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OF

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1967

(CC (67) 1st–74th Meetings)

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The Suez Canal still blocked; Arab States denying oil supplies to the United Kingdom and the United States; possible alternative supplies of oil. 40 (2).

No prospect of an early Middle East settlement; some adjustments of frontiers necessary; a misleading interpretation put on the Foreign Secretary's speech in the General Assembly. 41 (3).

The debate on the Middle East in the United Nations General Assembly; the difficulties and possible outcome; an attempt being made to secure the re-opening of the Suez Canal; a confused situation inside the United Arab Republic. 43 (2).

Observers from the United Nations Truce Supervision Organisation to be sent to the Suez Canal and the Gaza Strip; some improvement in the atmosphere in the Middle East. 46 (4).

A re-examination to be made of our dependence on Middle East oil. C 123, 46 (2).

Oil supplies in the near future: a weekly report by the Minister of Power; future oil supplies. C 126, 46 (2).

Egypt not willing to allow clearance of the Suez Canal while Israeli forces occupied the east bank: United Nations observers now patrolling both banks; a protest by ourselves to Israel for not fulfilling her undertaking to allow refugees to return to their homes on the west bank of the Jordan. 50 (2).

Suez Canal: the prospects for an early re-opening were gloomy; our future dependence on the Canal to be studied; an unresolved conflict of views on negotiations with the Arabs continuing in Israel; the crews of trapped British ships now able to leave. 53 (2).

The Arab summit meeting at Khartoum: a more realistic understanding of the situation by the Arab States represented; the Israeli attitude hardening; oil shipments to the West being resumed. 54 (2).

A message sent to President Nasser by the Foreign Secretary indicating our wish to resume discussions; sterling balances held by Kuwait and the other Arab States. C 150, 55 (2).

A cost to our balance of payments of £20 million a month while the Suez Canal was closed. 58 (2).

The sinking of the destroyer Eilat and the Israeli bombardment of Suez. Our future resumption of relations with the United Arab Republic, our primary interest the re-opening of the Suez Canal. 61 (3).

The proposal to resume full diplomatic relations with the United Arab Republic (UAR) in December. The UAR's need for oil supplies; current negotiations with British Petroleum and Shell. C 172, 63 (4).

A deadlock in the Security Council as a result of two alternative draft resolutions, neither of which looked like commanding a majority. 64 (2).

The unanimous adoption on 22nd November of a British resolution in the debate in the Security Council on the Arab/Israeli conflict. 68 (2).

Middle East. C 88.

MIDDLE EAST AND THE UNITED NATIONS GENERAL ASSEMBLY

The United Kingdom vote in the General Assembly cast in favour of the Latin American resolution which had just failed to achieve a two-thirds majority. Our efforts directed to the relaxation of tension. 45 (2).

MINISTERIAL DISCUSSIONS, SECURITY OF

See Security of Ministerial Discussions.

MINISTERIAL PUBLICATIONS


The serialisation of the book by Mr. Anthony Nutting in The Times: the issue of principle; a decision on Government action should not be taken until after publication of the book. 23 (2), 28 (2).

MOTOR CAR INDUSTRY

See Industrial Situation.
NAPHTHA
See Oil Position.

NATIONAL INSURANCE BENEFIT
See Social Services.

NATIONAL INSURANCE BILL
See Social Services.

NATIONAL LIBERATION FRONT (NLF)
See South Arabia.

NATIONAL LOANS FUND
The establishment of a National Loans Fund: the arrangements to be made in respect of loans for housebuilding. C 144, 35 (4).

NATIONAL STEEL CORPORATION SALARIES
See Iron and Steel Nationalisation.

NATIONALISATION OF THE PORTS
Approval of the proposals for nationalisation of the ports as a basis for consultations with the interests concerned. C 80, 35 (7).

NATIONALISED INDUSTRIES
See also Iron and Steel Nationalisation.
British Railways Board Salaries: the salaries of the Chairman and Deputy Chairman to be held at present rates pending the review of salaries of members of the Boards of nationalised industries. An alternative candidate for the chairmanship of the British Railways Board to be considered. C 179, C 181, C 183, 67 (5).

NEGOTIATIONS ON ECONOMIC AID FOR SINGAPORE AND MALAYSIA
We were prepared to make available as mitigatory aid up to 1970-71 sums of the order of £25 million for Singapore and £18 million for Malaysia. 74 (5).

NIGERIA
The situation deteriorating. Ibos, resident or working in the Western Region, might be subject to attack; the outlook serious. 13 (2).
A mission, under the auspices of the Commonwealth Secretariat, to assist in a settlement being arranged. The evacuation, if necessary, of United Kingdom nationals. 15 (2).
The Eastern Region had not yet declared its secession. Attempts at agreement between the Federal Government and the Eastern Region continuing. 17 (3).
Hostilities might break out in the near future. 23 (3).
The situation no less tense, but changing in nature. 30 (2).
The recent decision by the Federal Government to set up twelve constituent states. The announcement on 30th May of the independence of the Eastern Region. 33 (2).
Our recognition of the Eastern Region's secession to await developments. Contingency planning to evacuate British subjects from Nigeria. 35 (3).
No moves yet by Federal Government regular forces. The economic measures taken against the Eastern Region appeared to be having some effect. The independence of the Eastern Region not yet recognised by any African country: no request at present for our recognition. 36 (3).
British women and children now nearly all evacuated from the Eastern Region. The export of oil from the Eastern Region not restricted by the Federal blockade. 37 (3).
The Federal Government might refuse to agree that oil royalties should be paid into a suspense account as a result of the declaration of independence by the Eastern Region: the effect on oil shipments. 39 (2).
A letter of intent given to Colonel Ojukwu by Shell/BP: this action had provoked a complete oil blockade. The Minister of State for Commonwealth Affairs flying to Nigeria that day. 45 (2).
The breaking out of hostilities between Federal and Eastern Region forces. No agreement reached about the export of oil at present blockaded by Federal naval forces. 46 (1).
Evacuation of 850 persons, including some 500 British subjects. Fighting sporadic. 50 (2).
The likelihood that the Federal Government would be successful in its action against Biafra: it would be in the interest of the Shell Company to mark payment of oil revenues to the Federal Government only. 53 (2).
NIGERIA (continued)

A military stalemate in Nigeria; no progress in efforts to promote peaceful negotiations. 54 (2), 55 (1).

The Federal Government taking the initiative; no indication that the break-away Eastern Region was collapsing. 56 (1).

Federal Government forces now had effective control of the capital of the Eastern Region. Our attempt to persuade the Federal Government to negotiate from strength. 58 (2).

Talks in London between representatives of the Federal Government and of the Eastern Region under the auspices of the Commonwealth Secretariat. 61 (3).

The restoration of the flow of oil by emergency action as soon as the oilfields and installations came into Federal Government hands. 63 (3).

The calling on the Commonwealth Secretariat to initiate talks between the Federal Government and the Eastern Region by Eastern Region representatives in London. 64 (2).

The relaxation of our policy so that we could supply the Federal Military Government with mortars and Stirling sub-machine guns. 68 (2).

NORTH ATLANTIC TREATY ORGANISATION MEETING

See Meeting of the North Atlantic Treaty Organisation.

NUTTING, MR. ANTHONY—BOOK BY

See Ministerial Publications.

OIL POSITION

An agreed increase of £2 per ton in the price of crude oil; a temporary surcharge of 2d. a gallon on all oil products; legislation before the Summer Recess. The embargo on imports of Russian and Romanian oil to be lifted. C 112, C 113, 43 (3).

The position broadly unchanged. A world-wide shortage of naphtha; consideration to be given to a system of allocation of supplies. Oil supplies to be kept under review during August. C 124, 49 (1).

The supply position improving slightly; a possible announcement that oil rationing would not be introduced; the effect of such an announcement on the Arab States. C 136, 52 (2).

The raising of the oil ban by the Arab States on 1st September: the precautionary measures taken in preparation for oil rationing could now be relaxed. The Minister of Power and Secretary of State for Defence to consider the use of oil storage facilities on defence account in replenishing oil stocks. Supplies of naphtha. C 149, 55 (3).

OIL PRICES: DEVALUATION AND SURCHARGE

Maximum oil prices and those of the main oil products to remain unchanged; a reduction of the surcharge to £1 a ton, balanced by an increase of £1 a ton on account of devaluation. C 198, 74 (6).

OIL SUPPLY SITUATION AND THE UNITED KINGDOM

See also—

MIDDLE EAST.

OIL POSITION.

OVERSEAS AFFAIRS

See—

ALGERIA.
ANGUILLA.
APPROACH TO EUROPE.
BRITISH HONDURAS.
CHINA.
CONGO.
CYPRUS.
DEFENCE EXPENDITURE STUDIES.
EUROPE: VISITS TO HEADS OF GOVERNMENTS OF THE EUROPEAN ECONOMIC COMMUNITY.
EUROPEAN ECONOMIC COMMUNITY.
GERMANY: OFFSET AGREEMENT.
GHANA.
GIBRALTAR.
GREECE.
GUATEMALA.
HONG KONG.
ICELAND.
IRAQ.
OVERSEA AFFAIRS (continued)

MALTA.
MEETING OF THE NORTH ATLANTIC TREATY ORGANISATION.
MIDDLE EAST.
MIDDLE EAST AND UNITED NATIONS ASSEMBLY.
NIGERIA.
RESUMPTION OF DIPLOMATIC RELATIONS WITH THE UNITED ARAB REPUBLIC.
RHODESIA.
SIERRA LEONE.
SOUTH AFRICA.
SOUTH AFRICA: MARITIME DEFENCE SUPPLIES.
SOUTH ARABIA.
SOUTH-EAST ASIA TREATY ORGANISATION COUNCIL MEETING.
SOVIET UNION.
SPAIN.
The TKACHENKO INCIDENT.
The TORREY CANYON.
UGANDA.
UNITED STATES OF AMERICA.
VIETNAM.
VISIT OF THE FOREIGN SECRETARY TO THE UNITED NATIONS.
VISIT OF THE PRIME MINISTER TO BONN.
YEMEN.
ZAMBIA.

OVERSEAS STUDENTS, LONG-TERM FINANCIAL ASSISTANCE
See Public Expenditure.

PARLIAMENT
See also—
ATTENDANCE OF MINISTERS BEFORE SELECT COMMITTEES.
BUDGET.
EASTER ADJOURNMENT.
FAMILY ENDOVEMENT.
LEGISLATIVE PROGRAMME, 1967–68.
MINISTERIAL PUBLICATIONS.
PARLIAMENTARY PROCEDURE.
POWERS OF THE HOUSE OF LORDS.
SUMMER RECESS.
TELEVISING THE HOUSE OF LORDS.
TORREY CANYON.
WHITSUN ADJOURNMENT.

Broadcasting of Parliamentary Business—
Experiment in Closed Circuit Radio: approval of proposals, subject to technical feasibility, and the question of cost. A Joint Select Committee to consider the questions of law and privilege involved. C 171, 63 (6).

Composition and Powers of the House of Lords—
C 157, 59 (1).

Debate on the Address—
Consideration of arrangements. 61 (1).

Debate on Fuel Policy White Paper—
Strong feelings aroused by the contraction of the coal industry envisaged in the White Paper: the Chief Whip to arrange for meetings between Ministers and the Miners’ Group. 67 (3).

A further paper to be prepared, taking account of the new exchange rate of sterling. 68 (1).

Decimal Currency—
A motion proposing that ten shillings, instead of the pound, should be the basic unit: a free vote not to be allowed. 11 (1).

Devaluation—
An addition to be made to the brief provided for Ministers. Consideration to be given to the desirability of publishing the text of the statement of the Government’s policy and intentions which was sent to the International Monetary Fund in support of the application for a loan. 69 (2).

European Economic Communities—
A free vote not to be allowed in respect of the Motion to approve the Government’s proposal to make an application to join the European Communities. 29 (4).

Prorogation of Parliament—
Prorogation to take place on Friday, 27th October: commencement of the new Session on Tuesday, 31st October. 53 (1).

SECRET
PARLIAMENT (continued)

Queen's Speech on the Prorogation of Parliament—
Agreed amendments and points made. C 155, 58 (3).

Queen's Speech on the opening of Parliament—
Agreed amendments and points made. C 156, 58 (4), 60 (2), 61 (1).

Select Committees—
The desire of the Select Committee on Agriculture to visit the European Economic Commission and of the Select Committee on Science and Technology to visit EURATOM and the United States; the Government not to put down a Motion seeking leave for the visits. 15 (1), 29 (2).

Acceptance by the Chairmen of the Committees of the formation of a steering committee of chairmen, which could be constituted as a sub-committee of the Services Committee, to consider how the expenditure of the Committees could best be managed. 30 (1).

Mr. Steed's Medical Termination of Pregnancy Bill—
The Third Reading of the Bill would be on Monday, 23rd October. 53 (1).

Third London Airport—
The making of an Order in respect of the establishment of the airport at Stansted to be delayed until October; the terms in which the postponement should be announced, and of publicity to be given, should be considered. 39 (1).

Transport Bill—
Two days to be allowed for debate on Second Reading; re-assembly of the House on 17th January, if necessary. 70 (1).

PARLIAMENTARY PROCEDURE

Discussion of the recommendations of the Select Committee on Procedure. The Speaker to have limited discretion in setting a time limit on speeches. An experiment in voluntary time-tabling of the Finance Bill agreed. C 152, 57 (3).

Proposals for reforming the procedure of the House of Commons agreed, subject to points made in discussion. C 152, 57 (3).

PASSENGER TRANSPORT AND TRAFFIC: DRAFT WHITE PAPER

Publication, subject to amendments; consultation as to the means by which the Secretaries of State for Scotland and Wales might be associated with the publication; the Transport Holding Company to acquire the interests of the British Electric Traction Group. C 185, 69 (5).

PERMANENT SUMMER TIME

Approval of the proposal for the introduction of permanent summer time by legislation having effect in the autumn of 1968; an order to be made extending summer time in 1968 to begin on 18th February; a title for permanent summer time to be found. C 107, 40 (1).

PHILIPS ELECTRONIC HOLDINGS

See TELECOMMUNICATIONS INDUSTRY.

PORTS, NATIONALISATION

See NATIONALISATION OF THE PORTS.

POST OFFICE, REORGANISATION OF

See REORGANISATION OF THE POST OFFICE.

POWERS OF THE HOUSE OF LORDS

See also PARLIAMENT.

Reform of the composition and functions of the House of Lords to be considered by the Ministerial Committee on the Powers of the House of Lords: the broad choice lay between a comprehensive reform and leaving matters as they stood. C 143, 54 (5).

Further points. Negotiations with the Opposition parties to be arranged. C 157, 59 (1).

PRICES AND INCOMES BILL

See PRICES AND INCOMES POLICY.

PRICES AND INCOMES POLICY

Docks—
London Weekly Guarantee; the case for a tougher incomes policy to be considered. C 200, 74 (1).

Draft White Paper—
Approval, subject to agreed amendments; publication on 22nd March. The issue of statutory powers; consultation with the Trades Union Congress. C 31, 13 (6).
PRICES AND INCOMES POLICY (continued)

Future of the Prices and Incomes Policy—

The line to be taken in discussions with the Confederation of British Industry (CBI) and Trades Union Congress (TUC); Part IV would be allowed to expire in August 1967; Part II to be activated before, or immediately upon, the expiry of Part IV. Acquiescence of the CBI and TUC sought. C 13, C 14, 5 (5).


Further discussions with the TUC and CBI: their difficulties. C 13, C 20, 9 (3), 11 (4).

Prices and Incomes Bill—

An amendment to provide protection to employers against legal proceedings for breach of contractual agreements: to extend to agreements entered into before publication of the Bill, or, if that were to give rise to drafting difficulties, to breaches of agreements entered into before 20th June, 1967. 35 (8).

Scottish Teachers' Salaries—

Acceptance in principle of the recommendations of the Roberts Committee with regard to special inducement payments for teachers in certain Scottish schools: an offer of a 7 per cent pay increase over a two-year period from 1st April, 1968, inclusive of payments under the proposed inducement scheme. C 147, C 201, 54 (4), 74 (7).

Statutory Powers—

Limb Fitters: an order under Part IV of the Prices and Incomes Act to be made rescinding the increase paid since 2nd January; public presentation of the decision. C 1, C 2, 1 (3).

PRIME MINISTER'S VISIT TO CANADA AND THE UNITED STATES

See VISIT OF THE PRIME MINISTER TO CANADA AND THE UNITED STATES.

PRIME MINISTER'S VISIT TO GENERAL DE GAULLE

See VISIT OF THE PRIME MINISTER TO GENERAL DE GAULLE.

PRINTING INDUSTRY

See INDUSTRIAL DISPUTES.

PRIVATE MEMBERS' BILLS

See also PARLIAMENT.

Government time could be made available on a Friday or in a morning session, or after 10.00 p.m. for the Sexual Offences (No. 2) Bill; the Sunday Entertainments Bill; and the Employment Agencies Bill. Time should not be provided for the Live Hare Coursing (Abolition) Bill. The provision of time for the Medical Termination of Pregnancy Bill to be considered. 30 (1).

Medical Termination of Pregnancy Bill: Government time to be made available; Ministers to be permitted a free vote on the issue; arrangements for facilitating Private Members' Bills to be considered. C 90, 35 (4), 45 (1).

PROPOSED ADJUSTMENTS

See PUBLIC EXPENDITURE.

PROROGATION OF PARLIAMENT

See PARLIAMENT.

PUBLIC AUTHORITY HOUSING PROGRAMME 1967: ENGLAND AND WALES

See HOUSING.

PUBLIC EXPENDITURE

Vote on Account, 1967-68: a rate of increase in public expenditure in excess of 4½ per cent per annum. The Chancellor of the Exchequer to prepare a statement. 7 (2).

The need for some reduction in the public expenditure programme to 1970-71: consideration of the feasibility and desirability of raising additional revenue by charges rather than by taxation; the possibility of establishing a consortium of local authorities to undertake mortgage lending, raising its funds on the market. C 97, C 98, C 99, C 100, C 101, C 102, C 103, C 104, C 105, C 106, C 109, 42, 45 (4).

Proposed Adjustments: transport; housing; education; health; local environmental services; remaining expenditure; aid; social security. C 97, C 98, C 99, C 100, C 101, C 102, C 103, C 105, C 106, C 109, C 120, C 125, C 129, C 130, 47, 49 (3), 50 (3).

Situation Report: the circulation of further reports from time to time. C 166, 61 (7).

Long-term financial assistance for overseas students: to be regarded as an increase in public expenditure over and above the sums allocated in the Public Expenditure Survey. C 165, 61 (8).

Cuts in public expenditure as a result of devaluation affecting: investment programmes of nationalised industries; local authority field; rate support grant; social services; postponement of raising the school leaving age, 67 (4).

Consequences and implications of devaluation on public expenditure and future strategy. 68 (3).

Major savings in public expenditure in 1968-69 and the succeeding years. C 192, C 193, 73 (2).
PUBLIC PURCHASING AND INDUSTRIAL EFFICIENCY
Approval of draft White Paper: early publication. C 77, 29 (2).

PUBLIC SECTOR PRICES
A study to be prepared dealing fully with the general principles involved, application of these principles to individual cases of price increases awaiting decision and public presentation of such increases, delaying of increases; changes in financial targets; the promotion of increased efficiency and reductions in costs. C 137, C 139, C 141, 53 (4).
Agreement with the conclusions of the Ministerial Steering Committee on Economic Policy. C 148, 54 (2).

PYE OF CAMBRIDGE LIMITED
See Telecommunications Industry.

THE QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT
See also—
INDUSTRIAL DISPUTES.
PARLIAMENT

THE QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT
See also PARLIAMENT.

RACE RELATIONS LEGISLATION
The issues raised to be discussed further by the Home Affairs Committee. C 196, C 199, 74 (2).

RADCLIFFE REPORT
See "D" NOTICE SYSTEM.

RAILWAY POLICY
Main Report of Joint Steering Group: timing and manner of publication of recommendations to be considered. C 138, 52 (3).
Draft White Paper: agreed amendments; publication; rail closures; salaries of Board members. C 170, 62 (3).

RAILWAYS
See—
INDUSTRIAL DISPUTES.
RAILWAY POLICY.

