the Commonwealth countries were subsequently to press for enforcement action against South Africa, contrary to their agreement in the Commonwealth Prime Ministers' communiqué, we could if we so wished regard ourselves as released from our obligation not to consider the grant of independence before majority rule. Similarly, we should avoid any reaffirmation of our assurance that we would in no circumstances contemplate the use of force.
It was suggested that a Commission, with suitable all-party membership, might be established to consider future constitutional arrangements for Rhodesia and the measures by which Rhodesia would advance to majority rule and achieve independence. We could thus demonstrate that the United Kingdom Government were not simply demanding unconditional surrender and a return to the 1961 Constitution but had positive plans for Rhodesia's future. This course might also enable us to escape from the restrictions imposed hitherto by the fact that a settlement had only seemed possible on the basis of amendments to the 1961 Constitution. The Commission need not confine its studies to such a basis. Its appointment might encourage liberal opinion in Rhodesia and would counteract pressures which might otherwise arise in this country during the coming months for a resumption of negotiations with the present Rhodesian régime. It was also suggested that the Commission might also visit Rhodesia, if the régime permitted their entry, not in order to negotiate but to obtain the views of all sections of Rhodesian opinion. While there was general support in principle for the suggestion of a Commission doubt was however expressed about the advisability of taking immediate steps to establish it and about the way in which it should operate. In particular it was suggested that a visit by the Commission to Rhodesia, whatever its declared purpose, would arouse suspicion that we were prepared to resume negotiations with the régime. It would be better, on this view, to give time for mandatory sanctions to exert an effect before adopting new constitutional plans which might, in the light of future developments, prove inappropriate and unduly restrict our freedom of action.

In further discussion the following main points were made:

(a) With the adoption of mandatory sanctions it would be reasonable that the United Nations should assume a greater measure of responsibility for putting them into effect and that this should not be left entirely to the United Kingdom. The establishment of a United Nations Commission to supervise the application of sanctions had been suggested by some of the African delegations but such a Commission would make it more difficult for us to retain control and would be likely to increase the pressure for enforcement action against South Africa. Some members of the Security Council would in any event resist a move to entrust the Secretary-General with the responsibility of supervising the application of sanctions; if the opportunity offered, we should seek to expose the opposition of such members to the effective working of the policy of sanctions. As a compromise we had proposed that the Secretary-General should make periodic reports to the Security Council and we would provide him with assessments of the way in which sanctions were working. It should thus be possible to bring United Nations pressure to bear against any countries which were not observing the resolution. This might be more effective than our own pressure and correspondingly relieve some of the odium from which we at present suffered.

(b) While the time had not yet come for us to be able to transfer responsibility for Rhodesia to the United Nations, the possibility of
doing so should remain under study. If mandatory sanctions failed in their effect it might well prove the least damaging course open to us and would certainly be preferable to a surrender to the régime.

(c) Voluntary sanctions had had a significant effect. There was a degree of European unemployment; some Europeans were now taking jobs hitherto held by Africans and a number had emigrated to South Africa. Most of the present tobacco crop remained unsold and the régime would probably have to buy in most of the new crop in the spring. It need not be assumed that mandatory sanctions would fail, although they might well take a considerable time to operate and we could not count on them bringing an early end to the rebellion.

(d) The effectiveness of sanctions would depend above all on the policy of Portugal and South Africa, particularly in regard to the embargo on oil supplies to Rhodesia. It seemed likely that Portugal would comply with the United Nations resolution, particularly in view of her current difficulties in Macao. South Africa had hitherto based her policy on “normal trade” with Rhodesia but had not interpreted this to mean that trade should be kept down to pre-i.d.i. levels. It now seemed likely that South Africa would adopt a more cautious policy and if the supply of oil to Rhodesia through Mozambique were stopped it might not be wholly replaced by supplies from South Africa. After the adoption of the United Nations resolution we should invite consultation with the South African Government and bring home to them the serious consequences if they supported the régime in defiance of the United Nations.

(e) There were Press reports of the assembly of foreign motor vehicles in British plants in Rhodesia and it was clear that some United Kingdom manufacturers, such as the British Motor Corporation and Rovers, had had such arrangements in mind. They had been warned against this but it seemed doubtful whether foreign countries at least would take effective action unless there were a mandatory United Nations ban on the import into Rhodesia of motor vehicles, aircraft and components. We could accept a suitable amendment to extend our draft resolution in this sense. We had however hitherto resisted pressure to extend the resolution to cover imports into Rhodesia apart from oil; to do so would increase the pressure for a complete embargo on imports with the added risk of confrontation with South Africa.

(f) We should take advantage of any opportunity to invoke the good offices of other countries, particularly the Old Commonwealth and the United States, as suggesting in the Commonwealth Secretary’s memorandum. Meanwhile we might at once consult the Australian Government about the possibility of their encouraging European emigration from Rhodesia to Australia. Given the relatively small numbers of the European community this could have a considerable impact in Rhodesia.

(g) We should need to consider the Zambian Government’s request for signature of the agreement providing for a further £13.85
million of aid. The agreement would in any case require some amendment in the light of developments since it had been drawn up and we should need to consider the position in the light of the United Nations resolution and the effect which this might have on the Zambian economy. While we should take account of Zambian difficulties and need not be unduly influenced by their irresponsible criticisms of the United Kingdom our attitude must depend on our own interests including the need to safeguard our copper supplies. It would also be important that any agreement with Zambia should not be signed until we had acceptable undertakings in relation to the Zambian sterling balances and until we had also secured satisfaction on the status of our Service personnel in Zambia. In any event, the memorandum should not be signed until a resolution on mandatory sanctions in terms acceptable to us had been passed by the Security Council.

The Prime Minister, summing up the discussion, said that the Cabinet took note of the Commonwealth Secretary's paper. It might be desirable in the light of the development of the situation to reorganise the structure of Cabinet Committees dealing with Rhodesia. Meanwhile in view of the difference of opinion which had been expressed about the proposal for a Commission to study future constitutional arrangements and the progress of Rhodesia to majority rule and to independence he would consult further with the Ministers directly concerned and arrange for a further discussion by the Cabinet early in the new year. The Foreign Secretary should consult with the Chancellor of the Exchequer and the Commonwealth Secretary about extending the United Nations resolution on Rhodesia to cover the import of motor vehicles, aircraft and components. The Commonwealth Secretary should consult the Australian Government about the possibility of encouraging European emigration from Rhodesia to Australia.

The Cabinet—

(1) Took note of C (66) 179.

(2) Took note that the Prime Minister, in consultation with the Ministers primarily concerned, would give further consideration to the question of establishing a Commission to study future constitutional arrangements for Rhodesia.

(3) Invited the Foreign Secretary, in consultation with the Chancellor of the Exchequer, the Commonwealth Secretary and the Minister of Technology, to consider extending the United Nations resolution on Rhodesia to cover the import of motor vehicles, aircraft and components.

(4) Invited the Commonwealth Secretary to undertake consultations with the Australian Government about the possibility of encouraging European emigration from Rhodesia to Australia.
(5) Invited the Commonwealth Secretary, in consultation with the Ministers primarily concerned, to give further consideration in the light of the discussion to signing the memorandum of understanding with the Zambian Government.

Cabinet Office, S.W.1,
13th December, 1966.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 20th December, 1966, at 10 a.m.

Present:

The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. George Brown, M.P., Secretary of State for Foreign Affairs
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Herbert Bowden, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. William Ross, M.P., Secretary of State for Scotland
The Right Hon. Douglas Jay, M.P., President of the Board of Trade
The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science
The Right Hon. The Earl of Longford, Lord Privy Seal
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Cledwyn Hughes, M.P., Secretary of State for Wales
The Right Hon. Richard Marsh, M.P., Minister of Power (Items 1-4)

The following were also present:

The Right Hon. Kenneth Robinson, M.P., Minister of Health (Items 6 and 7)
The Right Hon. John Diamond, M.P., Chief Secretary, Treasury (Items 6 and 7)

The following were also present:

The Right Hon. Michael Stewart, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. Lord Gardiner, Lord Chancellor
The Right Hon. Richard Crossman, M.P., Lord President of the Council
The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. Douglas Houghton, M.P., Minister without Portfolio
The Right Hon. Arthur Bottomley, M.P., Minister of Overseas Development
The Right Hon. Anthony Greenwood, M.P., Minister of Housing and Local Government
The Right Hon. R. J. Gunter, M.P., Minister of Labour
The Right Hon. Barbara Castle, M.P., Minister of Transport
The Right Hon. Frederick Lee, M.P., Secretary of State for the Colonies
The Right Hon. Anthony Wedgwood Benn, M.P., Minister of Technology

The Right Hon. Margaret Herbison, M.P., Minister of Social Security (Item 7)
The Right Hon. John Silkin, M.P., Parliamentary Secretary, Treasury

Secretariat:

Sir Burke Trend
Mr. W. A. Nield
Mr. L. Errington
Mr. D. J. Laskey
Mr. K. Barnes
Mr. R. T. Armstrong

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1. The Cabinet were informed of the business to be taken in the House of Commons in the first week after the Recess.

2. The Foreign Secretary said that the Ministerial Meeting of the North Atlantic Council had gone well. Agreement had been reached on nuclear planning machinery which should strengthen the alliance. It might also help to remove the obstacles to a treaty on non-proliferation since the Soviet Foreign Minister had indicated to him that the Soviet Government would not object to such machinery in the North Atlantic Treaty Organisation (NATO). Herr Brandt, the new German Foreign Minister, had made an impressive speech and was clearly not seeking a solution to the nuclear problem which would involve common ownership of nuclear weapons or a European nuclear force. There were, however, likely to be differences of policy in the Federal German Government now that it was a coalition of the two main Parties. The move of the North Atlantic Council from Paris to Brussels had also been agreed. The Italian proposals for technological co-operation had aroused great interest; the study of this subject need not be confined to NATO and we could make use of it in the context of our approach to the European Economic Community (EEC). The Belgian proposal for a study on the future of the alliance had been accepted. There had been Press reports about differences between ourselves and the United States on defence policy; but these were much exaggerated.

He had discussed our approach to the EEC with a number of Foreign Ministers; and the French Foreign Minister had arranged for him to meet President de Gaulle. Their conversation had been in general terms; and the President had not referred to agricultural policy, the position of New Zealand or any points of detail. He had expressed concern about the position of sterling as a world currency, but more from the point of view of the privileges and prestige which this might be held to confer on the United Kingdom than in relation to the liabilities it imposed. It was difficult to form any conclusion about his attitude towards our entry into the EEC; and it was unlikely that he would give any definite answers until we were able to put forward firm proposals. He had, however, spoken of his goodwill towards the United Kingdom; and we need not therefore take it for granted that there would be French objection to our entry into the EEC on acceptable terms.

In discussion the point was made that President de Gaulle's attitude towards sterling differed from that of some other members of the French Government who professed to be more concerned about the liabilities which sterling imposed and about the possible disruption of the EEC which might be caused by the entry of the United Kingdom and other members of the European Free Trade Association. But, although sterling conferred privileges as well as
imposing burdens, it need not necessarily constitute any barrier to our entry into the EEC.

In further discussion reference was made to the need to keep other Commonwealth Governments closely informed about our approach to the EEC. We should seek to avoid a Commonwealth Conference; but a visit by the Commonwealth Secretary to Australia and New Zealand in late February would fit in well with the timetable for the visits by the Prime Minister and the Foreign Secretary to the EEC capitals.

The Cabinet—

(1) Took note of the statement by the Foreign Secretary and the points made in discussion.

The Foreign Secretary said that for the first time an amendment had been adopted to a resolution in the United Nations General Assembly about Gibraltar which recognised the importance of the interests of the inhabitants in any solution. This was a considerable advance and was in great measure due to the influence at the United Nations of Sir Joshua Hassan, the Chief Minister of Gibraltar. The Spanish Government had now rejected our proposal for a reference to the International Court of Justice; but their reply contained no constructive counter-proposals. We should need to consider our future policy early in the New Year; meanwhile, it would be best to maintain the line that the Spanish reply was still under study and to avoid any public statements which might exacerbate the situation or might lead to further Spanish measures against Gibraltar and particularly against our use of the airfield.

The Cabinet—

(2) Took note of the Foreign Secretary’s statement.

3. The Foreign Secretary said that the resolution finally adopted by the Security Council had been on the lines we wished; and all the amendments which were unacceptable to us had been defeated. This satisfactory result was mainly due to the skilful way in which the United Kingdom Representative to the United Nations and members of the United Kingdom Mission had handled the matter. The Commonwealth members of the Security Council, Nigeria and Uganda, had admittedly joined in sponsoring the amendments. But they had been under great pressure from other members of the African bloc; and they had acted against the views of some of the more extreme African States in voting for the resolution at the final stage. They could reasonably claim, therefore, that they had given effect to their undertakings in the Commonwealth Prime Ministers’ communique of the previous September.

In discussion the Cabinet were informed that in reply to Parliamentary Questions that afternoon about Rhodesia the Prime Minister intended to confirm that we would no longer be prepared
to grant independence before majority rule. But the answer would also make it clear that, although the Government's policy would now be as set out in paragraph 10 of the Commonwealth Prime Ministers' communiqué, the objective of that policy would still be to achieve a satisfactory settlement with a legal Government of Rhodesia.

The Cabinet—

Took note, with approval, of the Foreign Secretary's statement and invited him to convey to the United Kingdom Representative at the United Nations their appreciation of the way in which he and his staff had conducted the debate on Rhodesia in the Security Council.