RE-EQUIPMENT OF BRITISH EUROPEAN AIRWAYS
See Aircraft Industry.

REGIONAL EMPLOYMENT PREMIUM
See also ECONOMY OF WALES.
The introduction of the Regional Employment Premium: publication of a White Paper; a debate in Parliament; a study of regional economic policies; consideration of an announcement of measures to increase the supply of skilled labour in development areas; a decision required on payment of the Premium to the nationalised steel industry. C 83, 32 (2).
Development Areas: Regional Employment Premiums. C 42.

REORGANISATION OF THE POST OFFICE
Draft White Paper: approval of publication before Easter, subject to agreed amendments; consideration of arrangements for legislation. C 29, 13 (7).

REPRESENTATION OF LIVING PERSONS
See Theatre Censorship.

RESUMPTION OF DIPLOMATIC RELATIONS WITH THE UNITED ARAB REPUBLIC
Ambassadors to be exchanged on 10th December. C 86 (2).
RHODESIA

Instability and military intervention in Sierra Leone: presentation of embarrassing problems for our policy in Africa, particularly in relation to Rhodesia. 15 (2).

The Rhodesian situation and the Government's future action to come before the Cabinet. 37 (3).

Lord Alport to visit Salisbury: his availability to all sections of Rhodesian opinion. 38 (1).

Lord Alport's reports on his visit: limited action to be taken; our policy. The Commonwealth Secretary to visit Heads of Government of Commonwealth countries in Africa. A possible Royal Commission. 51.

Clashes between Rhodesian security forces and guerrillas increasing. Mr. Smith's apparent going back on previous statements to Lord Alport about the acceptability of the "Tiger" constitution. 54 (2).

The Commonwealth Secretary's coming visit to Africa: the attitude of the régime; the conduct of the visit. An examination to be made of the present operation of mandatory sanctions. C 162, 58 (2), 60 (1).

The conversations between Mr. Vorster and Mr. Ian Smith in Pretoria on 21st October. 61 (3).

The Commonwealth Secretary's visit to Africa: talks with African Heads of Government in addition to the South African Foreign Minister and Mr. Ian Smith; consideration to be given to our future policy. 64 (2), 65 (2).

ROAD HAULAGE

See TRANSPORT POLICY: ROAD HAULAGE.

ROAD SAFETY

Approval of draft White Paper: Road Safety—A Fresh Approach; publication to be arranged. C 111, 43 (3).

ROADS

See PUBLIC EXPENDITURE.

ROBERTS COMMITTEE

See PRICES AND INCOMES POLICY.

RUMANIAN OIL

See OIL POSITION.

RUSSIAN OIL

See OIL POSITION.

S

SATELLITE COMMUNICATIONS, EUROPEAN CONFERENCE ON

See SPACE POLICY.

SCOTTISH AGRICULTURE AND THE COMMON MARKET

See APPROACH TO EUROPE.

SCOTTISH TEACHERS' SALARIES

See PRICES AND INCOMES POLICY.

SECURITY OF MINISTERIAL DISCUSSIONS

There had been no deliberate leakage of information relating to Cabinet business. Arrangements to be made for a review of present Cabinet Office circulation of Cabinet documents; access of junior Ministers to documents; the taking home of Top Secret and Secret documents by Civil Servants. 56 (3).

Guidance for Ministers on briefing of the Press. 70 (2).

SELECT COMMITTEES

See—

ATTENDANCE OF MINISTERS BEFORE SELECT COMMITTEES.

PARLIAMENT

PARLIAMENTARY PROCEDURE.

SEXUAL OFFENCES (No. 2) BILL

See PRIVATE MEMBERS' BILLS.
SIERRA LEONE

See also RHODESIA.
The possibility of a coup d'état. 5 (3).
The situation uncertain. 15 (2).
The military coup d'état successful: the position of the Governor-General somewhat confused; no threat to Europeans in the country. 17 (3).

SIMBULE, MR.

See ZAMBIA.

SINGAPORE AND MALAYSIA, NEGOTIATIONS ON ECONOMIC AID FOR

See NEGOTIATIONS ON ECONOMIC AID FOR SINGAPORE AND MALAYSIA

SOCIAL SECURITY BENEFITS, UPRATING OF

See SOCIAL SERVICES.

SOCIAL SERVICES

See also—

FAMILY ALLOWANCES.

PUBLIC EXPENDITURE.

An increase of 9s. a week in the rate of national insurance benefit for a single person at the end of October 1967; proportionate increases in the rates of war pension and subsidiary national insurance benefit; increases in contribution rates; publication of the proposals. C 69, C 73, 28 (4).

Provision for an increase in family allowances to be included in the National Insurance Bill. C 92, C 93, 36 (4).

An increase of 10s. a week in the standard rate of national insurance benefit for a single person. 39 (4).

The rate of family allowances to be increased by 7s. a week from April 1968. An interim increase of 5s. for fourth and subsequent children from October 1967. School meals to be increased by 6d. and welfare milk by 2d. a pint; fourth and subsequent children to qualify for free school meals and third and subsequent children under 5 years to qualify for free welfare milk irrespective of income. Revision of the draft statement and an announcement in the House. C 135, 49 (2).

Devaluation: implications for Supplementary Benefit and Family Allowances; possible amendment of the rate rebate scheme. C 184, 68 (4).

SONIC BANG TESTS

See AIRCRAFT INDUSTRY.

SOUTH AFRICA

See also—

RHODESIA.

SOUTH AFRICA: MARITIME DEFENCE SUPPLIES.

The planned visit of Royal Navy ships to take place: essential to continuation of the Simonstown agreement and to our policy of persuading the South African Government not to support the illegal regime in Rhodesia. 33 (2), 35 (3).

The sending into Rhodesia of a body of South African police: a protest by ourselves in the strongest possible terms. 55 (1).

SOUTH AFRICA: MARITIME DEFENCE SUPPLIES

A statement by the Prime Minister. A general review of policy following devaluation. C 194, 70 (3), 71, 72.

SOUTH ARABIA

The situation bad, and deteriorating: independence date to be advanced to 1st November, 1967, and our forces withdrawn shortly after; a strike carrier and a commando carrier to be stationed in the area. 13 (3).

The South Arabian Federal Government unwilling to accept our proposals; consideration as to whether or not we should proceed with our current plans. 15 (2).

The breaking off of discussions by the United Nations Mission: the Foreign Secretary's recommendations, and consideration of future action. 18 (1).

Little change in the position: the hope that the United Nations Mission would visit London and also that they might be persuaded to return to Aden. 19 (3).

A lengthy meeting on 16th April between the Foreign Secretary and the United Nations Mission: an agreed joint statement; a critical report to the United Nations expected. 21 (1), 23 (3).
SOUTH ARABIA (continued)
The replacement of Sir Richard Turnbull by Sir Humphrey Trevelyon as British High
Commissioner. A full statement in Parliament after the Whitsun Recess. The Parliamentary
timetable for the South Arabian Independence Bill. C 78, 30 (3).
A mutiny in a section of the Federal Republican Army: the situation aggravated by recent
events in the Middle East. Our intention to grant independence and withdraw our forces
on 9th January, 1968. British forces had regained control of the Crater area of Aden. 45 (2).
Mr. Bayoomi nominated as Prime Minister designate: an attempt to form a Government. The
possibility that the States of the Eastern Aden Protectorate might join the proposed new
State. 46 (1), 50 (2).
Mr. Bayoomi’s attempt to form a Government now in difficulties: the effect of recent developments
on the timing of our withdrawal. 53 (2).
A rapid deterioration in the situation: a broadcast on 5th September by the High Commissioner.
Reaction of the United Nations Commission and of King Feisal of Saudi Arabia and the
Ruler of Bahrein. 54 (2).
Serious fighting between the National Liberation Front (NLF) and the Front for the
Liberation of Occupied South Yemen: the South Arabian Army continuing its efforts at reconciliation.
No official reaction from the NLF to the High Commissioner’s offer of immediate discussion;
unofficial reactions not unfavourable. 55 (1).
Cabinet approval of our proposed policies: Press speculation. C 169, 62 (2).
The National Liberation Front’s announcement that we must formally recognise it as the sole
representative of the South Arabian people. Our withdrawal proceeding as planned. 64 (2).
The commencement of discussions in Geneva on 21st November between Lord Shackleton
and a delegation of the National Liberation Front. 68 (2).
The successful completion, on 29th November, of our withdrawal. Our undertaking to continue
negotiations on aid after independence. 69 (3).

SOUTH-EAST ASIA TREATY ORGANISATION MEETING
An attack on ourselves and other signatories of the Treaty for not providing troops for Vietnam:
the Foreign Secretary’s maintained view that our most valuable contribution lay in continuing
our diplomatic efforts to stop the fighting. 23 (3).

SOVIET UNION
Anglo-Soviet talks: friendly and constructive talks with Mr. Kosygin. Vietnam: an opportunity
for contact to be established between the United States and North Vietnamese Governments
had not succeeded. The maintenance, by ourselves, of the position which we had now created.
Reciprocal troop reductions: no progress. Our approach to Europe: no political difficulties
raised. Our policy of seeking to ease tension between Eastern and Western Europe welcomed.
7(3), 18.

SPACE POLICY
The Government’s decision not to participate in the proposed technological programme of the
European Conference on Satellite Communications: an announcement to be postponed and
we should agree to participate, at a cost of £17,500, in a technical study by the design team
for the GETS project which would last up to about the end of 1967. 46 (3).

SPAIN
See also Gibraltar.
The discussions on the Spanish restrictions on the use of air space near Gibraltar expected to
end without any agreement. A statement to be issued and a formal complaint to be submitted
by ourselves to the International Civil Aviation Organisation. An effort to persuade the
United States Government to adopt a more helpful attitude. 37 (3).

STANSTED
See third London airport.

STATISTICS OF IMPORTED MACHINERY
Request by the Economic Development Committees for the Mechanical Engineering Machine
Tool Industries for information about imports of machinery: the information to be made
available later. Consideration of terms and implications of the legislation necessary for this
and for the expansion and improvement of the collection and publication of statistics by the

STATUTORY POWERS
See Prices and Incomes Policy.

SUEZ CANAL
See Middle East.
SUMMER RECESS

Dates of adjournment and resumption. 48(1).

SUMMER TIME

See PERMANENT SUMMER TIME.

SUNDAY ENTERTAINMENTS BILL

See PRIVATE MEMBERS' BILLS.

SYRIA

See MIDDLE EAST.

TELECOMMUNICATIONS INDUSTRY

Exchange control consent should be given to Philips Electronic Holdings if they made a successful bid for acquisition of Pye Limited, subject to satisfactory undertakings being given: consideration of the proposed undertakings. The possibility of the Government's taking power to prevent the take-over of a United Kingdom firm by a foreign firm where it was judged to be contrary to the public interest. C 6, 1 (3).

TELEVISING THE HOUSE OF LORDS

The proposed experiment in televising the House of Lords to be borne by public funds up to £18,000. C 21, 9 (5).

THEATRE CENSORSHIP

The recommendations of the Joint Select Committee to be accepted as a general principle: the problem of the presentation of living persons. C 142, C 186, C 197, 53 (3), 74 (3).

THE THIRD LONDON AIRPORT

See also PARLIAMENT.

The Cabinet not satisfied that a case had been made out for an early start on the construction of a third airport or that Stansted was the best site. C 50, 20 (3).

Agreement that Stansted should be the site for the airport. Approval of the draft White Paper and of subsequent publication. An early announcement in Parliament. C 50, C 75, C 76, 29 (1).

Agreement that the realignment of the Stansted runways should be considered: the Special Development Order to be postponed. Consideration whether a refined version of the latest cost/benefit study might be made available outside the Government and whether a statement should be made that day to the House of Commons, and if so in what terms. C 173, 64 (3).

THE TKACHENKO INCIDENT

The removal of a Soviet scientist from a Soviet aircraft at London Airport: the evidence did not suggest that the incident would adversely affect our relations with the Soviet Union. 56 (1).

THE TRANSPORT OF FREIGHT: DRAFT WHITE PAPER

Discussion and agreed amendments: early publication. Consideration of measures which might be taken to mitigate the impact of the proposed wear-and-tear charge on heavy goods vehicles in areas especially dependent on road transport. C 174, 64 (5), 65 (3).

TORREY CANYON

Action by the Ministers concerned authorised. The situation to be kept under review. The question of the operation of flags of convenience. 15 (4).

Publication of a White Paper on 4th April, 1967. Consideration of the terms of the draft motion to be tabled in the House of Commons and of future measures to guard against or deal with any future disasters. C 43, 16 (1), 17 (1).

The recent meeting of the Inter-governmental Maritime Consultative Organisation: a success, in consequence of a well-prepared and documented case. 30 (2).

TOWN AND COUNTRY PLANNING

Approval of draft White Paper, subject to amendments: publication, if possible, on 28th June. C 106, 40 (3).

TRADE FIGURES FOR FEBRUARY 1967

See ECONOMIC SITUATION.

TRANSPORT BILL

See PARLIAMENT.
TRANSPORT POLICY
See—
- Railway Policy.
- Transport Policy: Road Haulage.

TRANSPORT POLICY: ROAD HAULAGE
Reform of the carriers' licensing system: a proposal for two types of control—quality licensing and quantity licensing. Approval of the quality licensing proposals. Provision to be made in the forthcoming Transport Bill for the introduction of quantity licensing—the provisions to come into effect on a day appointed by order. C 122, C 127, 46 (4), 48 (2).

TRIDENT 3B
See Aircraft Industry.

TURKEY
See Cyprus.

UGANDA
The allaying of Ugandan fears that we were endeavouring to interfere in their affairs. A coup d'état might well take place, though probably not in the immediate future. 17 (3).

UNEMPLOYMENT FIGURES FOR SEPTEMBER
See Economic Situation.

UNITED ARAB REPUBLIC
See—
- Middle East.
- Resumption of Diplomatic Relations with the United Arab Republic.
- Yemen.

UNITED NATIONS
See—
- Cyprus.
- Gibraltar.
- Middle East.
- Middle East and the United Nations General Assembly.
- South Arabia.
- Vietnam.
- Visit of the Foreign Secretary to the United Nations.

UNITED STATES OF AMERICA
See also—
- Visit of the Foreign Secretary to the United Nations.
- Visit of the Prime Minister to Canada and the United States.

The United States (US) Senate's endorsement of the House of Representatives' decision that all US naval vessels should be built in American yards: the implications for our purchase of the F-111; a public expression to be made of the Government's serious concern. 55 (1).

UPRATING OF SOCIAL SECURITY BENEFITS
See Social Services.

VANCE, MR. CYRUS
See Cyprus.

VIETNAM
See also—
- Soviet Union.
- Visit of the Foreign Secretary to the United Nations.

Prospects at present confused and uncertain; our efforts at attempted mediation; a risk of escalation if conflict persisted. 1 (2).

Proposals for a settlement made by the Secretary-General of the United Nations; no response so far from the North Vietnamese. 15 (2).

VISIT OF THE COMMONWEALTH SECRETARY TO THE FAR EAST
Visit of the Commonwealth Secretary to the Far East. C 37.

VISIT OF THE FOREIGN SECRETARY TO THE UNITED NATIONS
Talks with 30 Foreign Ministers. His speech at the General Assembly well received. Discussions on Middle East, Vietnam, Falkland Islands, Gibraltar, European Economic Community and the United States decision to deploy a limited member of anti-ballistic missiles. 57 (2).

VISIT OF THE PRIME MINISTER TO BONN
Dr. Adenauer's funeral: the Prime Minister's meetings with a large number of Heads of Governments and with Dr. Muller, the South African Foreign Minister. 23 (3).

VISIT OF THE PRIME MINISTER TO CANADA AND THE UNITED STATES
Discussions with the Canadian Prime Minister, mainly concerning the Middle East situation: the Canadian Government's position. Some discussion on Vietnam. Discussions with President Johnson about the Middle East, Vietnam, our position in South East Asia, our application to join the European Communities, and the Nassau Agreement. 36 (1).

VISIT OF THE PRIME MINISTER TO PRESIDENT DE GAULLE
Discussions on Rhodesia, the Middle East, Vietnam and the European Economic Community. The conclusion that we should press our application for membership of the Community: the President's probable recognition of the inevitability of our membership. 41 (2).

VISITS TO HEADS OF GOVERNMENTS OF THE EUROPEAN ECONOMIC COMMUNITY (EEC)
See also Approach to Europe.

Approval of steering brief in respect of visits by the Prime Minister and Foreign Secretary to EEC member countries. C 3, 1 (8).

The visit of the Prime Minister and Foreign Secretary to Rome—
Topics discussed: The dangers which might ensue from discussion of political unity at the Rome conference in April. General de Gaulle's attitude. Importance of the coming Bonn discussions. 2 (2).

The visit of the Prime Minister and Foreign Secretary to Paris—
Discussions with General de Gaulle and French Ministers: General de Gaulle's attitude. Our position and its presentation. 3 (3).

The visit of the Prime Minister and Foreign Secretary to Brussels—
The Belgian Government well disposed to us, but their support against strong French opposition unreliable. Discussions on the common agricultural policy and sterling balances. An encouraging working lunch with the Commission. 5 (2).

The forthcoming visit of the Prime Minister and Foreign Secretary to Bonn—
The Germans would welcome our joining the Community but it was doubtful whether they would press their support against the French. 8 (1).

The completion of visits: the next steps. 11 (2).

WALES, ECONOMY OF
See Economy of Wales.

WALES, LOCAL GOVERNMENT IN
See Local Government in Wales.

WATERWAYS POLICY

WESTERN EUROPEAN UNION—STATEMENT BY THE FOREIGN SECRETARY
See Approach to Europe.

WHITE PAPERS: SUBMISSION TO THE CABINET
Consideration, by a group of Ministers, of the drafts of any White Papers which might require issue during the Summer Recess: the possibility that a White Paper on the case of Mr. Parks, an army deserter, might need to be issued. 52 (4).

WHITSUN ADJOURNMENT
Dates of rising and return. 23 (1).
YEMEN

Large Egyptian forces still in the Yemen, although some had been withdrawn. The possible effect of the Israeli victory on remaining forces in the Yemen. 37 (2).

ZAMBIA

A virulent attack on the United Kingdom in a speech by Mr. Simbule, Zambian High Commissioner Designate: an expression of regret by Mr. Simbule. 21 (1), 28 (3), 33 (2), 43 (2), 45 (2).
### CABINET MEMORANDA AND MEETINGS AT WHICH CONSIDERED

12th January, 1967, to 21st December, 1967

MEMORANDA C(67) 1 to 202
CONCLUSIONS CC(67) 1st to 74th

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CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 12th January, 1967, 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. 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. 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. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. Patrick Gordon Walker, 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. Kenneth Robinson, M.P., Minister of Health
The Right Hon. Sir Elwyn Jones, Q.C., Attorney-General

The Right Hon. John Silk, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Need
Mr. K. Barnes

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1. The Prime Minister expressed to his colleagues, on the occasion of the first meeting of the Cabinet in 1967, his good wishes for a happy and successful year. He extended to Mr. Gordon Walker, M.P., on behalf of the Cabinet, a warm welcome on his rejoining the Government.

Ministers should take this opportunity to remind themselves, and to remind their junior Ministers, of the importance of observing the established rules of procedure which were designed to ensure the prompt and efficient despatch of public business by the Cabinet and its Committees. In particular, punctual attendance at meetings of the Cabinet should normally have priority over all other Ministerial engagements; adequate advance notice, of seven days, should be given in relation to any business which a Minister wished to bring before the Cabinet; and, save in cases of extreme urgency, the Cabinet should not be invited to consider a memorandum until two clear working days after it had been circulated. Henceforward these principles should be strictly observed.

They were no less applicable to the conduct of business by Cabinet Committees. In addition, a fresh attempt should be made to ensure the maximum devolution of business from the Cabinet to its Committees; and the Committees themselves should seek to give more positive expression to the concept of collective responsibility in disposing of business by endeavouring to reach final and conclusive decisions to the greatest possible extent. It should therefore be accepted that individual Ministers should not, as a normal rule, appeal to the Cabinet against the decision of a Committee unless the Chairman of the Committee himself agreed; and exceptions to this principle should not be permitted without the Prime Minister's own authority.

Finally, it remained important to take all possible precautions to preserve the confidential character of the Government's discussions and decisions in the Cabinet and its Committees. Premature disclosures were always discreditable and could, on occasion, be damaging; and it was incumbent upon all Ministers to ensure that the necessary precautions to avoid them were instituted and enforced in their Departments and Offices.

2. The Foreign Secretary said that, despite the limited sources of information at our disposal, it was fairly certain that many of the Press reports about the internal disturbances in the People's Republic of China were exaggerated. In particular there was little evidence that violence had broken out in Peking and Shanghai on the scale alleged. So far as we could ascertain Mao Tse-tung and his principal lieutenant, Lin Piao, were still in control of the situation; and, since the Red Guards who were the main agents of the disturbances were dependent for their facilities on the Army which recognised the
authority of Lin Piao, the faction led by Mao Tse-tung might eventually prevail. But, whatever the outcome of the internal struggle for power which was now in process in China, it was improbable that there would be any major change in the main Chinese policies, except in so far as Chinese pressure upon India might ease and the Chinese Government might be unable to prevent the Soviet Government from adopting a rather more positive attitude towards the problem of the war in Vietnam.

The Foreign Secretary informed the Cabinet that the prospects of resolving the conflict in Vietnam remained confused and uncertain; but they were perhaps slightly more hopeful than hitherto. We ourselves were maintaining our efforts, both in public and by confidential diplomatic discussions with the Governments of the United States and the Soviet Union, to promote some form of mediation between the parties to the dispute; and there now seemed to be some prospect, as the result of recent developments, that contact between them might perhaps be established. Meanwhile, although we must continue to deplore the United States bombing of North Vietnam, it would be impolitic to dissociate ourselves from United States policy, especially since we had reason to believe that the United States President, although determined not to expose United States prestige to a rebuff, was continuing to resist pressure within his Administration for the adoption of more extreme military measures against North Vietnam. Nevertheless, the risk of escalation would clearly increase if the conflict persisted; and it therefore remained urgent to take advantage of any opportunity to bring the hostilities to an end.

The Foreign Secretary said that the President of Cyprus, Archbishop Makarios, had recently arranged to import into Cyprus several consignments of both light and heavy arms from Czechoslovakia. This action had probably been taken without the knowledge of the Greek Government; and the nature of the consignments was clearly incompatible with the Archbishop's claim that the arms were required only to re-equip the local police force. Action already taken had in fact prevented the export of the second consignment; and we were now engaged in trying to prevent the distribution of the first consignment, which had arrived in Cyprus. The best means of ensuring this would be to secure agreement that the arms in question should be put under United Nations control. If, however, this proved unacceptable to Archbishop Makarios and the weapons were in fact distributed, we must at least try to ensure that they would be inspected at frequent and regular intervals by United Nations representatives in order to prevent any attempt to misappropriate them.

The episode had naturally caused considerable concern to both the Greek and the Turkish Governments; and we must hope that it would not prejudice the confidential discussions in which they were engaged in a renewed attempt to solve the problem of Cyprus by agreement. Archbishop Makarios would be bound to seek to frustrate these discussions; and so far as possible we should deny him any opportunity of doing so.
3. The Cabinet considered memoranda by the First Secretary of State and Secretary of State for Economic Affairs (C (67) 1) and the Minister of Health (C (67) 2) about the course the Government should take in relation to an increase of pay for limb fitters.

The First Secretary of State said that in August 1966 (i.e., during the period of the standstill on prices and incomes) the firm of J. E. Hanger and Company had reached agreement with the Association of Supervisory Staffs and Technicians (ASSET) for an increase of pay of £100 per annum to limb fitters employed by the Company. Because of the standstill, the increase was not then implemented and ASSET had in consequence imposed a work-to-rule in all limb fitting centres. The Company had subsequently agreed to pay the increase from 2nd January and the work-to-rule had been called off on 5th December. The increase could in no way be reconciled with the criteria for increases of pay during the period of severe restraint. The Ministers mainly concerned had therefore agreed that the question of limb fitters' pay and the related issue of increased productivity should be referred to the National Board for Prices and Incomes (NBPI). In order that the Government should not be thought to be acting precipitately in a case where hardship to disabled people might be involved, no Order under the Prices and Incomes Act had been made at that stage, but the parties had been requested to defer implementation of the increase until the NBPI had reported. The Company, however, had rejected this request and the increase had in fact been paid from 2nd January.

The question was whether the Government should now make an Order which would have the effect of rescinding the increase from the date the Order was made. If this were done, ASSET might again impose a work-to-rule, though this should not be taken for granted in view of the public criticism they had incurred on the previous occasion. Although only a small number of employees was involved, the difficulties of ensuring general observance of the policy of severe restraint would be greatly increased if the increase were accepted. While the Government's policy on prices and incomes had gained a wide degree of voluntary acceptance hitherto, this was on the basis of a general understanding that, if the majority voluntarily accepted the policy, any minority who chose to defy it would be brought into line by the exercise of statutory powers. It would be particularly damaging if this were not done in the present case, since it would represent a victory for ASSET which had throughout taken a militant line in opposition to the policy. If other trade unions saw that the tactics employed by ASSET were successful, they might follow the same course. It would be impossible to make the policy effective if the impression were given that the Government were not prepared to withstand industrial action. An Order should therefore be made rescinding the increase.

The Minister of Health said that the previous work-to-rule had had a serious effect on the treatment of the limbless and many patients
had suffered considerable hardship. If the Government were to make an Order now, the work-to-rule would probably be resumed. We might then have to face a protracted period of up to six months during which there would be increasing hardship. Little could be done to provide alternative arrangements for maintaining the limb fitting service. This situation would be regarded by the public as the direct result of a deliberate decision by the Government, who would have difficulty in defending their position. Any question of making an Order should be postponed until after the NBPI had reported.

In discussion, it was suggested that the right course would be for the Government to refrain from making an Order, but to announce publicly that they were doing so solely on the grounds of preventing hardship to the disabled. The justification for this course would be recognised by the trade unions who would be unlikely to use it as a lever to secure further breaches of the policy.

On the other hand it was argued that the present case was being closely watched by other workers and trade unions and if the increase were allowed to go unchallenged, there was little doubt that the policy of severe restraint would be seriously weakened. If an Order were made and the work-to-rule were again imposed, most people would regard this as a calculated challenge to the Government by men who were prepared to use hardship to the disabled as a means of blackmail. While the Government might be criticised in some quarters, the odium was likely to fall principally on the limb fitters and on ASSET. If no Order were made at present, the Government would face the same problem again when the NBPI reported in some two months' time, if their report did not endorse the increase. There was nothing to be gained by such postponement and the right course was to make an Order now.

The Prime Minister, summing up the discussion, said that on balance the Cabinet agreed that the Government would be justified in making an Order rescinding the increase. The public presentation of the decision would be important; it should be made clear that the Government were taking this action because they were not prepared to see a minority of workers gaining advantages (and by the objectionable use of an emotional situation) while the majority were voluntarily accepting restraint.

The Cabinet—
Invited the First Secretary of State
(i) To make an Order under Part IV of the Prices and Incomes Act rescinding the increase paid since 2nd January to limb fitters employed by J. E. Hanger and Company.
(ii) To consult with the Lord President of the Council on the public presentation of this decision.
4. The Cabinet had before them memoranda by the First Secretary of State and Secretary of State for Economic Affairs (C (67) 4) and by the President of the Board of Trade (C (67) 5) about statistics of imported machinery.

The First Secretary of State said that the Economic Development Committees (EDCs) for the Mechanical Engineering Machine Tool industries had asked the Government to make available to them certain information about imports of machinery which they considered essential if they were to achieve any success in their attempts to reduce imports by increasing and improving United Kingdom production. Previous discussion in the Ministerial Committee on Economic Development showed that the President of the Board of Trade and the Financial Secretary, Treasury, considered that, since the information sought by the Committees had been collected under statute by the Board of Customs and Excise solely for revenue purposes, its release to the EDCs would represent a breach of the principle of confidentiality which would be damaging to the efficient operation of the Customs and Excise and, more broadly, to the Government's collection of statistics from industry. In these circumstances, they believed that a trial should be given to a compromise proposal by which the Ministry of Technology would extract the relevant information from that supplied to the Customs and Excise and process it in such a way as to give the maximum information without disclosing the name of the maker of the machinery. The scheme had been considered by officials so far only in respect of machine tools and on an experimental basis. The Minister of Technology and he considered, on the other hand, that the importance of the work being done by the EDCs on import substitution outweighed the disadvantages put forward and that the compromise proposal would not only be laborious and costly in the use of skilled manpower, but also would be inadequate for its purpose. They therefore considered that the EDCs should be given the information they required. The Attorney-General had, however, now advised that the Board of Customs and Excise would be ultra vires in supplying the EDCs with the information required from documents furnished by traders under the Customs and Excise Act and that legislation would be necessary before such action could be taken. The importance of saving imports was so great that, if necessary, legislation should be passed, but it was open to question whether information obtained by the Government for one purpose could not in fact properly be used for another purpose without justifying allegations that it was illegal or a breach of confidence. In particular the present proposal only involved revealing the names of the makers of foreign machinery which was imported and not the names of the importers.

The President of the Board of Trade said that he had considered whether the information required by the EDCs might be obtained by other means, under the census or the Board of Trade licensing
procedures or from the information collected in the administration of investment grants. Information obtainable under these various procedures would, however, either be inadequate or its disclosure would be *ultra vires*. Although the information desired by the EDCs should be of some real value to their work, there was objection to embarking on fresh legislation to enable this to be provided without a further assessment of the need and of the broader effect which such legislation might have on the co-operation of industry in voluntarily making information available on the understanding that it would not lead to any breach of confidence.

In discussion it was urged that it would be undesirable to pass legislation to permit the Government to make available the information in question, even though this might be helpful to the work of the EDCs on the substitution of imports, since this would put seriously at risk the co-operation of industry in the provision of statistics. This was crucial not only to the effective administration of customs procedure, but also to the whole field of statistical returns. Furthermore, such action would endanger the effectiveness of current international co-operation in customs procedures, in which United Kingdom interests in relation to our exports might be put seriously at risk. In these circumstances, it was suggested that a further trial should be given to the compromise procedure which had earlier been proposed. On the other hand, it was pointed out that not only was the compromise procedure highly wasteful of skilled manpower, but it did not yield the information which the EDCs required. It was argued that the need for the substitution of imports was of such importance to the national interest that it should override the practical and legal objections to making it available. Discussion of this issue in the National Economic Development Council (NEDC) had revealed no opposition to the proposal on the part of industry and in these circumstances it seemed improbable that its acceptance would put at risk the future co-operation of industry in the provision of statistics. Moreover, failure to co-operate on the part of importers was inherently unlikely since they had a direct interest in the expeditious clearance of imported goods. It was also argued that it was doubtful whether any action for damages which might be brought by an importer of machinery on the ground that his interests had been damaged by the disclosure of the statistics in question to the EDCs (and hence perhaps to his competitors) could in fact succeed in proving damage. In these circumstances, it was suggested that legislation should not be introduced until such time as the need for it might be demonstrated by such action in the courts.

In further discussion there was general acceptance that the importance to the national interest of the substitution of imports was so great that the information requested should be made available to the EDCs. Since, however, the Attorney-General had advised that the provision of this information would under existing legislation be *ultra vires* it was clearly necessary to pass legislation in order to validate such action. It was, however, questionable whether early legislation should be passed on this narrow issue or whether it should be delayed until the broader issue of the disclosure of information.
and the voluntary co-operation of industry in the collection of statistics could be reviewed in the light of the consideration currently being given to the means necessary to improve the range of statistical information available to the Government.

The Prime Minister, summing up the discussion, said that the Cabinet were on balance agreed that the information required by the EDCs in the interests of import saving should be made available to them and the Chairmen could be so informed in confidence. Further consideration was, however, required of the nature of the legislation which would be necessary to validate the transmission of this information and of its relationship to any wider legislation which might possibly be necessary at a later stage on the collection of statistics in a wider field. It might however prove to be necessary for legislation to be passed at a very early date on the immediate issue and also for legislation to be introduced at a later stage covering the broader issue. The terms and implications of legislation on the immediate issue should now be considered as a matter of urgency by the Ministers concerned. Until Ministers had taken decisions in the light of such further consideration and discussion it would not be possible to announce the decision to make the information available to the EDCs.

The Cabinet—
(1) Took note, with approval, of the Prime Minister's summing up of their discussion.

(2) Invited the First Secretary of State, in consultation with the Chancellor of the Exchequer, the President of the Board of Trade, the Minister of Technology and the Attorney-General
(a) to consider the terms and implications of the legislation which would be necessary to validate the supply to the Economic Development Committees of the information which they sought about imports of machinery; and

(b) to consider the implications of Conclusion 2 (a) for the expansion and improvement of the collection and publication of statistics by the Government and for legislation which might be required in that connection.

(3) Invited the First Secretary of State to inform in confidence the Chairman of the Economic Development Committees for the Mechanical Engineering and Machine Tool Industries that the information about the imports of machinery which they required in pursuit of their attempts to save imports would later be made available.
The Cabinet considered a memorandum by the Chancellor of the Exchequer (C (67) 6) about take-over bids for Pye of Cambridge Limited.

The Minister of Technology said that an application for exchange control consent for the acquisition of Pye Limited had been received from Philips Electronic Holdings, which was a subsidiary of Philips Industries which in turn was wholly owned by N. V. Philips of Eindhoven, Netherlands. Thorn Electrical were also bidding for Pye, but if Thorn and Philips were left to bid against each other for control Philips would probably win. The latest Philips offer, which had been announced but not yet formally put to shareholders, was equivalent to 12 shillings a share, which valued Pye at £30 million. Philips were considering making their offer in a form in which the whole of the consideration would be cash brought in from overseas.

Two alternative courses might be adopted with dealing with the application from Philips—

(i) to refuse exchange control consent to Philips so that Thorn would gain control. Since at present the highest known bid was that of Philips, no action would on this course be taken until Thorn made known a higher bid; at that point Philips would be informed that exchange control consent would not be forthcoming should they put in a counter-bid; or

(ii) to negotiate appropriate undertakings now with Philips as a condition of exchange control consent; subject to their accepting such conditions Philips would be left to bid against Thorn and if they were successful, exchange control consent would be given.

The terms of the undertakings which he proposed should be required from Philips were set out in Annex B of C (67) 6.

In his view, the first of these courses was to be preferred. This would not be a case of a foreign firm bringing in new technological expertise; on the contrary, Pye had an important technological lead in radio telephones and there could be no guarantee that Philips would not exploit this for their own purposes in a way contrary to the United Kingdom interest. Undertakings might be obtained from Philips in this matter, but they would be difficult to enforce. It had been suggested that refusal of exchange control consent to Philips would be a sharp reversal of existing policy, which was to refuse consent only to protect the balance of payments. It was arguable, however, that a take-over by Philips would adversely affect the balance of payments in the long term. If the Government allowed a take-over by Philips, they would incur severe criticism especially as this would follow immediately upon the decision to allow the take-over of Rootes Motors Limited by the Chrysler Corporation of the United States. The Government should, therefore, indicate to

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*5. Previously recorded in a Confidential Annex.*
The Chancellor of the Exchequer said he doubted whether there would be any significant public reaction if the take-over by Philips were permitted. Philips had operated in this country for years and had assets in the United Kingdom amounting to nearly £150 million. Many people regarded them as a British firm and in fact Philips Electronic Holdings would be technically a United Kingdom company. The Government could ensure that the national interest was safeguarded by requiring suitable undertakings as a condition of exchange control consent. A major firm like Philips were most unlikely to attempt to break such undertakings, which would be made public; but if they did, the Government would have means of redress. Philips claimed that one of their motives in bidding for Pye was to prevent the Company falling into United States hands; if Thorn were successful, this was conceivable since there was already a substantial United States minority holding in Thorn. Refusal of exchange control consent would not only discourage inward investment into the United Kingdom, but might also encourage similar action by foreign countries with adverse consequences for British-owned firms abroad. It would therefore be preferable to put to Philips appropriate undertakings and, if these were accepted, to leave Philips to bid against Thorn.

In discussion, it was argued that the Government would be justified in stopping a take-over by Philips whose motives were basically predatory and who would not be introducing new technological or managerial skills. Refusal of consent would leave the field clear for Thorn, which might be regarded as unduly favouring an individual firm; but this objection might be overcome by encouraging a British consortium to bid for Pye: this possibility should be explored.

On the other hand, it was pointed out that a take-over by Philips would bring immediate benefit to the foreign exchange reserves. Philips had bigger resources than Thorn which was also unduly dependent on a single man: there was, therefore, more assurance that the former would provide efficient management in the long term. It was also an important consideration that a refusal of consent to Philips would be politically embarrassing at a time when the Prime Minister and the Foreign Secretary were visiting the capitals of the European Economic Community to discuss our joining it.

In further discussion, the following points were made:

(a) It was unsatisfactory that the Government had no power to prevent the take-over of a British firm by foreign interests except through exchange control or by a reference to the Monopolies Commission under Monopolies and Mergers Act. The former procedure limited the grounds on which a take-over could be stopped, and the latter was not always practicable because the Monopoly
Commission would normally take some months to deal with the reference and it was in many cases not possible to delay matters to this extent. Consideration should be given to the Government taking power, possibly in the Companies Bill now before Parliament, to stop a take-over by a foreign firm where they judged this to be against the national interest.

(b) The terms of the proposed undertakings to be required from Philips which were set out in Annex B to C (67) 6 might be too onerous in some respects and should not be such as to frustrate acquisition. In particular, it would be undesirable to insist on Philips nominating a director of United Kingdom nationality to the Board of the Netherlands parent Company as proposed in paragraph 4 of the Annex, since an undertaking to this effect would set a precedent which might adversely affect wider British interests if it were followed by other countries.

The Prime Minister, summing up the discussion, said that the Cabinet agreed on balance that the Government should not seek to prevent a take-over of Pye by Philips through refusal of exchange control consent, provided that reasonable undertakings could be negotiated with Philips. The Minister of Technology, in consultation with other Ministers concerned, should give further consideration to the terms of the proposed undertakings in the light of the points made in discussion. In particular we should not seek the appointment of a United Kingdom director to the Netherlands Board. He should endeavour to negotiate suitable undertakings with Philips and should consult with the First Secretary of State, the Chancellor of the Exchequer, the President of the Board of Trade and himself before these were completed. For the future, the President of the Board of Trade and the Minister of Technology should consider whether the Government ought to take power, possibly in the Companies Bill, to prevent a take-over by a foreign firm, which they judged to be contrary to the national interest.

The Cabinet—

(1) Agreed that the Government should give exchange control consent to Philips Electronic Holdings if they made a successful bid for the acquisition of Pye Limited, provided that Philips gave satisfactory undertakings.

(2) Invited the Minister of Technology to consider further, in the light of the discussion and in consultation with the First Secretary of State, the Chancellor of the Exchequer and the President of the Board of Trade, the terms of the proposed undertakings set out in Annex B to C (67) 6.

(3) Invited the Minister of Technology, subject to Conclusion (2), to communicate the terms of the proposed undertakings to Philips Electronic Holdings and to consult the Prime Minister, the First Secretary of State, the Chancellor of the Exchequer and the President of the Board of Trade before the negotiations were completed.
(4) Invited the President of the Board of Trade to consider, in consultation with the Foreign Secretary, the First Secretary of State, the Chancellor of the Exchequer and the Minister of Technology, whether the Government should take power to prevent the take-over of a United Kingdom firm by a foreign firm where they judged this to be contrary to the national interest.

SECRET

6. The Chancellor of the Exchequer said that Mr. Fowler, the United States Secretary to the Treasury, M. Debré, the French Minister of Finance, and Professor Schiller, the German Federal Minister of Economics, had accepted his invitation to come to London for discussions during the week-end beginning 21st January. The main object would be to seek agreement between the Governments concerned on a general reduction of rates of interest. If the discussions were successful they would substantially assist both our balance of payments and the internal economy of the United Kingdom. They would no doubt also range more widely on general international financial policy. An announcement of the meeting would be made during the following week but would not, of course, refer to the intention to discuss rates of interest, since this would encourage speculation.

The Cabinet—
Took note of the statement by the Chancellor of the Exchequer.