NEWSPAPER INDUSTRY

4. The President of the Board of Trade said that the Monopolies Commission had now reported on their investigation into the proposal for The Times and The Sunday Times to come under common ownership. The Commission had concluded, with one dissentient, that the proposed transaction would not operate against the public interest. The majority of the Commission had not recommended that any conditions should be attached to the Board of Trade's consent to the proposal. The one dissentient, however, had recommended that, in order to minimise the risk of future developments which might be contrary to the public interest, the Thomson Organisation should accept as binding on itself the assurances given to the Commission by Lord Thomson personally about the preservation of the separate identities of The Times and The Sunday Times and the maintenance of the independence of their editors; and that the proposed new company should give a similar undertaking. On these two questions he had felt that the majority report of the Commission was not entirely satisfactory; and he had therefore sought, and had now received, satisfactory formal assurances from the Thomson Organisation as to their intentions in these respects. The proposed transfer was the only practicable course to ensure the future of The Times; and he proposed, if the Cabinet agreed, to give his consent to it.

Two subsidiary issues arose. First, The Guardian and The Observer relied for their printing on presses owned by The Sunday Times and The Times. They had now secured, however, legal agreements that they could continue to use these facilities for the next 10 years; and this arrangement should constitute adequate protection for their legitimate interests. Second, the Thomson Organisation had insisted that the present Editor of The Sunday Times should have the title of Editor-in-Chief in the new organisation. This title usually implied that the individual concerned controlled editorial policy as well as other matters; but the intention in the present case was that, while controlling all other matters affecting the two newspapers, the Editor-in-Chief would not control editorial policy. In view of the assurances given by the Thomson Organisation on the main issue of
maintaining the separate identities of the two newspapers and the independence of their editors, he had concluded that it was not necessary to press them on the formal point of nomenclature.

He therefore proposed to announce, in reply to a written Parliamentary Question on the following day, that he accepted the majority conclusion of the Commission and had accordingly given his consent to the proposed transfer. He would also refer to the formal assurances given to him by the Thomson Organisation about the preservation of the separate identities of the two newspapers and the maintenance of the independence of their editors.

In discussion there was general agreement with this proposal. The following points were made:

(a) The newspaper industry was facing increasing difficulties as a result of the effects, first, of commercial television and, more recently, of the Government's economic measures on advertising revenue, superimposed on more deep-seated difficulties arising from inefficient management and restrictive labour practices.

(b) In these circumstances it would not be surprising if the industry itself sought to promote a full enquiry into its future; but it would be wrong for the Government to anticipate any proposal of this kind. Meanwhile, if there were a demand for a discussion in Parliament in the new year on the general position in the newspaper industry, it would be right to accede to it.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that, having regard to the assurances given by the Thomson Organisation, the President of the Board of Trade should give his consent to the proposal for common ownership of the two newspapers. If there were a demand in Parliament for a general debate on the newspaper industry in the new year, this should be accepted.

The Cabinet—

(1) Invited the President of the Board of Trade to give his consent to the proposal that The Times and The Sunday Times should come under common ownership on the basis of the understandings which he had described.

(2) Invited the Lord President, in dealing with any request for a Parliamentary debate on the newspaper industry, to be guided by the points made in discussion.

5. *The Minister of Technology said that Rootes Motors, Ltd. were in serious difficulties. They had incurred substantial losses over the last two years; and an injection of further capital would be essential by the end of January 1967 if the company were to continue. They had applied to the Treasury for permission for the Chrysler Corporation to increase their already substantial holding in the company to an extent which would give Chrysler complete

* Previously recorded in a Confidential Annex.
control. There were, however, serious objections to this proposal. It would mean that, of the five major motor manufacturers in the United Kingdom, three would be subsidiaries of United States firms. It was doubtful whether as many as five major firms could be sustained in this country in the long run; and the British firms were more likely than the American subsidiaries to be eliminated in the future. To allow Chrysler to take over Rootes might therefore have grave long-term effects on the structure of the industry and might reduce to an unacceptable degree our control over the industry's operations, which were vital to employment and exports.

In view of past assurances given to Rootes, it would be unacceptable simply to frustrate the Chrysler takeover by refusing exchange control permission, unless there were a feasible alternative method of keeping the Company in business. He had therefore examined, in consultation with the Ministers immediately concerned, the possibility that a consortium of the British Motor Corporation (BMC) and Leyland/Rover might acquire control of Rootes. BMC and Leyland/Rover were interested in this suggestion; but they were not prepared to come to a decision until they had had an opportunity of considering Rootes' present position and future prospects in detail. Rootes/Chrysler had not at first been prepared to release this information; but they had later agreed to disclose it to the Industrial Reorganisation Corporation (IRC), who were now urgently analysing it. The Government would have the right to bring BMC and Leyland/Rover fully into the negotiations, if this analysis showed that a British takeover was likely to be a realistic proposition. A joint operation of this kind by BMC and Leyland/Rover would help to develop closer co-operation between the two companies, which was particularly desirable in the export field. Bridging finance by the Government and assistance from the IRC were likely to be required. But, if a British takeover proved in the end not to be feasible, it would be necessary, before giving permission for a takeover by Chrysler, to impose appropriate conditions as regards the direction of Rootes and the future of their plant at Linwood.

In discussion there was some support for the suggestion that a takeover by Chrysler should be allowed, since they were in a stronger position that the British firms to supply the major injection of capital and the more efficient management which Rootes required. There was a danger that a British takeover would require assistance from the IRC on such a scale that a major part of the Corporation's resources would be pre-empted for what might prove to be an unprofitable venture. The employment prospects at Linwood need not be prejudiced by a Chrysler takeover and might conceivably benefit. There could be no prospect that the Government itself might undertake a major role in running Rootes; and it was important to avoid causing Chrysler to lose interest if there was a risk that no alternative course would subsequently prove to be feasible.

On balance, however, opinion favoured a solution which would ensure British control of Rootes, provided that this could be arranged at an acceptable price and that BMC/Leyland were prepared to
assume the management responsibility. It would be inexpedient to allow another major manufacturer to fall under American control; and there was no guarantee that Chrysler would always operate in a way consistent with our national interest, as the other American subsidiaries had hitherto done. Moreover, it would not necessarily enhance our prospects of securing entry to the European Economic Community to allow a major extension of United States control of our motor industry. As regards the danger of pre-empting the resources of the IRC, it might be possible to interest other sources, such as insurance companies or merchant bankers, in helping to raise the necessary capital.

The Prime Minister, summing up the discussion, said the Cabinet agreed that negotiations should be pursued for a takeover of Rootes by a consortium of BMC and Leyland/Rover with appropriate assistance from the Government and the IRC, although we might in the end have to revert to the alternative of permitting a takeover by Chrysler. The Minister of Technology should pursue the negotiations urgently, in consultation with the First Secretary of State, the Chancellor of the Exchequer and the President of the Board of Trade. The Secretary of State for Scotland should be kept in touch with developments. If progress warranted it, the Minister of Technology should make a further report to Cabinet on Thursday, 22nd December. Otherwise, if a decision became urgently necessary during the Recess, he would arrange for it to be taken in consultation with the Ministers mainly concerned. Meanwhile, particular care should be taken to safeguard the confidential nature of the Cabinet's discussion in view of the untoward financial and commercial consequences which might follow any premature disclosure.