CONFIDENTIAL

7. The Home Secretary said that officials of the Departments concerned had met to consider the effects if the Associated Society of Locomotive Engineers and Firemen should carry out their threat to begin to work to rule from Monday, 16th January. It was difficult to assess the possible duration and extent of the dispute and its effects, but initially the main problem would relate to daily travel into and out of London and the big cities. Although it was not expected that many trains would be cancelled, they would run late and journeys would take substantially longer. The Ministers concerned were keeping the matter under close observation and if the threat to work to rule had not been withdrawn by the afternoon of Sunday, 15th January, the police would be authorised to put into effect the contingency plans that had already been made for emergency car parks in London and the big cities and for the

* Previously recorded in a Confidential Annex.
cancellation of the start of any new road works which were not essential. No publicity would be given to these arrangements in order to avoid undue encouragement to travel by road without it being clear at that stage that the railways would not after all be able to cope with the traffic.

The Cabinet—

Took note of the statement by the Home Secretary.

CONFIDENTIAL

8. The Cabinet had before them a note (C (67) 3) by the Secretary of the Cabinet to which was attached a steering brief for the visit of the Prime Minister and Foreign Secretary to Rome on 16th and 17th January.

The Prime Minister said that the steering brief, which had been revised in the light of the discussions of the Ministerial Steering Committee on Economic Policy, was in accordance with the conclusions of the Cabinet in respect of the visits to be paid by the Foreign Secretary and himself to the Heads of Government of the member countries of the European Economic Community. On those visits he and the Foreign Secretary would of course restrict themselves to the range and nature of the discussions which had been approved by the Cabinet. They would report the outcome but would not make interim reports unless special circumstances arising from any visit made this desirable. In these circumstances, and having regard to the length of the meeting that morning, the Cabinet might be disposed to approve the steering brief without further discussion.

The Cabinet—

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

(2) Approved the steering brief attached to C (67) 3.

Cabinet Office, S.W.1,
12th January, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 19th January, 1967, 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 HODGEN, 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 PEARCE, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLÉDWIN HUGHES, M.P., Secretary of State for Wales
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department (Item 1)
The Right Hon. PATRICK GORDON WALKER, M.P., Minister without Portfolio
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science
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

Also present:
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretary:
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. Agreement had been reached on the timetable for the further progress of the Iron and Steel Bill.

2. The Foreign Secretary said the discussions which the Prime Minister and he had had in Rome with the Italian Government on the possibility of our joining the European Economic Community (EEC) had gone as well as could be expected: indeed, rather better. The main difficulties with which membership of the Community would confront us had been made clear, especially those arising from the common agricultural policy. He had been at particular pains to demonstrate how unfair the present system of financing that policy would be, if it were applied to new members without adjustment. Our attitude to the Treaty of Rome had been set forth in the terms agreed by the Cabinet. There had been useful exploratory discussions of the requirements of membership, and of the Community's policies and practices, in respect of capital movements, regional development (where the Italians had special experience), technological collaboration, and social insurance and the movement of labour.

The attention of the Italian Foreign Secretary, Signor Fanfani, had been drawn to the dangers which might ensue from the discussion among the Six of political unity in Europe at the conference he had called in Rome in the early part of April, when our approach to Europe might well be under consideration. It might well be that the Six themselves would not want to risk the sharp discords to which a further discussion on political unity might give rise at such a time.

It was clear that it had been right to pay the first visit to Rome. The Italian attitude was very friendly and favourable to our accession to the Community but it would be unrealistic to expect them to stand up to General de Gaulle in the event of his deciding to veto our application for membership, should we decide to make one.

The Prime Minister said that the Italians would like to see us in the Community, but Signor Fanfani's experience of French pressure in forming Community policy had clearly made a great impression on him. In two sessions and in his own final summing up we had (contrary to one erroneous report which the rest of the Press had deplored) insisted that our position as the world's largest importer of agricultural products was unique and special consideration would have to be given to it.
In discussion the following main points were made:

(a) It seemed clear that the French were still opposed to our accession to the Community, and would like us to decide not to apply for membership, thus relieving them of the onus of opposing us. We should therefore seek to put them in the position where opposition to our membership would isolate them.

(b) The future of the French aircraft industry, on which General de Gaulle set store, was to a very large extent dependent upon collaboration with us both as regards the major joint projects on which they were engaged and as to the market for them. Nevertheless it was doubtful whether General de Gaulle would allow such considerations to influence his decisions on major issues of foreign policy.

(c) It was unlikely that General de Gaulle would make his hostility to our accession clear in the opening discussions, just before the French elections. He would rather seek to persuade us to decide not to negotiate, and it would be important at the end of the series of visits to see whether the Five could be brought to declare publicly whether they thought it would be worth while for us to seek negotiations, in order that the onus of blocking our entry (should we decide to seek it) might clearly rest on France.

(d) Hence the discussions in Bonn would be particularly important. The Federal German Government were much concerned to improve their relations with the French and General de Gaulle might well hope that they would refuse to agree with the rest of the Five on any such declaration.

The Prime Minister, summing up the discussion, said that it seemed clear that General de Gaulle would again seek support for a rejection of our approach to Europe on the basis that the British were still not sufficiently European, despite the extent to which he himself had pursued policies which other European nations would not regard as being in the general European interest. The forthcoming talks in Paris, therefore, would be primarily political in content, and to that extent the briefs which had been prepared for the other visits would be of less relevance.

The Cabinet—

Took note, with approval, of the statements by the Prime Minister and the Foreign Secretary.

Malta 3

The Commonwealth Secretary said that in the early part of the week he had had consultations with the Maltese Government on the reduction of our forces there in consequence of the decisions reached after the Defence Review. He had explained the limited deferment of certain parts of the reduction (primarily the retention of the two battalions in Malta for two years after 1968) which we were prepared to make in order to alleviate the consequences on employment, but these had wholly failed to obtain the acquiescence.
of the Maltese Government in our proposals. Their initial attack on them had indeed been based not on the economic situation, but on the contention that we were in effect abrogating the 1964 Defence Agreement by reducing our forces to a level which would make it impossible for us to defend Malta against attack. There was no substance in this contention, since we would not be dependent for defending Malta on forces stationed there at any time: indeed, an attack on Malta would involve the whole of the North Atlantic Treaty Organisation (NATO). Subsequently their opposition had concentrated on the consequences for the level of unemployment. It was agreed between the Maltese Government and ourselves that the reductions were likely to increase unemployment by some 4,500 in the first two years and 7,000 by the end of the period, thus resulting in a peak level of unemployment of about 14 per cent in 1968-69.

He had also held discussions with a number of other interests in Malta and in particular with the General Workers Union. It appeared probable that the announcement of the proposals would lead to strikes and the possibility of violence could not be excluded. It was not, however, thought necessary to evacuate any of the families of British servicemen in Malta. In discussion with the Heads of the Services, the Commander-in-Chief, who also held a NATO appointment, had suggested some minor deferment of the naval rundown, partly for NATO purposes and partly to mitigate somewhat the consequent increase in unemployment in the next two years. Further study of the cost of such deferment was, however, required before a decision could be taken.

In the upshot he had made no concessions on the Government's proposals, but had agreed that he would report the outcome of the consultations to his colleagues.

The one hopeful feature of the situation was that the situation in the dockyard had improved under the Council of Administration and the agency of Swan Hunter. As the Cabinet were aware, the long-standing dispute with Bailey (Malta) Ltd. made it necessary, if finality were to be reached on reasonable terms, for legislation to be passed in the Maltese Parliament nationalising the dockyard. If such legislation were passed in the near future the way would then be clear for further development which was at present inhibited and there was every reason to hope that activity in the dockyard and the level of employment there would substantially improve.

It would be necessary to make an early statement in the House of Commons, preferably on Monday of the following week (23rd January), about the reduction of our forces which was envisaged, to inform the Maltese Government that this would be done and to give the Heads of the Services in Malta the opportunity to inform their respective Services of what was proposed before a Press statement was issued.

In discussion concern was expressed about the level of unemployment which would result in Malta from the rundown of the forces and it was urged that the United Kingdom Government
must accept some responsibility for these consequences in the light of the history of our connection with Malta. It was questionable whether the likely cost of the changes in the naval run-down proposed by the Commander-in-Chief would be justified by the small increase in employment which might ensue, particularly since there seemed to be no prospect that this would be adequate to obtain the acquiescence of the Maltese Government in our proposals as a whole. It was, however, urgent to seek an early conclusion to the discussions on the future of the dockyard and to enable its development to proceed thereafter. It might also prove necessary to consider some further concession to Malta in respect of the level of immigration into the United Kingdom.

The Cabinet—
(1) Took note of the statement by the Commonwealth Secretary.
(2) Agreed that an announcement should be made in the House of Commons on Monday, 23rd January, of the details of the reduction of our forces in Malta.

*secret*

Cabinet Office, S.W.1,
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 26th January, 1967,
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. 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 GARDNER, 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. PATRICK GORDON WALKER, 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:

Mr. JOHN STONEHOUSE, M.P., Minister of Aviation (Item 6)

The Right Hon. Sir ELWYN JONES, Q.C., M.P., Attorney-General (Item 6)

The Right Hon. JOHN SLEEMAN, M.P., Parliamentary Secretary, Treasury

Secretary:

Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Miss J. J. NUNN
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 26th January, 1967, 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. 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
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The Right Hon. FRED PEART, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:

Mr. JOHN STONEHOUSE, M.P., Minister of Aviation (Item 6)
Mr. John Silk, M.P., Parliamentary Secretary, Treasury

The Right Hon. Sir ELWYN JONES, Q.C., M.P., Attorney-General (Item 6)

Secretariat:

Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIFLD
Miss J. J. NUNN
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1. The Foreign Secretary drew the attention of the Cabinet to Press reports that certain members of the Government were making preparations, extending in one case to contractual arrangements, for the publication of their personal memoirs in due course and that for this purpose they were maintaining diaries recording the course of current discussions in Cabinet. If these reports were true, issues of propriety and collective responsibility might be involved; and it was for consideration whether any action was required.

The Prime Minister said that the relevant section of “Questions of Procedure for Ministers” (C (P) (66) 5) provided guidance about the categories of literary activity in which Ministers could properly engage. These did not, of course, include works involving the disclosure of official information, in relation to which Ministers were subject in principle, like all other individuals, to the provisions of the Official Secrets Acts. In practice, however, it had always been accepted that an individual who had carried a significant degree of responsibility for the conduct of public affairs and was therefore personally and publicly accountable for his actions was entitled to enjoy reasonable facilities to defend his reputation and his record of office. It was a recognised and established convention that for this purpose a former Minister might continue to enjoy access to the official documents which he saw, or himself originated, while he held office, not excluding memoranda circulated to the Cabinet and the records of Cabinet discussions. Nevertheless, this convention was so administered as to prevent, so far as possible, both direct quotation from official documents where this would involve a breach of the Public Records Act, 1958, and the disclosure of differences of view between an individual Minister and his colleagues at the relevant time. It might not always be of the first importance to seek to enforce these stipulations rigorously in cases where no more was in question than, e.g., a volume of memoirs written by an individual who had finally retired from public life and was removed from all current political controversy. But tacit breaches of the convention in relation to the current transaction of a Government’s business were more objectionable in so far as they could not but tend to undermine the relationship of trust and confidence between colleagues which lay at the root of the doctrine of collective Ministerial responsibility.

It was for this reason that any purely private or personal recording of the course of Cabinet discussions was to be deprecated. Moreover, if it were thought that Ministers, while still holding office, were free to enter into commercial contracts for the publication of their memoirs or impressions in a manner which might imply a breach of the conventions, more serious considerations would be liable to arise. It would be particularly unfortunate if a Minister, by acting in this way, allowed it to be thought, however erroneously, that he was rendering himself liable to any kind of improper pressure. There might therefore be advantage in promoting a fresh review of the existing conventions on the lines which the Foreign Secretary had suggested.
The Lord President said that, in so far as the Press reports related to himself, they had no other foundation than the fact that, before he became a member of the present Administration, he had signed a contract for the publication, after his retirement from political life, of a book of personal memoirs together with a study of Government and Parliament which was intended to be a serious and responsible contribution to informed discussion of these institutions. Since he had become a Minister, his regular publishers had been acquired by the Thomson Group. He had therefore renegotiated the contract in order to make provision for the serial rights—and taken this opportunity to ensure that he would be under no obligation to publish, whether in book form or by serialisation, for five years after he ceased to hold office. This should suffice to ensure that no breach of the conventions would be involved.

In discussion, it was argued that an arrangement of this kind, which related primarily to an academic study rather than to personal memoirs and did not therefore necessarily involve any significant disclosure of current Government business, was in a rather different category. In any event the basic issue involved was one which could never be satisfactorily regulated by rules or even conventions alone; it was essentially a matter of an individual's good taste and personal loyalty. Nevertheless, it would be useful to re-examine the current conventions; and if, as a result, certain changes proved to be desirable, it would be for consideration whether these should subsequently be discussed with the Opposition in order to ensure that, so far as possible, the main principles of conduct in this context continued to rest on an agreed and bi-partisan basis.

The Cabinet—

Took note that the Prime Minister would arrange for the appointment of a Ministerial Committee, under the chairmanship of the Lord Chancellor, to consider the rules and conventions governing the Ministerial use of official material otherwise than for current official purposes; and to make recommendations for any changes in those rules and conventions which appeared to be required in order to maintain the principles of confidentiality and collective responsibility in the conduct of Government business.

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Parliament

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

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Europe

Visit to Heads of Government of the European Economic Community (Previous Reference: CC (67) 2nd Conclusions, Minute 2)

3. The Foreign Secretary said that the visit which the Prime Minister and he had paid to Paris during the previous two days, to discuss the possibility of our subsequently seeking to join the European Economic Community (EEC), had gone well as far as personal relationships with the President, General de Gaulle, and French Ministers were concerned. General de Gaulle had not raised on this occasion the objections to our entry which had led him to veto it in 1963, and the difficulties of which he had made most related to the
fact that the EEC had now become a closely knit community with intimate relationships between member countries. The whole nature of the Community would be profoundly altered if not only the United Kingdom, but other countries such as some of our partners in the European Free Trade Association were to join. An important factor for the French Government in considering this aspect was the present pre-eminence of French influence within the EEC and the threat to it posed by this prospective enlargement. General de Gaulle had also raised at the final meeting the possibility of our being associated with the EEC, though not a member of it, or even of establishing “something new and different”, i.e., presumably a wholly different kind of Community; but he had in no way elaborated this concept, which clearly presented numerous difficulties both for the members of the EEC and for ourselves. Among other things, it might well become purely a device for imposing delay and preventing our entry into the Community. We had also put clearly on record the other major difficulties which would arise if we were to join the EEC, but discussion had otherwise centred primarily on the position of sterling. That discussion in no way related to the parity and the French Premier, M. Pompidou, had gone clearly on record in stating that it would have been wrong for the United Kingdom to have devalued the pound in July 1966 and that such action on our part would furthermore have caused difficulties for France. The discussion had related almost wholly to the implications of the sterling balances for functioning of the EEC if we were to become a full member.

The Prime Minister said that, while the visit did not in any way appear to have changed the view of General de Gaulle that he would prefer that we should not join the EEC at present, it had clearly made him reconsider a number of aspects and he had said that he now recognised a clear difference between the attitude of the United Kingdom Government on the present occasion and that which the then Administration had demonstrated during the 1961-63 negotiations. In discussion of technological collaboration General de Gaulle had enquired why the successful collaboration which we already had with the French Government in respect of the development of military aircraft could not be extended to other fields but he had accepted our answer that the present collaboration was only possible because the Governments were the buyers of the aircraft concerned, whereas in civil technology collaborative products would be in market competition with foreign products. Relatively little had been made by General de Gaulle on this occasion of our links with the United States and he had taken our point that we should seek to strengthen Europe so that it might play its proper part in relation both to the United States and to the Soviet Union.

In discussion the following points were raised:

(a) The objection raised by General de Gaulle to the weakening, through our entry and that of other countries, of the existing intimate links between the present members of the EEC was an aspect which might also weigh considerably with the Five and we should consider
how best we should present our position in order to avoid a hardening of sentiment on this aspect.

(b) While in certain circumstances it might prove that the concept of a different kind of association between a wider group of European countries might suit our interests, it would not only be wholly disruptive to the present series of visits if we were to seem to favour the idea at present, but it must also be recognised that the negotiation of such a different association would inevitably take so long a time that it might be indefinitely prolonged. We might therefore fail to gain either the advantages of entry into the Community or those of a different kind of association. In particular, if we were to seem to favour this alternative possibility it would gravely damage our position in relation to the Five and therefore the possibility of their being willing to use their influence with General de Gaulle to seek an accommodation of our difficulties.

The Cabinet—

Took note, with approval, of the statements by the Prime Minister and Foreign Secretary.

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4. The Foreign Secretary said that there was disturbing news of the action which the Federal German Government might take on the Offset Agreement. In discussions which he and the Minister of State for Foreign Affairs (Mr. Thomson) had had earlier in the week with the State Secretary, Herr Schutz, the latter had informed them that a meeting of the German Cabinet which was due to be held that day, Herr Strauss, the German Federal Minister of Finance, would advocate that no further offset payments should be made after the ending of the current agreement in March 1967 and that any offset payments made in 1968 should be very small. We had naturally represented to Herr Schutz the very serious view which the United Kingdom Government would take of any decision to that effect. Our Ambassador in Bonn had been instructed to make representations accordingly and similar representations would also be made by the United States Government. It would be premature to seek to reach any conclusions at the present time on the action which we should take if the German reply proved to be in the terms which had been forecast. The position would be clearer after the current meeting of the German Cabinet and would be considered by the Defence and Oversea Policy Committee early the following week. We must bear in mind the binding nature of our obligation under the Treaty of Brussels not to withdraw troops against the wishes of the majority of the High Contracting Parties, though the Treaty made provision for the review of our commitment if the financial conditions of carrying them out were unacceptably onerous. It would be important for us at this stage to seek to maintain the goodwill of the other parties to the Treaty and to work in close concert with the United States in the tripartite discussions.

In discussion the point was made that there might be some disadvantage in our being too closely associated with United States
views during the tripartite discussions in view of the importance of obtaining the agreement of our European allies to action which we might wish to take under the Treaty of Brussels. Our action must, moreover, have full regard to our strategic views on defence needs in Europe and the importance of not exposing our allies and ourselves to military danger.

The Foreign Secretary said that for some time there had been a financial dispute between the Iraqi Government, the Syrian Government and the Iraq Petroleum Company (IPC) which was now coming to a head. One of the difficulties in the situation was that the IPC consisted of a group of four big international oil companies, each of which was concerned to decide the action which the IPC could accept in Iraq in the light of its own world-wide interest. This inevitably led to delay in the IPC deciding their course of action and to protracted negotiations. The IPC had in the event made an offer to pay the Iraq Government the full sum which they required, including the money which was necessary to meet demands which the Syrian Government had also put forward. They were not, however, prepared to make that payment direct to the Syrian Government, but only to provide the money to enable the Iraqi Government to pay it in turn to Syria. Our Ambassador in Iraq had urged them to meet the request of the Iraqi Government on this point but the IPC had declined because of the pressures to which such action on their part would subject the constituent companies elsewhere. Their managing director had now been instructed to refuse to meet the Iraqi Government's proposal. It was likely that the outcome would be the nationalisation of their assets without compensation, an outcome which the companies forming the IPC on balance considered to be less disadvantageous to them than meeting the demands of the Iraqi Government in full.

The Commonwealth Secretary said that there was likely to be a serious deterioration in our relations with Ghana because of the decision which the Home Secretary had very properly taken not to order the extradition of Mr. Kwesi Armah, the former Ghana High Commissioner in London, to stand trial in Ghana. The Home Secretary had acted in pursuit of the discretion given to him in the Fugitive Offenders Act of 1881 because there was a political element in the charges made in Ghana against Mr. Armah. He was in full agreement with the action which the Home Secretary had taken, but the present Ghana Government had reacted most adversely to it, partly on the grounds that this would be politically advantageous to the former President, Dr. Nkrumah, and partly on the ground that it represented a slur on the Ghana courts of justice. It might prove necessary to defer or cancel the visit which he himself was due to pay to Ghana the following week to take part in the opening of the British Trade Fair.

The Cabinet—
Took note of the statements by the Foreign and Commonwealth Secretaries.
5. The Chancellor of the Exchequer said that there had been a successful meeting at Chequers the previous weekend between the Finance Ministers of France, Germany, Italy and the United States and himself for the discussion of current rates of interest. There had been general agreement that the Governments concerned would wish to see general interest rates reduced and action would be taken where appropriate. Bank Rate would accordingly be reduced that day by \( \frac{1}{2} \) per cent. This would be advantageous to our own internal economic situation as well as to budget costs and our balance of payments.

The Cabinet—

Took note, with approval, of the statement by the Chancellor of the Exchequer.

6. The Cabinet considered a memorandum (C (67) 10) by the Minister of Aviation on proposals to undertake sonic bang tests. They also had before them a note by the Minister of Aviation (C (67) 11) covering a report by the Official Committee on the Economic Prospects of the Concord.

The Minister of Aviation said that, while it would be premature to discuss the economic prospects of the Concord, the officials' report had some relevance to the question of sonic bang tests because it made it clear that, if the public reaction to sonic bangs resulted in the prohibition of flying by supersonic transports (SSTs) over land, the traffic available to the Concord would be reduced by a factor of 0.55 to 0.6, with a consequent reduction in sales. Tests had already been undertaken in the United States, France and Britain, but more work was required to enable the Governments to determine their policy in respect of overflying not only by the Concord but also by the SSTs which would be developed by the United States. "It would not be wise for us to avoid sonic bangs by prohibiting supersonic flights over the United Kingdom, since apart from the implications for our attitude towards the Concord this would encourage other countries to adopt similar restrictions, to the detriment of its prospects."

It was therefore proposed to arrange for tests to be carried out by RAF Lightnings during a period of six to nine months beginning in May 1967. In order to avoid the expense of moving the Lightnings from their present base, and thus of interfering also with the training programme, it was proposed that the tests should be carried out over an area which would include Hull and Grimsby. About five bangs a day would be created in order to assess public reaction to the maintenance of a constant high rate of bangs over a period. This had not been done in the tests carried out over Oklahoma City which had been based on a steady increase in the number of bangs until the end of the programme. There would be scientific examination of the physical effect on buildings, social survey by the Central Office of Information of the reactions of the public and an analysis of...
complaints. Legislation was required to empower the Minister of Aviation to authorise flights over specified areas, to prohibit legal proceedings in respect of noise from test aircraft, and to provide statutory compensation for injury, loss or damage. This would, in effect, extend to flights by military aircraft the provisions of the Civil Aviation Act enabling damages to be claimed against the operators of civil aircraft without requiring proof of negligence. The cost of the tests was estimated at £225,000; compensation payments might amount to less than £100,000.

In discussion of whether tests should be undertaken it was suggested that new tests would be unlikely to add significantly to the information already obtained elsewhere and that to undertake tests unnecessarily would merely stimulate public opposition and, if public objection proved to be strong, damage the commercial prospects of the Concord; the outcome of the tests could not have a bearing on the question whether we should proceed with the development of the Concord, since on this we were already inescapably committed by our legal obligations. On the other hand it was argued that if public objection to sonic bangs proved to be so strong as to imply a need to restrict severely the operation of the aircraft, and hence to throw doubt on its commercial viability, this might in itself afford a ground which did not exist at present for reopening our agreement with the French and might also influence the assessment which the French themselves had made of the economic case for proceeding with development. If there were to be tests, there might be some advantage on this and other grounds in undertaking them jointly with the French.

The Cabinet then considered the necessity for legislation.

The Lord President said that in order to secure the passage of a Bill by May, it would be necessary to take all stages on the floor of the House of Commons. A Bill of the character proposed would be likely to occupy a considerable amount of time, to the detriment of the remainder of the Government's programme. In these circumstances, it was for consideration whether legislation was essential, or essential this year rather than next.

The Attorney-General said that he had advised that legislation was necessary because the Government ought not to undertake, without specific authority from Parliament, flights which were likely to cause damage and nuisance. In the absence of legislation, members of the public might seek injunctions to prohibit the flights. He did not, however, agree that the right to sue for damages should be set aside. The provision in Section 40 of the Civil Aviation Act 1949 prohibiting actions in respect of nuisance did not provide an analogy since it applied only where the aircraft in question was flying at a height which in all the circumstances was reasonable. This would not be the case where the aircraft was flying with the deliberate intention of causing a sonic bang. The Government should accept absolute liability for damage and permit recourse to the courts in default of agreement. Most claims would be settled out of court.
The Prime Minister, summing up the discussion, said that it had disclosed a number of issues which required further consideration and clarification. In these circumstances the Cabinet were not as yet willing to reach a conclusion on the desirability of tests. All the relevant questions, including the nature and timing of any necessary legislation, should be considered by the Home Affairs Committee, which should if possible reach a decision both on the necessity for tests and on the ancillary problems.

The Cabinet—
Invited the Minister without Portfolio to arrange for the Home Affairs Committee to consider in the light of their discussion the issues raised in C (67) 10 and to report their conclusions to the Prime Minister.

Cabinet Office, S.W.1,
26th January, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 31st January, 1967, 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. RICHARD CROSSMAN, M.P., Lord President of the Council
The Right Hon. RUY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. PATRICK GORDON WALKER, 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. CLEWDYN HUGHES, M.P., Secretary of State for Wales

The following were also present:

The Right Hon. REGINALD PRENTICE, M.P., Minister of Public Building and Works
The Right Hon. Sir ELWYN JONES, Q.C., M.P., Attorney-General

The following were also present:

MRS. JUDITH HART, M.P., Minister of State for Commonwealth Affairs
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretary:

SIR BURKE TREND
Mr. P. ROGERS
Mr. H. LAWRENCE-WILSON
Mr. K. BARNES
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 31st January, 1967, 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. 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. PATRICK GORDON WALKER, M.P., Minister without Portfolio
The Right Hon. ANTHONY CROSSLAN, 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. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:

The Right Hon. REGINALD PRENTICE, M.P., Minister of Public Building and Works
The Right Hon. SIR ELWYN JONES, Q.C., M.P., Attorney-General

The Right Hon. LORD GARDINER, Lord Chancellor
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 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. REGINALD PRENTICE, M.P., Minister of State for Commonwealth Affairs
Mrs. JUDITH HART, M.P., Minister of State for Commonwealth Affairs
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:

Sir BURKE TREND
Mr. P. ROGERS
Mr. H. LAWRENCE-WILSON
Mr. K. BARNES
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1. The Minister of State for Commonwealth Affairs (Mrs. Hart) said that a serious situation had developed in Malta as a result of the announcement of our plans substantially to reduce our forces in the island, to the level agreed after the Defence Review. The Maltese Prime Minister, Dr. Borg Olivier, maintained that we were in consequence in breach of our Defence Agreement with Malta since these forces would be inadequate to defend the island and since we had failed properly to consult them about the reductions. In his view, therefore, we had forfeited all our "rights, privileges and facilities" under the Defence Agreement and he had called upon us to cease making use of them. He proposed to introduce a Bill to cancel the Agreement accordingly. We maintained on the contrary that the reduction of our forces had no relevance to our ability to defend Malta and that if the Maltese Government were to deny us our rights under the Defence Agreement they would be in breach of their international obligations. The reason for the extreme course which the Maltese Government were taking was the level of unemployment which would result from the reduction of our forces and would reach 14 per cent in 1968-69. There was widespread support in Malta for Dr. Borg Olivier's attitude and, unless a settlement could be reached, our international reputation would suffer and the position of our forces in the island would become untenable. Without the facilities in Malta we might also be unable to carry out our commitment to Libya. The provision of fuel supplies for military aircraft was already proving difficult as the Maltese were demanding that we pay customs duty, contrary to the Defence Agreement, and refused to release the supplies until we did so. An urgent study was in hand of the full implications of the situation but it was clear that if we were to make any impact on the unemployment problem major changes would be needed in the defence plans or, alternatively, substantial extra aid would be required.

The Defence Secretary said that there was a short and a long-term problem. In the short term a way must be found of enabling us to import stores, including aviation fuel. If this were not done our military aircraft would cease to fly and the base would become inoperative. A solution might be to pay the customs duty but to make plain that this was under duress and that future aid payments would be reduced accordingly. At the same time, and in an attempt to dissuade the Maltese from passing legislation abrogating the Defence Agreement as they intended on the following day, a senior Minister might visit Malta for discussion or, alternatively, the Prime Minister might send a message to Dr. Borg Olivier. Malta stood to lose £18 million of payments on the defence account and £34.5 million worth of aid if our forces had to be withdrawn but in the present highly emotional situation, these considerations might not deter the Maltese Government from pursuing their present course. For the longer term, contingency plans for a total withdrawal from Malta should be prepared and submitted to Ministers urgently.
Account would also need to be taken of the repercussions in other parts of the world, for example, in Aden and Singapore, of any failure to reduce our forces in Malta to the level that was desirable in United Kingdom interests, or of any concessions that we might otherwise consider making to meet the immediate situation there.

In discussion concern was expressed at the level of unemployment which would result in Malta from the reduction of our forces and also at the consequences for our international position and our military facilities should the Maltese Government hold to their view that the Defence Agreement was abrogated. Nevertheless, there was general agreement that the Government could not seek a settlement with the Maltese Government by making further substantial concessions on the rate at which our forces in Malta should be reduced to the level agreed after the Defence Review, or in the provision of aid. A concession on either issue would have unacceptable repercussions for our position in other countries where our forces were being reduced, such as Aden and Singapore, and where similar claims would be likely to be pressed upon us by the local Governments. Furthermore, we could reasonably bear in mind that the level of aid to Malta represented a much higher payment per head of population than in any other country save St. Helena. The level of our aid and the concessions which had already been made in agreeing to slow down the rate of reduction of our forces in the island at considerable financial cost to ourselves demonstrated that we had not ignored the major difficulties that our action would cause in Malta. As regards the immediate situation the balance of advantage lay in our agreeing to pay the customs duty provided that this did not have unacceptable legal implications for the Defence Agreement, since otherwise our forces would be unable to operate, but it should be made clear that such payment would be offset by an equivalent reduction in our future aid to Malta. It should, however, first be ascertained that our payment of customs duty, even in such terms, would not imply that we were accepting that the Defence Agreement was abrogated, since this would have wider legal, financial and military repercussions. We should also take such other action as might prove possible to reduce emotional tensions in Malta and there might be advantage in the Prime Minister sending a suitable message to Dr. Borg Olivier. In the longer run, however, we could not maintain our forces in the face of continued Maltese hostility and if Maltese labour were withdrawn. We must therefore draw up contingency plans for the complete withdrawal of our forces from the island. The implications of such a course would need detailed consideration by officials in the first instance, including the possible implications for our position in Gibraltar in the light of any action which the Spanish Government might be encouraged to take by the situation in Malta.

The Prime Minister, summing up the discussion, said that the Cabinet were agreed that there would be unacceptable consequences both in Malta and elsewhere if as a result of the attitude of the Maltese Government and people we were to change our plans for the reduction of our forces in Malta. We should, however, agree to
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pay the customs duties immediately, provided this would have no unacceptable implications in relation to the abrogation of the Defence Agreement and provided such payment were offset against future aid due to Malta. He would also send a message to Dr. Borg Olivier in an attempt to prevent the passage of legislation through the Maltese Parliament breaking the Defence Agreement. In the longer term we might have to face a complete withdrawal of our forces and the military, political and economic consequences of such a course should be examined urgently by officials and a report submitted to Ministers.

The Cabinet—

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

(2) Invited the Minister of State for Commonwealth Affairs, in consultation with the Chancellor of the Exchequer, the Defence Secretary and the Attorney-General to arrange for the immediate payment of the customs duties demanded by the Maltese Government on the basis indicated by the Prime Minister, provided that the Government were advised that this would not have unacceptable legal implications in relation to the abrogation of the Defence Agreement.

(3) Invited the Minister of State for Commonwealth Affairs to submit to the Prime Minister the draft of a message for him to send to the Maltese Prime Minister.

(4) Took note that the Prime Minister would arrange for an inter-departmental examination by officials of the military, political and economic consequences of the withdrawal of all our forces from Malta.

2. The Cabinet had before them a memorandum (C (67) 12) by the President of the Board of Trade on the prospects in the Kennedy Round of tariff negotiations.

The memorandum stated that the main concern of the United Kingdom in the negotiations was to secure significant tariff reductions from European Economic Community (EEC), the United States and Japan, in that order. It would pay us to work for the best possible outcome of the Kennedy Round, regardless of whether or not we joined the EEC in the near future. If we did not join, a successful outcome would reduce the discrimination against our exports to the EEC; if we did, there would still be considerable advantages in the reduction of tariffs and non-tariff barriers to our exports to the United States, Japan and other countries. It was impossible at the present stage to foresee what the balance of advantage might be for the United Kingdom from the outcome of the negotiations.
seemed unlikely, however, that significant tariff reductions would be achieved in several important sectors of industry including iron and steel, motor vehicles, textiles and probably chemicals. There was nevertheless a reasonable prospect of substantial reductions in other sectors, including engineering and consumer goods. The prospects of getting worthwhile concessions on non-tariff barriers from the United States were doubtful. The United States regarded it as politically essential to achieve a worthwhile settlement in agriculture, particularly on cereals. An international cereals agreement might be of value to the United Kingdom if it secured a reasonable level of prices for our imports and enabled us to save imports by expanding domestic cereals production. The negotiating position of the cereals exporting countries was, however, still widely different from our own. Whether or not a cereals agreement would be acceptable to us would depend not only on the terms of the agreement itself but also on the balance of advantage in other sectors of the negotiations. Taken as a whole, the Kennedy Round would certainly not fulfil the high hopes originally entertained, but it still offered the prospect of a substantial achievement in the lowering of barriers to international trade.

In discussion the Cabinet took note of the memorandum and agreed that the detailed issues which it raised should be considered by the appropriate Ministerial committee.

The Cabinet—

Invited the First Secretary of State to arrange for the issues raised in C (67) 12 to be considered by the Sub-Committee on External Relations of the Ministerial Committee on Economic Policy.

Cabinet Office, S.W.1,
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 2nd February, 1967,
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. 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 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. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. Patrick Gordon Walker, M.P., Minister without Portfolio
The Right Hon. Anthony Crosland, M.P., Secretary of State for Education and Science
The Right Hon. Lord 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 Right Hon. John Silkin, M.P., Parliamentary Secretary, Treasury

The following were also present:
The Right Hon. Frederick Lee, M.P., Chancellor of the Duchy of Lancaster (Item 5)
Mrs. Judith Hart, M.P., Minister of State for Commonwealth Affairs (Items 2 and 3)
The Right Hon. Kenneth Robinson, M.P., Minister of Health (Item 5)
The Right Hon. Sir Elwyn Jones, Q.C., M.P., Attorney-General (Item 5)

Secretaria:
Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
Mr. K. Barnes

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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.

2. The Foreign Secretary said that the visit which the Prime Minister and he had just paid to Brussels had shown that the Belgian Government, like the Italian Government, wanted to see the United Kingdom as a member of the European Economic Community (EEC) but that they could not be relied on to support us effectively in the event of strong French opposition. The Belgian Foreign Minister, M. Harmel, though well disposed to us, had of late shown some tendency to promote ideas for the political development of the EEC which could complicate our position; it was to be hoped that as a result of the discussions these risks had now been reduced. It became increasingly clear with each discussion that the major problem, in the event of our deciding to apply for membership of the EEC, might well be the disturbance which our accession would involve to the various arrangements which the Community had with so much difficulty agreed amongst themselves and therefore to the present intimate relationship and cohesion of the Six. In this connection the common agricultural policy had, of course, been a major subject of discussion, and he had again stated that, while the policy need not necessarily in itself be an obstacle to our entry, it did raise a number of problems for us of varying degrees which could not entirely be solved by means of transitional periods. The Prime Minister had again dealt with the anxieties which had been expressed about the risks which the sterling balances might entail for the Community in the event of our entry.

The most useful and encouraging part of the visit to Brussels, however, had been the working lunch with the Commission; the President, Herr Hallstein, had been absent by reasons of illness, but the atmosphere had been particularly friendly. One of the Vice-Presidents, M. Mansholt, had gone out of his way to express to his fellow Commissioners, on the basis of a carefully documented case with detailed figures, how inequitable and indeed absurd it would be to apply the present financial regulations and price levels of the common agricultural policy after our accession. He had gone on to say that the Community would have to start thinking in 1968 about the re-negotiation of the financial arrangements which was due to take place in 1970, and that it would be important in these discussions to make no firm decisions which would prejudice the entry of the United Kingdom. The Commission had also been asked whether they regarded the application for membership we had made in 1961 as still valid, or whether we should need to make a new application; they had not, however, given thought to this.
The Cabinet—
Took note, with approval, of the Foreign Secretary's statement.

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3. The Foreign Secretary said that the dispute which he had reported to the Cabinet the previous week over the level of payments by the Iraq Petroleum Company (IPC) to the Governments of Syria and of Iraq had not developed as seriously as had then been feared. The Iraq Government had not, at least as yet, nationalised the company, while the Syrian Government for their part were taking a somewhat less obstructive line. He had seen the representatives of the oil companies which formed the IPC and had urged them to be somewhat more forthcoming in their response to the demands of the two Governments in question.

The Minister of State for Commonwealth Affairs (Mrs. Hart) said that the Prime Minister of Sierra Leone, Sir Albert Margai, had informed our High Commissioner that he feared there might be a military coup d'état in Sierra Leone, but there had been no further developments as yet.

The Minister of State for Commonwealth Affairs (Mrs. Hart) said that the position in Malta had been discussed earlier that morning by the Defence and Oversea Policy Committee. It had been agreed not to pursue the suggestion put forward the previous day that in order to provide a politically acceptable opportunity for the Maltese Government to withdraw their contention that we were in breach of our obligations under the Defence Agreement, the North Atlantic Treaty Organisation should be asked to give an opinion on whether the proposed reduction of our forces in Malta in any way impaired our ability to defend the Island, and therefore ran counter to our commitment under the Agreement. While the suggestion offered some possible advantage in relation to the immediate situation, it had certain longer term risks both for the extent of our military undertakings in Malta and still more in the precedent it might set, so enabling other Governments to find means of obstructing the reduction of our forces in other overseas theatres. It was, however, necessary to devise some alternative proposal which might enable the Maltese Government to withdraw from their present position. Otherwise their continued harassment of our forces there might make our early total withdrawal inevitable, with serious consequences both for Malta and for our own interests. It had therefore been agreed to propose a visit by a small group of prominent industrialists to advise on the ways in which the development of Malta could more rapidly be pursued, so alleviating the economic consequences of the reduction of our forces. It had also been arranged that in view of the current situation our newly appointed High Commissioner in Malta should take up his appointment forthwith.

The Cabinet—
Took note of the statements by the Foreign Secretary and the Minister of State for Commonwealth Affairs.

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4. The Minister of Housing and Local Government recalled that the Cabinet in a previous discussion on housing policy had asked to be informed of the outcome of his discussions with the Chancellor of the Exchequer on means to encourage private house building. Buying and selling private houses was now becoming easier because of the flow of funds into the building societies and this would stimulate private house building. As for bank credit for housing, the banks were willing and ready to meet all normal demands for credit from credit-worthy customers in the field of house building, including bridging loans for all types of house purchase. The existing guidance on priorities for bank lending would be interpreted in this way. The Chancellor of the Exchequer would be making a Written Answer to that effect on Friday, 3rd February.

The Cabinet—

Took note, with approval, of the statement by the Minister of Housing and Local Government.

5. The Cabinet considered memoranda by the First Secretary of State and Secretary of State for Economic Affairs (C (67) 13) and by the Minister of Labour (C (67) 14) on the future of the Government's policy on prices and incomes.

The First Secretary of State said that there were broadly three issues to be considered: the long-term policy on prices and incomes, the policy to be adopted for the period immediately following July 1967; and what should be said in the immediate future in the consultations which he would be having with the Confederation of British Industry (CBI) and the Trades Union Congress (TUC).