The Cabinet—

(1) Invited the Minister of Technology, in consultation with the Ministers mainly concerned, to pursue negotiations with the object of maintaining British control of Rootes Motors, Limited, and to report further to the Cabinet on Thursday, 22nd December, if developments so warranted.

(2) Took note that, if a decision became urgently necessary during the Recess, the Prime Minister would make the necessary arrangements for this purpose in consultation with the Ministers primarily concerned.

CONFIDENTIAL

6. The Cabinet considered a note by the First Secretary of State and Secretary of State for Economic Affairs (C (66) 184) on the pay of Service doctors and dentists.

The First Secretary of State said that the Ministerial Committee on Prices and Incomes had been unable to reach an agreed conclusion on the amount of an increase of pay for Service doctors and dentists. The pay of Service doctors and dentists had not been increased at the time of the general increases in Service pay earlier in the year; but the Government had undertaken to take account of increases awarded to civilian doctors and dentists engaged in the
National Health Service in reaching decisions about the pay of Service doctors and dentists. Since 1962 the pay of Service doctors and dentists had been determined by reference to a 16 per cent lead over the average net career income of civilian general practitioners in the National Health Service. Since 1964, when the pay of Service doctors and dentists was last increased, the average net income of civilian general practitioners would by 1st April, 1967, have been increased by about 44 per cent as a result of the recommendations of the Review Body on Doctors’ and Dentists’ Remuneration. These recommendations were designed to stem the loss of doctors from general practice by improving the attractiveness of the service; and there was general agreement that it would not be right to concede a comparable increase to Service doctors and dentists.

The British Medical Association (BMA) would, it was believed, be ready to accept an increase of 20 per cent, conditional, however, upon a further increase later on corresponding to the second instalment of the general practitioners’ increase, due on 1st April, 1967. The Secretary of State for Defence had proposed to concede an increase of 20 per cent, without any commitment to a second instalment. In discussion three other possibilities had been suggested:

(i) An increase of 18 per cent, which could be justified by reference to the increases for general practitioners (excluding from the reckoning additional payments which remunerated features of general practice that had no counterpart or were otherwise rewarded in Service life) and would preserve the former relativity with other serving officers.

(ii) An increase of 13½ per cent, based on the average increase for hospital doctors.

(iii) An increase of 10 per cent, based on the increase for senior hospital doctors.

Most members of the Ministerial Committee on Prices and Incomes had favoured an offer of 10 per cent (payable from 1st July, 1967, with effect from 1st October, 1966) and were prepared to agree that an increase of this order need not be paid in instalments. The Secretary of State for Defence, however, remained of the view that the offer should not be less than 18 per cent, which he was prepared to see paid in instalments. The First Secretary of State said that his own view, and that of the other Ministers, was that an increase of this order would have such serious implications for the Government’s policy on prices and incomes that it could not be contemplated at this time. The matter had therefore to be submitted to the Cabinet for a decision.

The Secretary of State for Defence said that the proposals before the Cabinet concerned some 2,000 doctors and dentists in the Services. The maintenance of a sufficient establishment of doctors and dentists was vital to the morale of the Services. Nevertheless, medical branches were under-manned; and recruitment had fallen
short of the requirement, particularly since last April. The cadet entry, on which the medical services so largely depended, was running at less than half its earlier level; and at the rank of Captain and Major the medical branches of the Service were now 33\% per cent under establishment. An increase of 10 per cent would be regarded by Service doctors and dentists as wholly inadequate. There was a real danger that the staffing situation, which was already serious, would become catastrophic: doctors would leave the medical branches of the Service and it would become impossible to recruit. There was even a threat by the BMA to blacklist Service medical appointments. If these fears were realised, the Government would be faced with an extremely serious situation, the remedies for which would be considerably more expensive. Service doctors and dentists would have had to wait for 15 months after other serving officers for their increase, which would be effective from a date six months later than the increases for other officers. An increase of 18 per cent would convert the former lead of 16 per cent over the general practitioner to a lag of over 5 per cent. None the less, he would be prepared to defend an increase of 18 per cent, which would preserve the relativity with other serving officers and could be justified by reference to the increases for general practitioners. An increase of 10 per cent, however, could not be justified by any analogy and would be under one-fifth of what Service doctors would consider they were entitled to receive. An increase of 18 per cent in basic pay could be expressed as an increase of 13\% per cent in total emoluments; and, if phased in three payments, it would amount to only 4\% per cent on each occasion.

In discussion there was a wide measure of agreement that an increase of as much as 18 per cent would have serious implications for the policy on prices and incomes. One of the necessary implications of maintaining such a policy was that less weight could be given to traditional analogies than in the past in determining wages and salaries; and wider considerations had to be taken into account. An increase of 18 per cent would add greatly to the difficulties of dealing with forthcoming claims in other public services, where the level of salaries was lower and the problems of recruitment no less great.

In further discussion the following points were also made:

(a) It was questionable whether the analogy with the civilian general practitioner had ever been valid. Although the work of some Service doctors resembled that of general practitioners, the work of Service doctors generally was more like hospital doctors than general practitioners in that they were salaried employees, working in premises, and with equipment, provided directly by the employers. By comparison with hospital doctors, the young doctors in the armed Services were already well-paid.

(b) While it was true that in the Services there was a ratio of one doctor to every 400 men, this could not be directly compared with the doctor-patient ratio in civil life: Service doctors dealt not only with Servicemen but also with their families and undertook functions which in civil life were carried out by public health doctors. On the other hand some reorganisation of the medical branches of
the Services should make it possible to reduce the number of Service doctors and dentists; in particular, the number of base hospitals in this country appeared to be unnecessarily large.

(c) In this, as in other cases of public service pay, there was a conflict between the Government’s responsibility as an employer and their wider responsibility for economic management. It was clearly difficult for the Cabinet to act as a final arbiter in cases of this kind. Considerations of this nature had led to the establishment of independent arbitration arrangements for the Civil Service and many other parts of the public services. Bearing in mind that this was a highly complex issue, that in any case no payment would be made until July and that the pay of Service doctors and dentists was in some sense the corollary of the general increase in Service pay, it might be best to refer the pay of Service doctors and dentists to the National Board for Prices and Incomes. On the other hand there would be some difficulty in adopting this course in that it would be difficult for the Board to reach any conclusions on this matter until the criteria for the policy on incomes for the second half of 1967 had been determined and promulgated. Moreover, a reference to the Board could cause confusion in relation to the increases which were about to be offered to university clinical teachers.

The Prime Minister, summing up the discussion, said that, on balance, the Cabinet supported the view of the Ministerial Committee on Prices and Incomes that Service doctors and dentists should be offered an increase of 10 per cent in basic pay, to be paid in full from 1st July, 1967, with effect from 1st October, 1966. They recognised the strength of the arguments advanced by the Secretary of State for Defence for a higher figure; but they judged that in the circumstances considerations of the policy on prices and incomes should be overriding.

The Cabinet—

Invited the Secretary of State for Defence to inform the British Medical Association that the Government were prepared to offer an increase of 10 per cent in the basic pay of Service doctors and dentists, payable from 1st July, 1967, with effect from 1st October, 1966.

7. The Cabinet considered memoranda on family endowment by the Chancellor of the Exchequer and the Minister without Portfolio (C(66) 181) and by the Minister of Social Security (C (66) 183). They also had before them a note by the Secretary of the Cabinet (C (66) 182), to which was annexed a report by officials on this subject.

The Chancellor of the Exchequer recalled that, at their previous discussion on family endowment, the Cabinet had invited him, in consultation with the Minister without Portfolio, to give further
consideration to an acceptable family endowment scheme. There were, in his view, three overlapping problems—the problem of child poverty disclosed by the recent Ministry of Social Security Survey; the question whether there should be some redistribution of income both between families in different income groups and as between husband and wife; and the question whether the charges for school meals and welfare milk should be increased. The more immediate problem was posed by the indication given by the Ministry of Social Security Survey of the extent of poverty among families with children. It appeared that some 160,000 families, containing 500,000 children, might have incomes below the new level of supplementary benefits. No practicable increase of family allowances, even if associated with a reduction of income tax child allowances—a “give and take” scheme—could solve the problem of child poverty as efficiently and economically as could the introduction of an income-tested allowance. While objections of principle had been urged against the latter, there were equally objections of fiscal principle to the “give and take” type of scheme. Nor was it clear how wage-earners would regard the reduction of their take-home pay which would result from a reduction of income tax child allowances or whether they would in general regard this reduction as compensated by the extra family allowances paid to their wives. Any such scheme would represent a major and controversial innovation; and the Cabinet should be satisfied, before reaching a decision, that such a scheme was socially justified and sufficiently assured of public support. An informed decision could not be taken until the full report by the Ministry of Social Security on the Survey they had made was available for consideration by Ministers and until there had been wider discussion of the implications of the “give and take” approach with the Trades Union Congress (TUC) and the Confederation of British Industries (CBI), who had already expressed misgivings about it. It would not, in his view, be possible to introduce a “give and take” type of scheme involving a reduction of income tax child allowances in 1967-68 except by drastic action of an emergency nature. This would not be justified, since both he and the Minister without Portfolio considered that public pressure for action was unlikely to develop further until the Ministry of Social Security report was published at the end of May and that the position could then be held until 1968 provided that the Government could show that they were actively in search of an acceptable long-term solution. In the meantime, in order to enable the increased charges for school meals and welfare milk to be made from September 1967, consideration should be given to extending further up the income scale the present concessions which enabled families with incomes below supplementary benefit level to obtain school meals and welfare milk without charge.

The Minister without Portfolio said that, accepting the difficulty of introducing a “give and take” type of scheme from April 1967 he had considered various possibilities of introducing such a scheme in June or July, after a post-Budget recoding for Pay-As-You-Earn (PAYE) tax purposes, or in October. Any such scheme, however,
would either involve hardship to the families concerned or formidable administrative difficulties for the Inland Revenue and employers or for the Ministry of Social Security. It could not be recommended unless emergency action were judged essential. But it was both unnecessary and undesirable to reach premature decisions on the long-term scheme to be adopted. No interim increase of family allowances, within the limits of public expenditure for 1967–68, could make any worthwhile impact on the problem of child poverty; and there was even stronger objection to the introduction of any scheme of income-tested allowance, even as an interim measure. Wider discussion was essential if a generally acceptable scheme was to be evolved; and this discussion might best proceed on the basis of a White Paper, which might be published early in the new year, explaining the problem and setting out possible courses of action. All the necessary factual information on the various alternative schemes was sufficiently available for the purposes of a White Paper of this kind. Discussions with representative organisations should proceed in order to enable a decision to be taken, and announced at the time of the Budget, on a family endowment scheme to take effect from April 1968.

The Minister of Social Security recalled that in their Election Manifesto and on repeated occasions subsequently the Government had given assurances that integration of tax allowances with social security benefits, and in particular family allowances, was being urgently considered. It would be very difficult now to publish a White Paper which confined itself to promoting further public discussion. Sufficient information to enable a decision in principle to be taken was already available from the results of her Department’s Survey and from subsequent studies by officials. Any extension of means-testing into the field of family endowment was unacceptable in principle, would be difficult to operate and would be destructive of incentive. The objection made by the CBI to the “give and take” type of scheme was based on a misapprehension; taxpayers below the surtax level would not be significantly worse off. Such a scheme, in addition to helping all families below supplementary benefit level, would help also the many families with incomes only a little above that level. Such families benefited neither from the higher supplementary benefit nor from income tax allowances; and their relative position would be further worsened as rents rose and national insurance contributions and school meal charges were increased. An increase in the income level at which free school meals were provided would not be sufficient, since many parents were deterred from availing themselves of the concession because of the stigma thought to attach to it. If no “give and take” scheme were possible in 1967–68, an interim increase in family allowances, perhaps of 5s. a week for fourth and subsequent children, should be given within the ceiling of £10 million which the Chancellor of the Exchequer had previously indicated might be available for additional expenditure. This would be an earnest of the Government’s future intentions.
In discussion it was suggested that inadequate provision in respect of child poverty represented the biggest single gap in the social services. There was general agreement that a scheme involving a reduction of tax allowances was not practicable in 1967-68 and that a White Paper might be published as early as possible in order to inform public opinion, provided that it incorporated a decision by the Government on the form which improved family endowment should take. While there might be a reasoned case for making additional provision subject to a means test, there were strong objections in principle to such an approach and also to the introduction of direct supplementation of earnings. It was suggested that, while all the factual information necessary to enable a decision to be reached was now available, the implications of alternative schemes required fuller consideration. In particular, the justification for financing families in the lower income group solely from other families with children should be further examined. It was not evident why families without children and single persons should not also contribute, although any modification of a "give and take" scheme on these lines would make it more difficult to distinguish the scheme from a straight increase of family allowances financed from general taxation. The fiscal effects should therefore be further examined; and it would be desirable to have regard to the possible consequences of any redistributive scheme on the emigration of professional people in the income groups affected. It would also be desirable to take into account the forthcoming report by the Central Advisory Council under the chairmanship of Lady Plowden on primary education, which would survey the area of social deprivation in this field.