In framing future policy the main emphasis should be laid on the achievement of stability in prices: this was both essential to public acceptance of the policy and directly relevant to our economic needs. The CBI had suggested that reasonable stability could be achieved simply by a return to the voluntary system as it was before July 1966. This would however be inadequate: neither competition nor pressure from consumers could be relied on to restrain prices and bring about reductions of prices and the extent to which the CBI could influence its members in this matter was limited. It would therefore be necessary for the Government to continue the arrangements for the notification of proposed increases of prices and for the general surveillance of prices and their reference to the National Board of Prices and Incomes (NBPI) where appropriate. It would not be practicable for the Government to supervise the whole range in detail, but it would be essential to retain control over selected prices which were of particular economic significance.
The question of what statutory powers were necessary to achieve this could best be considered together with the question of statutory powers over incomes.

He had considered whether it would be possible to avoid in the future the concepts of a norm and of criteria for increases in incomes; but it would continue to be necessary for the Government to form a view on the total increase in the wage bill that was compatible with our economic policies and on the relative size of wage increases which could be permitted for various groups. This inevitably involved the fixing of a norm and the formulation of criteria. The Government should hold consultations periodically with the CBI and TUC to seek an agreed norm for wage increases wherever possible. However, for the twelve months following 30th June, 1967, the right course would be to make it clear that all wage increases must be justified by reference to the criteria; there would thus for this period be a "nil norm", but there would be a return to the more liberal criteria of the original White Paper on Prices and Incomes Policy (Cmnd. 2639). Close consultation with the CBI and TUC would be necessary, not only for determining the criteria and the norm for each year, but also to deal with particular difficulties in their operation.

Once a norm had been fixed and criteria had been formulated, there would be the problem of ensuring that wage settlements conformed to them. It had been proposed that the Government should seek to ensure this by arranging for officials to attend significant wage negotiations, but this was not practicable. While it was necessary for the Government to keep in touch with wage negotiations, this should be effected through various types of consultation, more or less informal, the exact nature of which might be determined in the light of the extensive experience of the Ministry of Labour in this field.

There was finally the question whether, when Part IV of the Prices and Incomes Act expired in August 1967, the Government should seek further powers. One possible course would be simply to activate Part II of the Act, which would enable the Government to impose a delay on wage settlements or movements of prices pending investigation by the NBPI. More extensive powers would however be needed. The TUC on the other hand took the view that it should not be assumed beforehand that a purely voluntary policy would fail, nor should its failure be made more likely by the introduction of statutory powers; if a voluntary policy did not succeed in securing wage restraint, it would then be necessary for the Government to introduce deflationary measures, but this would be preferable to an attempt to introduce compulsion into incomes policy. The objection to accepting the TUC's argument was that we could not afford to wait and see whether a voluntary policy would succeed. Because of the implementation of existing agreements for wage increases, together with new settlements which were likely to be reached during the second half of 1967, it was already likely that the index of hourly wage rates would rise by at least 6 per cent over the whole of 1967. We would thus be presented with a serious...
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threat of inflation soon after the expiry of Part IV and in this situation it would be necessary for the Government to be armed with permanent statutory powers going beyond those in Part II. These might take various forms: it might be desirable to lengthen the maximum period of delay on increases in prices and wages which could be imposed under Part II, to take power to prevent the payment of retrospective increases of wages after a delay had been imposed, and to direct that the implementation of a particular increase in wages or prices should be phased. It should be recognised that, while powers of this nature might take the form of amendments to Part II, they would in substance be akin to the present powers in Part IV. The exact nature of extended powers on these lines required further thought.

The TUC argued that the policy on prices and incomes should be deliberately used as an instrument of social change, to bring about a society where incomes depended on work done and where there was a reasonable relationship between work and rewards. He agreed with this contention to the extent that the policy should be in accord with other policies designed to produce a juster distribution of incomes: but this could only be brought about over a long period and fiscal policies and improved social security provision would be more important instruments for achieving this than the policy on incomes.

_The Minister of Labour _said that the TUC were to hold a conference of the executives of trade unions on 2nd March to discuss future policy on prices and incomes. It was essential that the Government should clarify their intentions and communicate them to the TUC before that conference. The success of the policy hitherto had been due to the loyalty towards the Government of trade union leaders, but it was doubtful if we could continue to rely on this for a policy which involved compulsion. There was no doubt that the TUC would reject any proposals for further statutory powers. If we attempted to take such powers, we would forfeit their co-operation and without this the policy could not be effective. To seek statutory powers to determine wages would place a grave strain on the links between the Government and the trade unions and on the Government's support in Parliament. It would also be widely regarded as a breach of faith since repeated assurances had been given that the temporary powers of compulsion in Part IV would not be continued; he had himself frequently relied on such assurances in order to secure the co-operation of the unions in administering the policy so far. The better course would therefore be to activate Part II before the expiry of Part IV, and to explore with the TUC whether any strengthening of Part II might be acceptable. The incomes policy had already produced remarkable progress towards a situation where the CBI and the TUC could effectively control their members; it was particularly significant that the TUC were now inviting constituent unions to surrender some of their autonomy and to vest it in the General Council of the TUC. It was also
satisfactory that closer co-operation between the CBI and TUC was now developing. This progress should not be put at risk by insisting on further statutory powers.

In discussion, there was general agreement that Part IV of the Act should be allowed to lapse in August 1967 and that, if new powers were to be taken, whether by the activation of Part II or otherwise, these should be operative by then: if a gap were to be allowed between the expiry of Part IV and the coming into force of new powers, this would be regarded both at home and abroad as an abdication by the Government of their responsibilities.

In considering the extent of those powers, it was argued that it would be unwise for the Government to go further than the activation of Part II. There had been strong opposition to the passage of the present Act even before the addition of Part IV at a later stage of its consideration, and the latter had only been accepted because of the economic crisis. There were signs that the CBI and TUC were prepared to develop more effective control over their members and that we might be able to make further progress towards a system of the central determination of wages on the Swedish model. Any attempt to take wider statutory powers would prejudice further progress in this direction. It would be dangerous to rely on legal provisions to make the policy on prices and incomes effective since the sanctions in respect of incomes could not in the last resort be enforced. As regards prices, the delaying power in Part II represented an effective means of restraint and to seek further powers would put in jeopardy the co-operation of employers which was essential to the continued surveillance of prices on the present basis. The right course therefore was for the Government to activate Part II before the expiry of Part IV, but not to go beyond this. If the policy on this basis could be shown not to be succeeding, the Government would then be on stronger ground in introducing new legislation.

Against this, it was argued that we could not afford to wait and see whether a policy buttressed only by Part II would succeed. It was already clear that we should be faced by a flood of wage claims after the end of the period of severe restraint. The powers in Part II to delay wage increases for up to four months were inadequate to meet this situation. Moreover, these powers were intended to impose a delay solely for the purpose of facilitating investigation by the NBPI and it would provoke strong opposition if they were to be used to secure delay for its own sake. In the economic crisis of the previous July, the Government had been forced to take statutory powers at the last moment, but they could not afford on a second occasion to leave remedial action so late. If increases in wages and prices led to another economic crisis, this, apart from other grave consequences, would again require measures which would entail a restriction of economic growth and further reduce the chances of producing a policy on incomes acceptable to the trade unions. The success of the policy hitherto had been due not only to the co-operation of the unions but even more to the strong support of
public opinion, particularly in measures taken to deal with sectional interests, and the effects of the economic measures of the previous July. The possibility that wider statutory powers would not be acceptable to the TUC should not deter the Government from taking them and there was more readiness to accept a firm policy in the country as a whole than there was on the part of the TUC. The Government were responsible for national solvency and the interests of the nation as a whole and should take the powers necessary to carry out that responsibility. It was essential that these should be adequate to prevent minority groups from wrecking the policy, and a simple extension of the period of delay which could be imposed under Part II would not be sufficient for this purpose. It would also be necessary to take power to prevent retrospective payments following the imposition of a period of delay, and possibly to direct that a particular wage increase should be paid only in instalments at defined intervals. Similar powers would be needed in relation to prices; these would have the advantage that they would prevent employers from assuming that increases of wages could always be offset by increased prices and would thus stiffen the resistance of employers to excessive wage claims. It was suggested that there would be more chance of the TUC accepting additional statutory powers if the Government could offer in exchange the prospect of an economic strategy which would ensure steady economic growth over the coming years.

The Prime Minister, summing up the discussion, said that the immediate issue was the line to be taken in consultation with the CBI and TUC in the immediate future. The Cabinet agreed that they should be told that Part IV would be allowed to expire in August 1967, that the Government proposed to activate Part II before, or immediately upon, the expiry of Part IV, but that the Government believed that the powers in Part II were inadequate to ensure that the policy on prices and incomes would be effective in meeting the country's economic needs. Powers both wider and different in substance would be needed, on the lines suggested in discussion. It would not however be acceptable if the powers were so extensive as merely to replace in another form the existing powers in Part IV, since this would expose the Government to a charge of a breach of faith in the light of their commitment not to extend that Part beyond August. The form which the further powers might take would therefore require further consideration, but the need for them should be made clear to the CBI and TUC. The First Secretary of State should explore how far the CBI and TUC could be brought to acquiesce in the activation of Part II and the taking of further statutory powers on these lines. He should then circulate a paper for consideration by the Cabinet in the following week reporting the results of his consultations and setting out, in the light of these, his proposals as to the nature and form of the additional powers which might be sought. The Cabinet would then be in a position to take a decision on the question of statutory powers and to complete its consideration of the other issues raised in C (67) 13.
The Cabinet—

(1) Invited the First Secretary of State—

(i) to proceed in his consultations with the CBI and TUC on the lines indicated in the Prime Minister's summing up of their discussion;

(ii) in the light of these consultations, to put proposals to the Cabinet in the following week on the nature and form of additional statutory powers which might be sought.

(2) Agreed to resume their discussion on C (67) 13 at their meeting in the following week.

Cabinet Office, S.W.1,
2nd February, 1967.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Friday, 3rd February, 1967, 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. LORD GARDINER, Lord Chancellor
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. PATRICK GORDON WALKER, 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. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
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 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. FREDERICK LEE, M.P., MIS. JUDITH HART, M.P., Minister of Chancellor of the Duchy of Lancaster State for Commonwealth Affairs
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:
Mr. BURKE TREND
Mr. P. ROGERS
Mr. H. L. LAWRENCE-WILSON
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1. The Cabinet considered a memorandum by the Secretary of State for Defence (C (67) 15) covering the draft White Paper on the Defence Estimates for 1967.

The Defence Secretary said that the draft White Paper was essentially a progress report on the implementation of last year's decisions on the Defence Review, and on the resulting redeployment of our forces. It showed that a saving of £750 million had been achieved in three years on the plans of the previous Administration, that, at constant prices, the Defence Estimates for 1967–68 were £78 million below the target of £2,000 million for 1969–70 and that, allowing for increases of pay and in prices, there was a fall of £45 million between the Defence Estimates for 1966–67 and those for 1967–68. As regards oversea expenditure on defence it was not possible to say what savings would be made in the foreign exchange costs of our forces in Germany, in view of the moratorium on reducing our combat capability there until the end of June which we had accepted as part of the United States agreement on an offset payment. Savings elsewhere in the world would reach a rate of £75 million by the end of 1967–68. Under the offset arrangements in respect of the F-111, contracts worth £45 million would have been obtained in the first year of its operation; this was over one-third of the total required. Troop withdrawals from outside Europe would total 25,000 out of 100,000.

The main problem in drafting the White Paper had been that the further defence studies now in hand and the moratorium on reducing our combat capability in Germany until the end of June, made it impossible for us at this stage to take and announce the decisions on the shape and size of our forces which the Services and the Press were expecting. A background had to be provided in the White Paper for the decisions to be taken later in the year following the further defence studies. It was clear that we could not expect to obtain from the Germans the full offset costs for our forces stationed there and that in any event a reduction of the defence budget well below £2,000 million would involve reducing our forces elsewhere, and particularly in the Far East, below the levels agreed after the Defence Review. Paragraph 4 of the introduction to the White Paper sought to foreshadow the decisions that would have to be taken, without alarming our allies unduly. As regards our forces stationed in Germany the section dealing with the revision of the strategy of the North Atlantic Treaty Organisation (NATO) was intended to provide a justification for reducing these by drawing attention to the reduced threat in Europe and to the period of political warning that could be expected of any deterioration in the situation there. It also sought to justify our case for reducing the logistic backing of our forces in Germany to match their fighting capability. The opportunity had been taken to narrow still further the range of hostilities in which we were prepared to engage outside Europe.
so as to exclude our becoming involved, even in partnership with allies, in operations on the scale of those in the confrontation with Indonesia.

In discussion the Cabinet first considered our position in relation to foreign exchange costs of our forces in Germany. In the current year we were receiving £50 million in offset payments against costs of £85 million. It now seemed possible that against costs next year of £85 million we might receive no offset payments at all, and this would mean a deterioration of £50 million in our balance of payments. The assumption on which the White Paper was drafted, and on which work on further defence studies was proceeding, was based on the Cabinet's view that the foreign exchange costs of our forces in Germany should be fully covered. Preparations were being made to enable us to withdraw forces from Germany but there was a limit to the rate at which they could be withdrawn, and in any event withdrawals could not begin until after the end of June because of our agreement with the United States over their own offset payment to us. In the longer term it would be necessary to consider where the balance even of purely economic advantage lay, in accepting expenditure in foreign exchange on the one hand, and in incurring the additional budgetary costs and expenditure of resources on the other in withdrawing forces.

The Cabinet then considered the extent to which the White Paper should make clear that a further stage of defence studies was in hand. A careful course had to be steered between on the one hand alarming our allies prematurely, and thus risking attempts to inhibit our freedom of choice, and on the other failing to provide a clear basis on which decisions to be taken later in the year could be shown to be deliberate acts of policy. On the whole it was agreed that the draft achieved the right balance between these conflicting objectives. In particular it did not inhibit major changes in the equipment programme so far as numbers of equipment were concerned, or even in types of equipment, for example aircraft, if later decisions should show any of these to be unnecessary.

In further discussion attention was drawn to the problems that would arise on the lines of those which we were now facing in Malta, when withdrawals of our forces from Aden and the withdrawals of forces and reduction of facilities in Singapore led to large-scale unemployment there.

A number of drafting amendments in the White Paper were also agreed.

The Prime Minister, summing up the discussion, said that the Cabinet approved the draft White Paper subject to certain amendments. It was unfortunate that the difficulties of presentation of the White Paper in present circumstances, coupled with the timetable which had been set for publication, had on this occasion left members of the Cabinet insufficient time to consider the draft White Paper. It was important that in future the timetable for the preparation and circulation of important draft statements and White
Papers should be settled in the light of the date of eventual publication in order that Ministers might have adequate time to consider and discuss them.

The Cabinet—

Approved the draft White Paper attached to C (67) 15, subject to the amendments agreed in discussion.

Malta

(Previous Reference: CC (67) 5th Conclusions, Minute 3)

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2. The Minister of State for Commonwealth Affairs (Mrs. Hart) said that the Prime Minister of Malta, Dr. Borg Olivier, had rejected our offer to send out a small mission of prominent industrialists to consider ways in which the economy of Malta could be more rapidly developed to mitigate the consequences of the reduction of our forces. It appeared that Dr. Olivier took the view that such a mission would only be of some value in the longer term, since it would admittedly be impracticable to increase industrialisation at a rate which would provide any adequate substitute for the employment afforded by our forces. The proposal would, therefore, only be acceptable if we agreed to slow down the planned rate of their reduction. If the situation so developed that we had to evacuate service families, there might well be unpleasant incidents. Nevertheless, it appeared that Dr. Olivier might still be seeking negotiations. A proposal had been put to the Acting British High Commissioner by Mr. Mintoff, the Leader of the Opposition in Malta, that he might come to London secretly to negotiate, but any such proposal would cause great difficulty.

The Defence Secretary said that detailed plans were available for the evacuation of Malta if this became necessary. The main danger was the possibility of a general strike the following week and he had brought to a shorter period of notice the specialist service personnel who were already, under an existing contingency plan, earmarked to go to Malta to provide administrative support for the forces if local labour were withdrawn. If we had to evacuate our forces it would also then be necessary to send the battalion which was earmarked for reinforcement for internal security duties. A full assessment was being made of the military, political and economic consequences of total withdrawal.

As regards the payment of customs duties on imports for our forces which were being demanded by the Maltese Government contrary to the provision of the Defence Agreement the Law Officers had advised that we could pay such duties without serious legal implications for our acceptance of the abrogation of the Defence Agreement. After discussion in the Defence and Oversea Policy Committee it had, however, been decided not to make use as yet of the authority which the Cabinet had given at their previous meeting for these duties to be paid if the Law Officers advised in this sense. It had been reported since the Cabinet discussion that in any event...
the Maltese administration were refusing to admit other fuel supplies imported outside the provisions of the Defence Agreement, on which customs duty had lawfully been paid and in such circumstances the Committee took the view that it would be preferable not to pay the duty on other imports under the Agreement until the situation as a whole was clearer.

In discussion there was general agreement that, while we should in no way discourage any proposal by Dr. Olivier to come to this country for discussions, whether with his governmental colleagues or leading an all-party delegation, it would not be appropriate for there to be negotiations with the Leader of the Opposition in Malta by himself.

The Cabinet—

Took note of the statements by the Secretary of State for Defence and the Minister of State for Commonwealth Affairs.

Cabinet Office, S.W.1,
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 9th February, 1967,
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. 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 following were also present:
The Right Hon. Frederick Lee, M.P., Chancellor of the Duchy of Lancaster (Item 4)
The Right Hon. Sir Elwyn Jones, Q.C., M.P., Attorney-General (Item 4)

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
Mr. K. Barnes

7th Conclusions
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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 Chancellor of the Exchequer said that on Thursday, 16th February, the Vote on Account, 1967-68, would be published and would reveal a rate of increase in public expenditure for that year in excess of the rate of 4½ per cent per annum which the Government had set as a limit under the National Plan. The rate of increase could be calculated in a number of ways; but the lowest figure it was possible to calculate would be 5·3 per cent, and in terms of the Estimates for 1967-68 as against those for 1966-67, the rate of increase would be 8·6 per cent. These increases were the result of the collective Ministerial decisions which had been taken about public expenditure, but they would be bound to attract criticism; and in view of this, and of the confusion which might arise from different methods of calculating the rate of increase, it would be essential for him to give careful guidance to the Press about the announcement. He proposed for this purpose to prepare a statement recalling that the First Secretary of State had announced on 10th November a review of our economic planning. In this review both the level and the priorities of public expenditure would of course be considered in the light of the economic and social objectives of the Government, including the need to ensure that the rate of increase in public expenditure and in other calls on the economy would not outrun the prospective increase in our total resources: the public expenditure figures should be seen against this background. The statement would also refer to the economies in defence expenditure which the Government were making. It would be desirable to make clear that the Government had decided that public expenditure should be allowed to increase at a faster rate than the national income, in pursuance of their policy of enlarging the public sector relative to the private sector. Copies of the statement would be circulated to Ministers for use in speeches.

The Cabinet—

Took note, with approval, of the action proposed by the Chancellor of the Exchequer.

3. The Commonwealth Secretary said that after discussion by the Defence and Oversea Policy Committee further proposals had been put to the Maltese Government on the previous Monday. These proposals offered discussions between the two Governments on the economic consequences of the reduction of our forces, urged the Malta Government to accept our earlier proposal to send a mission of industrialists and conceded that in the context of the economic

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discussions we would be prepared to consider some re-phasing of the rate of reduction of our forces, provided that this was completed within the planned four-year period. This offer was conditional upon the Maltese Government ceasing the harassment of our forces and proceeding no further with legislation to amend the Visiting Forces Act, by which they would purport to abrogate the Defence Agreement. It had been stated on behalf of the Maltese Government that these proposals “did not warrant rejection” but they were still being considered by the Maltese Cabinet. It was known that the Maltese Prime Minister was in considerable political difficulty and the Bill to amend the Visiting Forces Act had now been taken through its committee stage in the Maltese legislature. Nevertheless, there seemed a reasonable prospect that the Maltese Government would accept discussions on the basis of our proposals.

The Chancellor of the Exchequer said that it was being suggested in Malta that deliberate action should be taken by the Maltese Government to withdraw their sterling balances in order to embarrass us. These balances were very large in relation to the population of Malta and could well be used to assist their economic development. It was unlikely that they could in fact be used in a way which would cause us any serious financial concern and we should not be deterred by this threat from action which we judged desirable in the light of our other interests.