In further discussion it was pointed out that the Cabinet had previously decided that the proposed increases in the charges for school meals and welfare milk in September 1967 should be conditional on the adoption of an acceptable family endowment scheme. It was therefore suggested that, if no family endowment scheme were possible before April 1968 the increased charges should be similarly deferred. On the other hand there were still strong reasons, in terms of the control of public expenditure, for increasing the charges in September 1967; and the case for doing so had been strengthened by the recent report of the Select Committee on Estimates, which had been critical of the present level of charges. Moreover, by raising the income level at which families might qualify for free school meals and welfare milk, the position of those above supplementary benefit level could be adequately safeguarded. Before a final decision was reached, however, it would be desirable to consider, in relation to the cost of deferring increased charges by six months, the cost of a small increase in family allowances confined to the later children of larger families and the effect of such an increase on families paying the higher charges.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that no increase of family allowances, associated with a reduction of income tax child allowances, was possible in 1967-68. Nor, on balance, did they favour the introduction, even as an interim
scheme, of means-tested allowances, although the Chancellor of the Exchequer would wish to give further consideration to the possibility of an acceptable scheme on these lines. There was strong support for a “give and take” type of scheme, particularly from the point of view of incomes policy; but, before a decision could be reached on the acceptability of any scheme of this nature, further consideration should be given to its fiscal and redistributive effects and also to its social effects, including the extent to which the cost of the increased family allowances for the lower income families might be financed by single persons and childless families as well as by families with children. It would be helpful if the Chancellor of the Exchequer, the Minister without Portfolio and the Minister of Social Security would circulate further memoranda on these issues; and in order to enable decisions to be reached before the Estimates for 1967–68 had to be finally settled the Cabinet should consider these memoranda during the first half of January. In addition arrangements should be made to provide the Cabinet with information on the cost of deferring by six months the proposed increases in the charges for school meals and welfare milk, on the cost of possible small increases in family allowances for larger families which might be introduced in 1967–68 and on the effect of such increases on families paying the increased charges.

The Cabinet agreed on the need for wider discussion of these questions in order to inform public opinion. Since discussion on a confidential basis with the representative organisations might not be practicable, it was desirable that a White Paper should be published early in the new year, setting out the problems and indicating the Government’s own intentions.

The Cabinet—

(1) Invited the Chancellor of the Exchequer, in consultation with the Minister without Portfolio, to circulate a memorandum on the fiscal implications of schemes involving an increase of family allowances, associated with a reduction of income tax child allowances or personal allowances, and on possible increases of the income qualification for free school meals and welfare milk.

(2) Invited the Minister of Social Security to circulate a memorandum describing a range of schemes involving an increase of family allowances associated with a reduction of income tax allowances, including particulars of their cost and of their effect on families with incomes below supplementary benefit level.

(3) Invited the Minister of Social Security to circulate a memorandum on possible increases in family allowances for larger families, to operate in 1967–68, including...
particulars of their cost and their effect on families paying the proposed higher charges for school meals and welfare milk.

(4) Agreed to resume their discussion at a later meeting in the light of the memoranda to be circulated under Conclusions (1), (2) and (3) above.

_Cabinet Office, S.W.1,_
_20th December, 1966._
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 22nd December, 1966, at 9.30 a.m.

Present:
The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. Michael Stewart, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. Lord Gardef, Lord Chancellor
The Right Hon. Richard Crossman, M.P., Lord President of the Council
The Right Hon. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. Douglas Houghton, M.P., Minister without Portfolio
The Right Hon. Arthur Bottomley, M.P., Minister of Overseas Development
The Right Hon. Anthony Greenwood, M.P., Minister of Housing and Local Government
The Right Hon. R. J. Gunter, M.P., Minister of Labour
The Right Hon. Barbara Castle, M.P., Minister of Transport (Item 1)
The Right Hon. Frederick Lee, M.P., Secretary of State for the Colonies
The Right Hon. Anthony Wedgwood Benn, M.P., Minister of Technology

Also present:
The Right Hon. Frederick Mulley, M.P., Minister of Aviation (Item 1)

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. D. S. Laskey
Mr. R. T. Armstrong

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The Cabinet considered a note by the Prime Minister (C (66) 185) covering a memorandum by officials on the P-1127.

The Prime Minister said that we had to decide by the end of the year whether or not we should continue with the P-1127. In discussion in the Defence and Oversea Policy Committee there had been a difference of view; the preponderant opinion was in favour of continuation, particularly given the extent of the Government's commitment to the P-1127; but the decision was one which the Cabinet would wish to take themselves.

The Minister of Aviation recalled that in February the Cabinet had agreed that the P-1127 was important for United Kingdom industrial reasons and that at that stage we should plan on the assumption that it would be developed. The Cabinet had however reserved the right to take a different decision should technical developments or the escalation of costs make it desirable to do so. The Defence and Oversea Policy Committee had agreed in March (OPD (66) 15th Meeting, Item 1) that an order should be placed for 60 aircraft with an option for a further 40, and that the issue should be further considered in the autumn in the light of feasibility studies, the cost of production and the prospect of export orders. The programme was going well, two aircraft were flying and development should be completed within the cost estimates of March 1966. By the end of December we should have spent £45 million, more than one-third of the estimated cost of the development and production of the first 60 aircraft (£120-£125 million). If the project were cancelled there would not be a total saving of the remaining expenditure on the P-1127; there would almost certainly have to be an alternative purchase of Phantom or Jaguar aircraft. If our defence requirements proved in the light of further defence studies to be such that a full replacement of the military capability provided by 110 P-1127 aircraft was necessary, this purchase would involve some £40 million in dollars and £25 million in foreign exchange on the French element of the Jaguar. Although it was estimated that this alternative would save £130 million on budgetary costs over a 10-year period, expenditure in 1967-68 would be £10 million higher owing to cancellation charges. Moreover, if our military requirements proved to be such that the total purchase could be reduced from 110 P-1127s to 70, which would be acceptable from the point of view of the industry, the programme cost would be reduced from £336 million to £242 million.

An aircraft with vertical or short take off and landing (V/STOL) capability was the best means of providing close support for our ground forces and was likely to become increasingly important as our forces became more mobile. In many parts of the world the P-1127 could operate while conventional aircraft such as the Phantom or Jaguar would be unable to do so. The P-1127 was the
only advanced military aircraft at present under development solely in the United Kingdom and the only major national aircraft project the present Government had initiated. It had been cancelled by the Conservative Government in favour of the P-1154 and when the latter had been abandoned by the present Government the P-1127 had become a symbol of our attempt to achieve stability in the aircraft industry. If it were to be cancelled now the effect on the aircraft industry could be disastrous; the loss of confidence would be such that it would be doubtful if men of the right industrial, scientific and technological standing could be retained in the industry. It was the major project in the programme for Hawker Siddeley, around which firm the Government’s proposals for reorganising the airframe industry were built and consequently if it were cancelled it was unlikely that these proposals could be carried through. The development of the VTOL and STOL capability was the only part of aircraft technology in which at present the United Kingdom was in advance of the rest of the world. To abandon the P-1127 would be permanently to throw away that lead, with wider consequences for our technological capacity and for our ability to promote technological co-operation in Europe. The French Government might well withdraw from the Anglo-French variable geometry project or insist on unacceptable conditions as the price of their continued co-operation. The export prospects must remain uncertain while the project was under threat of cancellation, but a number of countries had shown interest and the Head of Defence Sales considered the export prospects to be good. Moreover, if the project were cancelled the loss of confidence in the industry and abroad could well affect our present aircraft exports, which in the present year had reached the record total of £200 million. In view of the extent of the Government’s commitments and the effect which cancellation would have on the aircraft industry and on the Government’s standing, the project should be continued.

The Chancellor of the Exchequer said that there were three aspects to be considered: defence requirements, the Government’s commitments and the effect of cancellation on the aircraft industry, and the defence budget. It was clear that the P-1127 was not essential on defence grounds. If it were cancelled it would be necessary, on the basis of the forces agreed in the Defence Review, to purchase additional Phantom and Jaguar aircraft. The new defence studies which were now being undertaken might show that a replacement could be provided which would not involve dollar expenditure; but the decision could not be deferred until these studies had been completed. If they showed that no alternative was required large savings would accrue; if there had to be an alternative there would still be savings although some dollar expenditure might be necessary. As regards the second point, cancellation would admittedly be difficult in view of the Government’s previous commitments and the substantial effect which cancellation was likely to have on the aircraft industry. The question was the extent to which the Government should be prepared to subsidise the industry. In the case of the P-1127 the export prospects did not appear to be
such as to justify the heavy additional cost of continuing the project. Under the Defence Review the defence budget in 1969–70 would be £2,060 million (including the necessary contingency allowance) against the target of £2,000 million, owing to the earlier decision to continue with the P-1127. It was clear that savings which resulted from the new current defence studies would be reduced by an amount which could not yet be precisely defined if the P-1127 were continued. We could not afford to add to defence spending in this way: we should therefore cancel the P-1127 and agree that there should be no replacement involving dollar expenditure. Unless effective steps were taken to limit public expenditure we faced the prospect of lower savings, a slower growth of consumption and increased taxation.

The Secretary of State for Defence said that the P-1127 was the first operational V/STOL aircraft in the world. Its vertical take off performance was limited and proposals for improving the engine had not so far been practicable. Its short take off capability was however excellent. It was also virtually the only recent aircraft for which the timetable had been maintained and costs had not increased. As he had argued during the Defence Review, the P-1127 would be a useful plane which the Services would like to have. But it must have a lower priority than the other reductions which they might otherwise have to make to achieve a specified level of expenditure. Cancellation would be more difficult now and would probably be impossible by the summer of 1967, when the new defence studies were due to be completed. The maximum saving which would result from cancellation would be £130 million over 10 years. This was on the basis of a purchase of 110 P-1127s. One aspect of particular difficulty was that there was an especially heavy incidence of expenditure on the P-1127 in 1970–71, the year which had been fixed for the achievement of the reduced level of defence expenditure, though averaged over a period of years the difference was much less marked. If the purchase were limited to 70 and if the new studies showed that no more were required, the savings might be about £70 million over the 10-year period. If alternative aircraft had to be provided to replace 110 P-1127s, the dollar expenditure would be about £40 million. If it proved possible to make do with fewer P-1127s, alternative aircraft might be provided without any dollar expenditure. Whatever the outcome of the new studies it would be essential to provide our forces with aircraft for close support but if the P-1127 were continued we should be buying this capability, for industrial and political reasons, at a higher cost than would be necessary for purely defence reasons. No firm judgment was possible about export prospects. As a new and technologically advanced plane there might prove to be a good market for it. Sales of the Lightning were proving to be substantial although its export prospects had initially appeared much less. If the P-1127 were continued it must be accepted that defence savings to be achieved by 1970–71 would be less than they would otherwise
have been. Against this must be set the effect of cancellation on the aircraft industry, including the possibility that the Government would be unable to carry through their plans for the airframe companies. He had just been informed that the French Government had decided to continue with the Anglo-French V/G project; but if we cancelled the P-1127 they might well seek to impose conditions which it would be difficult to accept. The balance of all the arguments, looking at the issue as a whole and not solely from the point of view of defence, seemed to be in favour of continuation.

In discussion there was a division of opinion. On the one hand it was argued that the overriding need was to reduce defence expenditure and that a failure to do so would cause more damage to the standing of the Government than a decision to cancel the P-1127. There was no reason to suppose that the other decisions which would be required to achieve large reductions in defence expenditure would be any easier than the one which the Government now faced. It was accepted that the P-1127 would be more expensive than the alternative ways of providing the necessary military capability. If the project were continued there would either be an increase in defence spending or other reductions would have to be accepted which would be even more damaging to our interests. Continuation of the project would amount to subsidising the aircraft industry; but the industrial subsidies which the Government had undertaken already imposed a severe strain on our available resources. Indeed it was arguable that such expenditure could be reduced more readily, and with greater advantage, than some fields of defence expenditure, so permitting an expansion of the social services. It was often argued that we must maintain a technological lead but it did not follow that this was true in all fields. There might indeed be industrial advantage in reducing the spread and extent of our expenditure on advanced technology. In particular, there was a good case for reducing the resources, both in skilled manpower and money, now deployed in the aircraft industry.

As against this, there was much support for the view that there had been no change in the P-1127 programme which affected the decisions reached by the Cabinet in February and by the Defence and Oversea Policy Committee in March. The reason why the matter was now being reconsidered was the need for further defence economies. The project could not however be judged solely in defence terms. Many of the most promising developments in the civil field had originated from defence projects. We had a clear lead in V/STOL technology and the cancellation of the P-1127 would mean the abandonment of this field to other countries, such as the United States and Germany, which were embarking on V/STOL development. We might in the upshot have to buy the aircraft so produced, thus subsidising expenditure by those countries on research and development, which would be assisted by the skilled men who might be expected to emigrate from the United Kingdom in consequence of a decision to cancel the P-1127. In securing defence economies the reduction of our oversea commitments was
likely to be more important than economies in equipment. Even if cancellation of the project would produce savings in budgetary terms it seemed likely that there would have to be substantial increased expenditure in foreign exchange, which we could not afford. A further important consideration was the effect of cancellation on the aircraft industry and on the standing of the Government. A firm decision to continue the project had been taken in 1965; if this were now changed it would be taken to mean that we should never be ready to carry any project to completion and the Government would appear to lack consistency of purpose. Cancellation of the P-1127 would in fact mean that no major new aircraft project would be capable of being undertaken in the future; the position, both politically and for the industry, would be intolerable.

The Prime Minister, summing up the discussion, said that in agreeing to continue the P-1127 in February the Cabinet had accepted that the defence budget in 1969-70 might have to exceed the target figure of £2,000 million at 1964 prices. The fact that further defence studies were now being undertaken, with a view to achieving further substantial economies (for which no figure had been set) must be treated with the strictest secrecy since any publicity would lead to anxieties in many parts of the world and pressure from our allies, the effect of which would be sharply to reduce the prospect of achieving the savings required.

The discussion showed that the Cabinet were on balance in favour of continuing the P-1127. Although there could be no certainty, there seemed a reasonable possibility of export sales and the need for purchases at substantial cost in foreign exchange if the project were cancelled could not be discounted. There might well be a case for a switch of resources from defence to civilian research but many of the technicians now engaged in the aircraft industry might prefer to seek employment abroad, particularly as other countries were continuing research and development in this very specialised field. A further consideration was the degree to which the Government were committed to the P-1127 and the effect on their standing if the project were cancelled. The outcome of the new defence review would depend primarily on the degree to which we could reduce our oversea commitments; difficult decisions would be required but there seemed to be a good possibility that we should succeed in achieving further savings. It would not however be possible to say now that the decision to continue the P-1127 must be balanced by any particular cut elsewhere in the defence budget. It was agreed that the present decision would apply to a firm order now for the 60 aircraft for which contracts were being negotiated and that there should be a further order for 10 dual aircraft when the necessary project studies and contracts had been worked out. A decision on the balance of 40 aircraft should await the outcome of the new defence studies in mid-1967.
The Cabinet—

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

(2) Agreed that the P-1127 should be continued and that a firm order should be placed for 60 aircraft, to be followed by an order for 10 dual aircraft at a later stage.