The Prime Minister said that the current discussions with the Soviet Prime Minister, Mr. Kosygin, had been friendly and constructive. Although Mr. Kosygin had found it politically necessary to take an unyielding line in his public speeches, he had nevertheless gone out of his way to seek to create the impression of the restoration of the wartime comradeship between the two countries; and he was clearly anxious to reach agreement on a constructive communiqué on the conclusion of the talks. In particular he was concerned to increase trade between the two countries, especially in consumer goods, and to develop technological co-operation. A number of international issues, including Vietnam and the prospect of securing agreement to a treaty on the non-proliferation of nuclear weapons, had been discussed, but it was uncertain whether progress could be made on this occasion. We had sought to persuade Mr. Kosygin not to pursue his proposal for a conference on European security, which could not be expected to have any useful outcome in present circumstances. At the Soviet request, the strictest security had been maintained about even the issues that were being discussed and it was important that no reference should be made to these subjects by Ministers on other occasions since otherwise the outcome of the discussions might be seriously prejudiced.

The Cabinet—

Took note of the statements by the Prime Minister, the Chancellor of the Exchequer and the Commonwealth Secretary.
4. The Cabinet resumed its consideration of a memorandum by the First Secretary of State and Secretary of State for Economic Affairs (C (67) 13) on the future of the Government's policy on prices and incomes and considered a further memorandum by the First Secretary of State (C (67) 16) on his consultations with the Confederation of British Industry (CBI) and the Trades Union Congress (TUC).

The First Secretary of State said that in pursuance of the Cabinet's decision at its meeting on 7th February, 1967, he had informed the CBI and TUC that the Government proposed that Part IV of the Prices and Incomes Act should lapse, that Part II should then be activated, but that in the Government's view additional statutory powers going beyond those in Part II would be needed. It was clear from his consultations that the only course which would meet with approval of the CBI and TUC would be to allow Part IV to lapse and to take no further action. If the Government were to confine themselves to activating Part II, there would be some protest but no serious opposition. If, however, the Government were to take additional statutory powers, both the CBI and the TUC would formally oppose them. It was, however, uncertain how strong their opposition would be: his impression was that the TUC would not in the event carry its opposition to the point of seeking to destroy the policy. The Government's decision should not be determined solely by the attitude of the CBI and TUC; public opinion was also an important factor. If the Government did not take additional powers on the expiry of Part IV, there would be a widespread feeling that their action was inadequate to meet the situation and that the opportunity created by the measures taken since the previous July to achieve a lasting policy on prices and incomes was being lost. The Government should therefore allow Part IV to lapse, activate Part II and take additional powers.

The minimum powers needed, if selfish minorities were to be prevented from undermining the policy, were powers to postpone increases in prices or in pay, wholly or in part, for up to 12 months; to prevent retrospective payment of increases in pay which had been so postponed; and to require reductions of prices for up to 12 months even where no increase had been proposed but where the criteria involved such reductions. It was for consideration whether 12 months was the right maximum period of postponement; the TUC's reaction to this had appeared to be that they were content to regard 12 months as the Government's initial proposal. The power to prevent retrospective payment of increases of wages which had been postponed was essential if the policy were to be effective; but it would have to be made clear that to take such a power would be going considerably further than simply strengthening the provisions of Part II. These additional powers could either be exercised independently by the Government or confined to the enforcement of recommendations by the National Board for Prices and Incomes (NBPI). On balance, the latter course was preferable. It would mean increasing the load on the Board, but the practical
problems which this would create could be overcome. Consideration would need to be given to devising safeguards in the exercise of the powers: it would be possible, for instance, to make them subject to annual renewal by Parliament and to require consultation with the CBI and TUC before renewal was sought; or the Government could also be required to consult similarly before exercising the powers in each individual case, and to give the parties immediately concerned notice of their intention and an opportunity to make representations. It would probably also be necessary to make provision for indemnifying employers who had entered into contractual obligations to increase pay but who had not fulfilled those obligations because of the standstill. If an employer in this position had given due notice to his employees, he would be protected from legal proceedings by Section 30 of the Act; but there were many cases where no formal notice had been given and in any case Section 30 would lapse in August 1967. If no indemnifying provision were introduced, some employers might be at risk of legal proceedings for a period of six years after the event.

It had been suggested that the difficulties of enforcing the policy on incomes would be avoided if statutory powers were confined to prices alone. This approach might merit further consideration though it involved many difficulties.

He had told the CBI and TUC that the Government proposed that there should be a "nil norm" for wage increases during the 12 months following July 1967 and that all wage claims during this period would be judged against criteria which would in substance be the same as those set out in the original White Paper on Prices and Incomes Policy (Cmd. 2639). This proposal was unwelcome to the TUC but they had not reacted strongly.

If the policy were to be made acceptable, it would be necessary in presenting it to emphasise at the same time what was being and would be done to increase production. It had been suggested in the Cabinet’s previous discussion that the Government should offer to the trade unions an economic strategy which would incorporate a specific rate of economic growth over the coming years, and that this should form part of a bargain with the trade unions who would in return accept the policy on prices and incomes. The obligations to be undertaken by the trade unions would however then be clear and definite while the obligations on the part of the Government would be speculative. The Government could not guarantee that a particular rate of economic growth would be achieved and it would therefore be unwise to do more than state that the Government would do all in their power to promote faster growth. It was also important that the policy on prices and incomes should be seen to be operating in the context of other policies, the whole being directed towards a more equal distribution of wealth. In this respect, however, the policy on prices and incomes offered only limited possibilities and other social and economic policies would be more important.

When the Cabinet had reached decisions on the issue of statutory powers, it would be desirable for him to have further consultations with the CBI and TUC before any announcement was made.
The Minister of Labour said that the TUC opposition to additional statutory powers should not be under-estimated. It was likely that the TUC Economic Committee, which was meeting that day, would be unanimous in opposing the Government's proposals and they were likely to seek an early meeting on the subject with the Prime Minister. The Government should not suppose that the policy could be effective if it were opposed by both the CBI and the TUC. While it was true that the TUC could not guarantee that they would be able to deal with minority groups of workers who sought increases in breach of the policy, it had to be recognised on the other hand that the additional statutory powers which the First Secretary of State proposed could not in the last resort be enforced. The policy had been successful hitherto because of the loyalty to the Government of large sections of the trade union movement. But this had been against the background of acquiescence in the policy on the part of the TUC. If additional powers were taken, the position would be that unions who opposed the policy in future would be doing so with the backing of the TUC and in those circumstances the policy could not possibly be effective. The right course therefore was for the Government not to go beyond the activation of Part II, but to make it clear that, if the policy on this basis proved, within a short period, to be failing to meet the economic needs of the country, the Government would then be forced to take wider powers.

In discussion, it was argued that, if the Government were to go beyond the delaying powers in Part II, they would in effect be moving towards a system of statutory determination of all wages; this was neither practicable nor desirable. While the trade unions had accepted compulsory powers for a limited period of emergency, there was no prospect that they would acquiesce in such powers as part of a permanent policy. Nor should the Government's economic strategy be based on the principles of intervention in and control of the detailed workings of the economy. It would be more effective to rely on broader measures to adjust the extent of reflation or deflation in the light of current economic trends. Furthermore, experience elsewhere suggested that high rates of wages were a strong incentive to economic efficiency.

On the other hand, it was argued that the present economic situation justified a policy on prices and incomes on the lines proposed by the First Secretary of State. The basic issue was whether we could achieve reflation and renewed economic growth without again incurring a deficit in our balance of payments. Without an effective policy on prices and incomes, the prospects of achieving this were remote. It was already likely that the average rise in wages over 1967 would be about 6 per cent, while we could scarcely hope for productivity to increase over the same period by more than 2 or 3 per cent. To delay taking statutory powers until the voluntary operation of the policy was seen to fail would risk a further major economic crisis. Even if the Government were to take only delaying powers, they would have to face the opposition of the TUC and in these circumstances they might reasonably also take the wider powers.
proposed by the First Secretary of State, which were the minimum necessary to ensure that the policy would be effective.

In further discussion the following points were made:

(a) Greater efforts should be made to persuade the TUC to acquiesce in the Government's proposals. The Government could deploy a strong argument by saying that the alternative to an effective policy on prices and incomes was a reversion to "stop-go", and this argument could be reinforced by pointing to the Government's success in controlling the extent of deflation following the July economic measures; the increase in unemployment was now coming to an end and the number of unfilled vacancies was rising; the policy on prices and incomes had played an important part in making this possible.

(b) The additional statutory powers proposed by the First Secretary of State would only ensure the deferment of wage movements by up to 12 months; they would not be directed to changing the pattern of wage movements. A preferable course might be to fix a norm for wage increases in agreement with the TUC and to make provision for increases to particular groups beyond the norm to be challenged in the courts. Such action in the courts need not necessarily be taken by the Government; it might be possible to envisage other bodies such as consumer organisations being authorised to undertake it. On the other hand, it was urged that arrangements of this kind called for powers more extensive than those proposed by the First Secretary of State and would therefore be even less acceptable to the TUC.

(c) To have a "nil norm" for the 12 months after July 1967 with more liberal criteria for wage increases to particular groups, might well result in large wage settlements. It might be preferable to have a norm of, say, 2 or 3 per cent, with virtually no exceptions. On the other hand it would be difficult to postulate a uniform increase for all workers nor would this be economically desirable and the TUC had not appeared to be violently opposed to a "nil norm". Indeed they appeared to expect that this would be the Government's policy for the period following severe restraint.

(d) If, as the First Secretary of State proposed, the Government were able to exercise their additional statutory powers only to enforce recommendations of the NBPI, this would not be adequate to prevent minority groups from undermining the policy since it would not be practicable for the NBPI to deal with every proposed increase.

(e) A possible course might be for the Government to secure the passage of legislation incorporating powers on the lines of those proposed by the First Secretary of State, but not to activate the powers for the time being. If experience then showed that delaying powers in Part II were inadequate, the wider powers could be brought into force without delay before a point of crisis was reached.

The Cabinet—

Agreed to resume their discussion of future policy on prices and incomes at a meeting early the following week.

_Cabinet Office, S.W.1,
9th February, 1967._
8th Conclusions

CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Tuesday, 14th February, 1967,
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. 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. PATRICK GORDON WALKER, 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. CLEDDYN HUGHES, M.P., Secretary of State for Wales

The Right Hon. GEORGE ARCHER, 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. 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 (Items 1 and 3)

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. FREDERICK LEE, M.P., Chancellor of the Duchy of Lancaster (Item 2)

The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Item 3)

The Right Hon. SIR ELWYN JONES, Q.C., M.P., Attorney-General (Item 2)

The Right Hon. KENNETH ROBINSON, M.P., Minister of State for Commonwealth Affairs (Item 3)

The Right Hon. JOHN SİLKEN, M.P., Parliamentary Secretary, Treasury

Secretariat:

Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. K. BARNES
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1. The Prime Minister said that members of the Cabinet would now have seen the communiqué which had been issued on the conclusion of the visit to this country by the Soviet Prime Minister, Mr. Kosygin, during the previous week. The atmosphere of the visit had been markedly cordial; and it had undoubtedly strengthened the relations between the Soviet Union and ourselves.

A considerable part of the discussions had centred on the conflict in Vietnam; and we had taken advantage of the opportunity to try to ascertain whether some contact could be established between the United States and North Vietnamese Governments. There had appeared to be some prospect of success in this attempt at one stage; but in the end it had failed and the United States bombing of North Vietnam had now started again. A major consideration in this decision by the United States Government had been the fact that during the recent truce for the four days of the Vietnamese New Year there had been exceptionally large movements of troops and supplies from North Vietnam into South Vietnam to reinforce the Viet Cong; and a continuation of the pause in the bombing for any considerable period after the end of the truce would undoubtedly have resulted in a further change in the military situation to the substantial disadvantage of the South Vietnamese and United States forces.

But, despite the disappointment of the hopes which we had entertained during the week, we should not now move to a position of dissociating ourselves from the United States bombing, since we should otherwise lose our present influence with the United States Administration, the value of which had been clearly apparent during the discussions with Mr. Kosygin in the previous week. We should therefore seek to maintain the position which we had now created, whereby we could hope to have the goodwill of the Soviet, as well as the United States Government, when next an opportunity for ending the hostilities occurred; and in the interim, while not dissociating ourselves from the United States, we should make it clear that we understood the position of the Government in Hanoi.

As regards Europe the exchanges with Mr. Kosygin had touched on the possibility of reciprocal troop reductions by the member countries of the North Atlantic Treaty Organisation and of the Soviet bloc; but no progress had been made. On the other hand Mr. Kosygin had not sought to raise political difficulties in relation to our approach to the European Economic Community; and he had welcomed in principle our policy of seeking to ease tension between Eastern and Western Europe.

In discussion it was suggested that public opinion in the United Kingdom might react adversely to the resumption of United States bombing in Vietnam and that, if it were a prelude to a further escalation of the conflict, there would be liable to be strong pressure for us to dissociate ourselves from the United States policy in this regard. On the other hand it was argued that there would be no
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advantage in pursuing a policy of dissociation for its own sake, especially since it was abundantly clear that the United States Government were anxious to bring the conflict to an end provided that this could be achieved without the defeat of South Vietnam. They had accepted considerable military risks, through several pauses in their bombing, in order to achieve negotiations. But there had been no response from the North Vietnamese Government on any of these occasions; and it was understandable that the heavy reinforcement of the Viet Cong during the latest pause had led the United States Government to the view that they could not accept a further deterioration in the military situation as long as there was no sign of a positive reaction from the Government in Hanoi. In considering the extent of Soviet influence in Hanoi, it must be borne in mind that North Viet-Nam was dependent on Chinese support in so far as military supplies from the Soviet Union had to pass through China.

The Minister without Portfolio said that a reply had now been received from the Maltese Prime Minister, Dr. Borg Olivier, to our proposals for discussions on the economic consequences of the reduction of our forces in Malta and the possibility of reducing the rate of that reduction within the planned four-year period. Dr. Olivier had put forward four conditions which must be satisfied before such talks could begin. These were not acceptable to us in their present form, more especially those relating to the need to govern the rate of reduction by the rate of absorption of redundant labour through industrial expansion and to the possibility of our providing further development aid. In our reply we had sought to reach a more acceptable basis on which the talks could begin.

The Prime Minister said that a key aspect of the forthcoming visit to be paid by the Foreign Secretary and himself to Bonn would be to ascertain the extent to which the Federal German Government would give support for our joining the European Economic Community in the face of opposition by the French Government. Although it was clear that the Germans would welcome our joining the Community, it seemed doubtful whether they would be prepared to press their support against the French. At the present time they would probably attach greater importance to the maintenance of the recently re-established cordiality of their relationship with the French Government, though they might later become somewhat disillusioned by French actions. We should be in a better position to judge in the light of this and of other visits whether or not we should seek to join the Community and if so what the timing of any approach should be.

The Cabinet—

Took note of the statements by the Prime Minister and the Minister without Portfolio.
2. The Cabinet resumed consideration of memoranda by the First Secretary of State and Secretary of State for Economic Affairs (C (67) 13 and 16) on the future of the Government's policy on prices and incomes.

The First Secretary of State said that his further consultations with representatives of the Trades Union Congress (TUC) showed that they adhered to the view that a policy on incomes operated on a voluntary basis through the TUC's own vetting machinery would be more effective than a policy which incorporated statutory powers, to which they remained opposed. Their attitude stemmed in part from the desire to strengthen the authority of the TUC over its constituent unions. They believed that even a declaration of the Government's intention to take statutory powers in certain contingencies, or the existence of reserve powers, would prejudice the success of a voluntary policy; this might suggest however that the support to be expected for such a policy could not be very strong. He had put the view to the TUC that we should be faced with a critical economic situation following the end of the period of severe restraint, because of the damming back of a large number of wage claims, as well as substantial increases taking effect on the result of postponed commitments. If the situation had been less critical, the Government might well have been prepared to allow the policy to proceed on a voluntary basis. Given the economic situation, however, the Government's view was that we could not move immediately from the present situation, where wide statutory powers were in force, to a purely voluntary system. He had accordingly suggested to the TUC that the Government should take wider powers than those contained in Part II of the Prices and Incomes Act, but should only activate them if it were to become clear that the policy on a voluntary basis, reinforced by the activation of Part II, was proving inadequate. He had made it clear that the Government were anxious that the policy should succeed on a voluntary basis and that the activation of wider powers would therefore not be necessary. He had further suggested that if the Government took wider powers, even though they would not necessarily be activated, they should be subject to annual renewal. The TUC however still took the view that this would represent an expression by the Government of lack of confidence in the ability of the TUC to operate an effective policy on incomes. While they would probably accept the activation of Part II together with wider powers over prices, they were not prepared to acquiesce in wider powers over incomes. Their position was that the Government should allow the policy to operate on a voluntary basis since it would always be open to them to seek wider powers if in the event the voluntary policy were to fail; in his view, however, it would not be acceptable to contemplate introducing new legislation, possibly involving the recall of Parliament, in these circumstances: such action could have grave economic consequences and serious repercussions on international confidence in sterling.
The choice before the Government was therefore either to confine themselves to activating Part II, which would probably command the acquiescence of the Confederation of British Industry (CBI) and TUC but which would be inadequate to meet the situation; or to take the minimum powers necessary to ensure the effectiveness of the policy. These would consist of powers to postpone increases in prices or in pay, wholly or in part, for up to 12 months (though a shorter period of six or nine months might be acceptable), to prevent retrospective payments of pay increases which had been so postponed and to require reductions of prices in appropriate cases. The exercise of these powers could be limited to the enforcement of recommendations by the National Board for Prices and Incomes (NBPI) and they could come into force only when activated by the appropriate Parliamentary procedure.

In discussion, it was argued that if the Government were to adhere to the position that powers going beyond Part II must be taken on the expiry of Part IV, even though they might not immediately be activated, this would be regarded as a breach of the undertakings given by the Government that they would not continue powers of the nature of those given by Part IV after the expiry of that Part. To adhere to this course would inevitably result in the conference of trade union executives to be held on 2nd March declaring complete opposition to the Government's policy. The TUC would then be on record as opposing the Government and this would create a situation in which not only would the wider powers be unenforceable, but even the co-operation necessary to operate Part II would not be forthcoming. The result might then be a reversion to the completely unregulated system of collective bargaining which obtained before the standstill. If this were to happen, the Government would politically then have no option but to take wider powers and to bring them into force. These powers would however be essentially the same as those in Part IV and the latter had only been operated successfully because of TUC acquiescence and the support of moderate trade union elements. Because of this support, the Government had not so far had to attempt to enforce the sanctions in Part IV, but they could expect to be faced with this situation under any new powers, in which event the sanctions would prove to be unenforceable. The choice was not therefore simply between the policy being achieved by voluntary methods or through the compulsions of statutory powers: without voluntary support, those powers would be ineffective. Voluntary support for the policy was thus essential in any event and the measures the Government adopted must be devised within the limits necessary to achieve such support. If the Government were to insist on taking wider powers, this would be a definitive move away from the evolution of our present collective bargaining system towards central determination of wages on the Swedish model and would entail grave damage to the acquisition by the TUC of wide powers in relation to individual trade unions: the Government's object should rather be to encourage the present developments in that direction. The effective surveillance of movements of prices also depended on a continuance of the present degree of co-operative
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SECRET
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On the other hand, it was argued that the powers in Part II would be quite inadequate to prevent serious inflation during 1967. Some 12½ million workers would be due for increases of wages during the year under existing commitments which had been deferred during the standstill and the period of severe restraint. This in itself would mean an increase of 6 per cent in the index of hourly wage rates over the year as a whole and further wage settlement could be expected to entail a further increase above that figure. It was also necessary to seek powers beyond those in Part II in relation to prices; in particular, it would be necessary to have power to require reductions of prices in appropriate cases if the policy of sharing the benefits of increased productivity between the workers concerned and the consumer were to be effective. As regards the line to be taken in further consultations with the TUC, if the Government were at this stage to put forward compromise proposals falling short of the measures which in their view were necessary to deal with the situation, this would make it impossible to revert at a later stage to more far-reaching proposals, particularly if the TUC had obtained acceptance of the policy at the conference of union executives in March on the basis of compromise proposals. If we told the TUC at this stage that we intended to take wider powers, an adverse reaction at the March conference would not necessarily represent the TUC's final view. It would still be open to the Government to deploy further efforts to gain their acquiescence in the period between the March conference and the expiry of the present compulsory powers. There would be a further opportunity of bringing pressure to bear on the TUC before their Annual Congress in the autumn. If the Government were to maintain an unyielding line at this stage, this would in fact retain their subsequent freedom of manoeuvre and although there would admittedly be some political difficulty in the Government later being seen to have changed their declared policy, it would in practice still be possible at a later stage to come forward with less far-reaching proposals if they should seem desirable. The Government had not yet brought their full influence to bear on the TUC and its effect should not be under-estimated. It would however be important to make it clear to the TUC that the Government's objective in the long term was a policy on incomes operated on a voluntary basis by the TUC and the CBI: the Government had no desire to determine wages under statutory powers as a permanent policy. But while the Government did not doubt the good faith of the TUC, it had to be recognised that the effective operation of a voluntary policy in present circumstances presented grave difficulties. It was therefore essential that the
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Government should have reserve powers as an insurance against the possible breakdown of a voluntary policy, since the Government carried the ultimate responsibility for the economy.