*The Minister of Technology* said that, following the Cabinet’s previous discussion, he had explored further the possibility of an effective British alternative to the proposal that funds should be provided by, and voting control of Rootes should pass to, the Chrysler Corporation (Chrysler). After consultation with the Prime Minister and other Ministers directly concerned he had indicated to the Chairman of the British Motor Corporation (BMC) and Leyland Motors Limited (Leyland) that the Government would be prepared to put up one-third of the capital required to buy out the existing shareholders of Rootes (including Chrysler) and provide the necessary development capital, if BMC and Leyland were also each prepared to put up equal shares. The resulting holdings would have had to be written down to a value of about one-third of the actual investment. It had become clear that neither BMC nor Leyland was prepared to co-operate in a joint takeover of Rootes on this basis: they would probably be prepared to find £20 million for the new development capital required, but would not be prepared to put up more than £5 million for the written down value of their share of the Rootes capital. To have proceeded on this basis would have involved the Government in providing some £30 to £40 million of capital to buy out Chrysler and other holders at historic cost, and the value of this capital investment would have had to be substantially written off.

He had also pursued with representatives of Chrysler the possibility of their giving undertakings, on the development of Rootes (particularly at Linwood) and on exports, which would enable the Government to accept their proposal for a further investment in Rootes involving the passing of voting control of Rootes to Chrysler. The representatives of Chrysler were prepared to recommend to their board undertakings on the following lines:

(i) Chrysler would not initiate any action to impair either the home or oversea operations or the management and direction under the Rootes Board of Rootes as a British company in its relations with the Government, labour, its British shareholders, and the public.

(ii) Chrysler would undertake to maintain a majority of British Directors on the Board of Rootes.

* Previously recorded in a Confidential Annex.
(iii) Chrysler would confirm the plans of expansion covering development work at various factories, and especially at Linwood in Scotland where the major development would take place and where it was planned to increase employment by several thousands; these plans were essential if Rootes were to remain competitive, achieve their proper share of exports and return to reasonable profitability.

(iv) Chrysler would plan to achieve a progressive increase in the export of Rootes products without restriction to all practicable markets and to continue to make available its full international organisation for this purpose. They noted that, in the view of Her Majesty's Government, the test of the fulfilment of this undertaking would be that the export percentage of the products of the Rootes Group should be at least as good as the average for the British motor vehicle industry as a whole.

(v) Chrysler would nominate a Rootes Director (British) to each of the Boards of Simca and Chrysler International; and it was understood that a Simca Director (French) would be nominated to the Board of Rootes.

(vi) Chrysler would confirm its intention to leave at least 15 per cent of the entire equity capital (Ord., "A" Ord. and Pref. Ord.) in the hands of shareholders other than Chrysler; provided that in calculating this 15 per cent Chrysler might take into account any shares held by the Industrial Reorganisation Corporation (IRC) or put by the IRC to Chrysler (in accordance with (vii) below).

(vii) Provided that Chrysler acquired Preferred Ordinary Stock in excess of its rights entitlement of about £6.2 million nominal, it would make available to the IRC at a cost up to £1.5 million nominal of such excess, i.e., up to 15 per cent of the total Preferred Ordinary Stock, of £10 million, on condition that the IRC participated to the same percentage in Chrysler's undertakings to subscribe up to £10 million Unsecured Loan Stock. The IRC would have the right on 1st January, 1972, to put these securities to Chrysler at par plus any accrued but unpaid dividend or interest.

(viii) The IRC would have the right to nominate one Director on Rootes Board as long as it owned the securities mentioned above.

The last two of these undertakings would arise only if the Board of the IRC endorsed them.

The undertakings would be considered by the Board of Chrysler on 5th January; until that date it was essential to maintain the highest degree of secrecy. Thereafter, if the undertakings were accepted by Chrysler and agreement were reached accordingly, they could be made public.
He had also considered with the IRC, BMC and Leyland the possibility of a statement on machinery for co-ordinating the export effort of BMC and Leyland, who would be the two remaining British firms in the industry after control of Rootes passed to Chrysler. It seemed likely that agreement would be reached upon a statement and subsequently upon suitable machinery; this would strengthen the competitive position of the two firms in overseas markets and might well be the first step towards closer co-ordination, and perhaps even an eventual merger, between BMC and Leyland.

In discussion there was general agreement that the only British alternative to the control of Rootes passing to Chrysler would be extremely costly to the Government and was not practicable, however regrettable this might be. The assurances given by Chrysler would not only safeguard production at Linwood but lead to its expansion; Chrysler had been left in no doubt about the standards of export performance which Rootes would be expected to achieve; and it had been made clear to them that for any further expansion they would, like any other firm, be subject to the granting of industrial development certificates. If eventually BMC and Leyland-Rover were to merge, the motor car industry in this country would consist of four firms; three of them would be United States controlled, but the fourth, British controlled, firm would still be responsible for 50 per cent of the industry’s output.

In further discussion the following points were made:

(a) It was in some ways unfortunate that the first action of the IRC would be taken under its special powers, and care would have to be taken that the Government did not rely too exclusively on the IRC for action in the event of further issues of this nature arising. Nonetheless the use of the IRC in this case was not only inevitable but completely justified.

(b) There would be some political criticism of the Government for not pursuing the alternative possibility of public ownership but it was clear that this was wholly impracticable: the Minister of Technology, in consultation with the Lord President of the Council, would need to consider how best this criticism might best be answered.

(c) It was intended to preserve the secrecy of these proposals until after the meeting of the Chrysler Board on 5th January. The Minister of Technology should, however, be prepared to make a statement at short notice in case of any leak in the meantime.

The Prime Minister, summing up the discussion, said that the Cabinet approved the proposals for a further investment by Chrysler in Rootes, involving the passing of the voting control of Rootes to Chrysler, subject to the undertakings described by the Minister of Technology which the representatives of Chrysler would be putting to their Board. The Cabinet welcomed the achievement of the Minister in securing such advantageous undertakings, which should ensure a continuing contribution by Rootes to the development of the British economy.
The Cabinet—

Agreed that Government approval should be given to a further investment in Rootes Motors Limited by the Chrysler Corporation, involving the passing of voting control of Rootes to Chrysler, subject to the Board of Chrysler confirming their willingness to give undertakings to Her Majesty's Government (which would be for publication) in the terms described by the Minister of Technology.

Cabinet Office, S.W.1,
22nd December, 1966.