In further discussion the following points were made:

(a) There was general agreement that, if powers going beyond those in Part II were to be taken, it would be preferable that they should be valid for one year only. While this would involve considerable political and Parliamentary difficulty if thereafter they had to be renewed, this would still on balance be the preferable course since it would emphasise that it was not the Government's long-term aim to rely on statutory powers and that they wished to proceed by continuing consultation. From this point of view such a course would also be preferable to powers which were permanent though subject to annual renewal by Parliament.

(b) It was suggested that there were strong objections to fixing a "nil norm" for the 12 months following July, 1967. During this time considerable numbers of workers would have had no increase in pay for over a year and prices would have risen in the meantime. The Government would be risking complete failure if they attempted to restrict wage increases too severely. If a norm had to be fixed, it would be better to have a norm of say 2 per cent, recognising that wage "drift" would in practice mean that the average increase in wages would exceed the norm. There would however be advantages in moving away from the concept of a percentage norm and substituting the concept of a national dividend expressed in terms of a global sum of money available in each year for distribution in increased wages and salaries. The amount might be determined by the Government in consultation with the two sides of industry, possibly using the National Economic Development Council for this purpose. The concept of a national dividend would have presentational advantages over that of a percentage norm but, more important, it would strengthen the hand of the Government and the TUC in resisting excessive wage claims by particular groups since it would be clear under such a system that, if disproportionate gains were made by one section, this could only be at the expense of others. Consultations with industry on the national dividend should be accompanied by the provision by the Government of the fullest possible information about economic prospects.

(c) In an editorial article in his union journal, Lord Cooper, the General Secretary of the National Union of General and Municipal Workers, had recently proposed that, while the TUC should be primarily responsible for operating the incomes policy, it would nevertheless be necessary for the Government to have reserve powers. It might be possible to make use of Lord Cooper's views in the further consultations with the TUC.

(d) It was suggested that, if the Government were to take wider powers only if a policy on a voluntary basis broke down, the objection that there would not be adequate time for the necessary legislation to be passed could be met by using the existing powers in Part II to delay further wage increases until the further powers...
had been secured. It was pointed out however that the powers in Part II only made delay possible in cases where there had been a reference to the NBPI.

The Prime Minister, summing up the discussion, said that the Cabinet were not yet in a position to take final decisions on the future of the policy on prices and incomes and in particular on the question of statutory powers. It was agreed that the minimum action which should be taken for the period immediately following the end of severe restraint was the activation of Part II of the Act, possibly with some extension of the maximum period of delay which could be imposed on increases in prices and wages. It was also agreed that, if wider powers were taken on the expiry of Part IV, it would be preferable that they should be taken for a period of one year only, with the Government reserving the right to introduce new legislation renewing the powers in the same or in somewhat amended form, rather than making the powers in the first instance subject to annual renewal. Differing views had however been expressed on the question whether wider powers should be taken on the expiry of Part IV, to be activated as the situation might later require, or whether there should be no question of taking such powers unless and until a policy on a voluntary basis (reinforced by the activation of Part II) could be shown to be proving inadequate. For purposes of further consultations with the TUC before the conference of trade union executives on 2nd March, the Cabinet felt on balance that, if we were to put forward a compromise solution which fell short of the proposals by the First Secretary of State for additional powers, this would make it extremely difficult, if not impossible, to revert at a later stage to those proposals. On the other hand, if we maintained in the further consultations the position that the Government regarded as essential reserve powers going beyond those in Part II, this need not rule out a compromise at a later stage; the First Secretary of State should therefore adhere to this line in his further consultations. He should however stress that the Government's aim was a policy on a voluntary basis operated by the TUC and the CBI and that the Government would do all in their power to ensure that a policy on this basis would succeed; it would be useful if guidance to the Press in this sense could be arranged. The First Secretary should however tell the TUC that, recognising the great difficulties they faced in making a voluntary policy effective, the Government believed it to be essential to take reserve powers, valid for one year only and to be activated only if the need arose, as an insurance against the possible failure of a voluntary policy to ensure the necessary degree of restraint. The First Secretary of State should also canvass with the TUC the concept of the Government formulating, in consultation with the two sides of industry, a national dividend to be expressed as a global sum of money available in each year for increases in wages and salaries, the detailed allocation of which would be a matter for the TUC and the CBI to settle, subject to the claims of workers not covered by those organisations, e.g., teachers and those in the public service.
Such a concept would take the place of the fixing of a percentage norm for increases of wages. The First Secretary of State should report the results of his consultations to the Cabinet in time to enable them to consider the issues further before the conference of trade union executives on 2nd March. Meanwhile, work should be put in hand on the drafting of the legislation which would be needed if it were decided to seek wider powers on the expiry of Part IV. It was important that the fact that such preparatory work was being done should not become publicly known. It was equally important that complete confidence should be preserved in relation to the Cabinet's discussions on the whole issue.

The Cabinet—
Invited the First Secretary of State—
(1) To pursue his consultations with the TUC and CBI and to report further to the Cabinet as indicated in the Prime Minister's summing up of their discussion.
(2) To arrange, in consultation with the Lord President of the Council, for appropriate guidance to be issued to the Press on the lines indicated by the Prime Minister.
(3) To arrange for work to be put in hand on the drafting of the legislation which would be needed if it were decided to seek wider powers on the expiry of Part IV of the Prices and Incomes Act.

3. The Cabinet considered a memorandum by the Minister without Portfolio (C (67) 18) about the Farm Price Review.

The Minister without Portfolio said that the Ministerial Committee on Agricultural Policy had been unable to reach agreement on certain aspects of the limits to which the Government should be prepared to go in negotiations on the forthcoming Farm Price Review. The disagreement related to the increase which should be offered in the guaranteed price for milk, and the related subsidies in respect of beef, and to the guaranteed price for pigs.

The Government were committed to the selective expansion programme for agriculture set out in the National Plan; and while the programme did not set targets for particular commodities we should not achieve it without a substantial increase in beef production, two-thirds of which came from the dairy herd, and in pig production. Additional incentives were needed. It was, however, necessary first to consider the total size of the award in relation to Exchequer costs and the Government's policy on prices and incomes. The Agriculture Ministers had proposed a total award of £35 million, while the economic Ministers would support recommendations implying a total award in the range of £15–18 million. In his view an award lying between the figures, in the region of £25 million, was necessary.

As regards milk, the smallest increase consistent with obtaining our objective would be 1¼d. a gallon in the guaranteed price to the
farmer. This would involve maintaining the retail price at 10d. a pint until the end of January 1968, and then increasing it to 10½d. for the remaining two months of the milk year. Other proposals put forward in this context by the Agriculture Ministers for increased subsidies relating to beef were justified. In total these proposals would involve the award on beef and milk amounting to £24½ million.

As regards pigs, the Ministerial Committee had agreed that the "middle band" should be increased and that the mechanism of the guarantee should be so altered that the progressive fall in the guaranteed price as the number of forecast certifications rose beyond the "middle band" should be made steeper and conversely the progressive rise in the guarantee as certifications fell below that band should also be made steeper. The effect of this would be to increase the returns to pig breeders over the present levels as long as certifications remained (as at present) below the "middle band". This increase would total some £2 million, but would not technically be included in the total value of the award. In these circumstances, an increase of 6d. a score in the guaranteed price would be adequate in relation to Great Britain, but would bear hardly on Northern Ireland farmers, who depended heavily on pig production; an increase of 9d. a score was therefore recommended. We should not, however, give the assurance recommended by the Agriculture Ministers to maintain guaranteed price levels for a period of three years in a commodity as liable to fluctuation in supply as pig meat; the assurance should cover only the 1968 Review.

In order to keep the total award within the limit he proposed, the guaranteed price of potatoes should be raised by only 5s. a ton instead of the 10s. which had previously been agreed, so saving just over £1 million. There was also general agreement that some reduction could be made in the fertiliser subsidy without loss of farming efficiency and this should be set at £4 million, irrespective of whether the National Board for Prices and Incomes recommended an increase in the price of fertilisers following their examination of the case currently before them. On the basis of these proposals the award for the 1967 Review would amount to £25·25 million, plus £2 million as a result of the change in respect of pig meat, which could not be reckoned as part of the award. Of this total, £13·75 million would fall upon the Exchequer and £13·5 million upon consumers of milk.

The Minister of Agriculture said that net farming output had fallen both in the present year and in the previous year and net farm income was static. The rise in productivity had fallen from an earlier rate of 6 per cent a year to 4 per cent in the previous year. The basic problem was lack of confidence in the Government's intention to achieve the selective expansion programme and it was critical on this occasion to make an award which would restore the confidence of the farming community. In these circumstances, we should make a total award of £35 million. This should include an increase of 2d. a gallon on milk, since the previous increases of 1d. a gallon had proved inadequate to achieve the necessary rate
of expansion. A three-year guarantee in respect of the guaranteed price of pig meat was also necessary to restore confidence.

The Chief Secretary, Treasury, said that the import saving which would be achieved by expansion of beef production in accordance with the selective expansion programme would be some £54 million. Of that we could confidently reckon that £27 million would be achieved in any event. In order to achieve the further £27 million the proposals of the Agriculture Ministers involved expenditure of £29 million. If the total award were considered in relation to the five earlier years (disregarding the 1964 award, which immediately preceded the General Election) and to the minimum figure which could be granted under the Agriculture Act, the previous five years had averaged an award of £17 million above the minimum. The proposals of the Minister without Portfolio envisaged an award of £49 million above the minimum: the Treasury proposal would amount to £39 million above it. As regards incomes, while the total income of the farming community had been constant the previous year, the number of farmers had fallen and income per farmer had increased by some 5 per cent. The proposals of the Minister without Portfolio involved an increase in income per farmer of some 11–14 per cent and the Treasury proposals an increase of 6–9 per cent. Basically the problem was admittedly one of lack of confidence, but this was not peculiar to the farming community and confidence would be restored with the general revival of industrial confidence following the measures which the Government had undertaken in order to achieve this. In these circumstances an increase of 9d. a score of the guaranteed price of pig meat was acceptable provided that an equivalent reduction were made in the fertiliser subsidy. There should, however, be no increase in the subsidy in respect of beef cows, since the previous increase had not yet had time to take effect. The increase in the price of milk should be limited to that which could be granted without involving an increase in the retail price beyond 10d. a pint.

In discussion concern was expressed at the proposal to increase the retail price of milk, both because of its consequences for the Government's policy on prices and incomes and because of the effect on our relations with Commonwealth producers of milk products. It was also suggested that the increase in individual farm incomes which would be involved by the proposals was excessive. It was however pointed out that the figures were not comparable with similar figures for increases in wages, since the income of farmers also had to enable them to make the necessary provision for further capital investment.

In further discussion there was general agreement with the proposals put forward by the Minister without Portfolio, on the understanding that these would represent the limit to which the Government would be prepared to go in negotiations.

The Cabinet—

Approved the proposals put forward in C (67) 18 on the limits to which the Agriculture Ministers should go in negotiations on the current years' Farm Price Review.

Cabinet Office, S.W.1,
14th February, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 23rd February, 1967, at 10 a.m.

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. 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. Patrick Gordon-Walker, 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. Frederick Lee, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. Margaret Herbison, M.P., Minister of Social Security
The Right Hon. Sir Elwyn Jones, Q.C., M.P., Attorney-General

Secretary:
Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
Miss J. J. Nunn
Mr. L. Errington
Mr. K. Barnes
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1. The Cabinet were informed of the business to be taken in the House of Commons in the following week. They were also informed that the Chancellor of the Exchequer would present his Budget on Tuesday, 11th April.

2. The Foreign Secretary said that a number of conflicting statements had recently been made in Bonn about the position of the Federal German Government on the continuation of the German Offset Agreement. An authoritative statement had, however, now been made by the Government spokesman which made it clear that, whether or not the current tripartite discussions between the United States, Germany and ourselves on the level of forces and offset payments in Europe resulted in agreement on further changes, the Federal German Government would maintain their offer to provide a total of £31\(\frac{1}{2}\) million in the following year in offset payments, of which £22\(\frac{1}{2}\) million would be in the civil field. It also appeared from our discussions with members of the Federal German Cabinet that they now accepted that there was a difference between our own problem and that of the United States in respect of offset payments: both they and members of the United States Administration accepted the need for the tripartite discussions to result in an additional alleviation of the burden upon us. These issues would be considered in more detail at a meeting that evening of the Defence and Oversea Policy Committee.

\[\text{The Minister without Portfolio (Mr. Gordon Walker) said that the previous day it had appeared that we had reached agreement with the Maltese Government on the basis on which negotiations should be held on the rate of reduction of our forces in Malta and the way in which the economic consequences of this reduction could be alleviated. We had offered to suspend action on the reduction of our forces pending the outcome of the negotiations, provided that the Maltese Government for their part agreed not to take further their Bill to amend the Visiting Forces Act and to stop the harassment of our forces. The Maltese Prime Minister had, however, so far declined to stop the harassment of our forces until the negotiations had reached a satisfactory conclusion. The acceptance of such a condition would put us in a position of considerable difficulty and the issue would be further discussed by the Defence and Oversea Policy Committee. If the Maltese Prime Minister were to maintain too rigid a line in this respect he would forfeit all public sympathy in the United Kingdom.}\]

The Cabinet—

Took note of the statements made by the Foreign Secretary and the Minister without Portfolio.
3. The Cabinet considered a memorandum by the First Secretary of State and Secretary of State for Economic Affairs (C (67) 20) on the future of the policy on prices and incomes.

The First Secretary of State said that, in accordance with the Cabinet's decision at their previous meeting, he had held further consultations with the Economic Committee of the Trades Union Congress (TUC) and with the Confederation of British Industry (CBI). He had explained to them that the Government remained of the view that in the present economic situation, it would not be possible to move immediately from the present phase in which the Government possessed wide statutory powers under Part IV of the Prices and Incomes Act to a position in which no statutory powers were available other than the limited provisions of Part II. This did not mean that the Government regarded the policy as something which they could impose on the trade unions and management; on the contrary, they attached the greatest importance to the successful development of the influence which the TUC and CBI could exercise in furtherance of the policy. It had, however, always been clear that the TUC and CBI would be faced with great difficulties in making a voluntary policy effective in the face of challenges by minority groups and the Government therefore believed that it was essential that they should hold some statutory powers in reserve for a limited period after the expiry of Part IV. In these circumstances the Government believed that the right course would be to activate Part II and beyond that to seek powers which would be exercisable only to enforce recommendations by the National Board for Prices and Incomes (NBPI). These additional powers would take the form of extending to 12 months the maximum period during which a standstill on increases in prices or pay could be enforced; the prevention of retrospective payment of wage increases for a standstill period; and enforcement of price reductions in appropriate cases. These new powers would be taken for one year only and would not be renewable without further legislation: but no undertaking could be given at this stage whether such further legislation would or would not be introduced when the time came.

The Economic Committee of the TUC had not been prepared to accept these proposals. They continued to maintain that the right course was to leave them to operate the policy on a voluntary basis through their own vetting machinery. They recognised that they could not guarantee to deal effectively with challenges to such a policy by minority groups, but they maintained that such challenges would be insignificant and could be ignored. This attitude was difficult to reconcile with the TUC's previous support for the activation of Part IV the previous year because they felt that without it minority groups opposed to the policy would secure an unfair advantage and thereby jeopardise the policy. This was precisely the situation which we should face again after the expiry of Part IV.

The CBI did not welcome such legislation. They would prefer a completely voluntary policy to be given a trial, without even the
activation of Part II. They had also reacted sharply to the proposal for a power to enforce price reductions in pursuance of recommendations of the NBPI, but they were unlikely to press their objections as hard as would the TUC.

Although he had not mentioned this to the TUC, it was for consideration whether, in addition to the new powers he had mentioned, the Government should take a further power to deal with cases where price or wage increases were implemented before they could be referred to the NBPI. Such cases were bound to arise and it was desirable to have power to deal with them by requiring the increases in question to be rescinded pending a reference to the NBPI.

He had put to the TUC the proposal that, instead of a fixed percentage norm, the amount which could be allowed for wage increases in any given year should be expressed in money terms as a national dividend. The TUC had not favoured this. His impression was, however, that they might be brought to accept it in time. They already accepted that there should be an annual discussion between the Government, the CBI and themselves on the economic situation as the basis for settling prices and incomes policy for each year. It might be possible to formulate a national dividend as part of this periodical examination. For immediate purposes however there were two alternative approaches to the problem of an incomes norm: first, that no one would be entitled to a wage increase unless this was justified in relation to criteria which might approximate to those set out in the White Paper on Prices and Incomes Policy (Cmnd. 2639)—this would be in effect a "nil norm"; alternatively, there could be a low norm which, in order to preserve a credible relation with the likely growth of productivity, would have to be no more than 2 per cent and be accompanied by stricter criteria. For the 12 months from July 1967 he recommended the first alternative: a 2 per cent norm would mean that everyone was entitled to expect a pay increase merely as a result of the passage of time and we could not afford this. Moreover, adoption of a 2 per cent norm would raise in an acute form the question of the rate of economic growth at which the Government should aim and might result in the TUC or CBI promulgating a norm different from that of the Government. While the TUC did not welcome a "nil norm", it seemed likely that this was what they were expecting, and that they would prefer this to a low percentage norm with stricter criteria. The CBI also would support a "nil norm" with more flexible criteria.

The Minister of Labour said that the General Council of the TUC had considered the Government's proposals on the previous day. He understood that, while one or two members of the Council had indicated a willingness to contemplate the retention of some reserve powers by the Government, this view had not been pressed and the outcome had been a unanimous rejection of the Government's proposals. This made it virtually certain that the conference of
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trade union executives on 2nd March would likewise reject the Government’s proposals. This would mean that the TUC would be committed to complete opposition to these proposals and would then be in no mood to negotiate further. He therefore adhered to the view that the right course was for the Government to activate Part II before the expiry of Part IV, and possibly to seek to negotiate an extension of the maximum period of delay on price and wage increases to six months; it would, however, be wrong to attempt to go beyond this. A further meeting with the TUC Economic Committee should be arranged and proposals on these lines should be put to them. There was a reasonable prospect that the moderate elements in the TUC would still be prepared to accept this. If, however, the Government continued to insist on wider statutory powers, they would forfeit the co-operation of the moderate elements, without which the policy could not possibly be effective.

In discussion it was generally accepted that, if the Government continued to propose wider statutory powers on the lines suggested in C (67) 20, they would face strong opposition from the TUC and from many of the Government’s supporters in Parliament. It was argued nevertheless that the Government should adhere to this course. While the TUC would continue to declare their opposition, they were unlikely in practice to carry it to the lengths of industrial action designed to wreck the policy. More probably, the situation would continue much as at present with the Government making only occasional and selective use of the proposed statutory powers. A voluntary policy reinforced only by the activation of Part II could not be expected to be effective. The TUC’s vetting machinery was quite inadequate to the task; it could only deal with a small number of negotiations at national level and would not be able to consider at all negotiations at plant level which were of major importance in some industries, notably the motor-car industry. It was already clear that the implementation of wage claims hitherto deferred would mean a substantial rise in average earnings during 1967; this, coupled with other wage settlements which could be expected in the second half of the year, would represent a serious threat to the stability of the economy. If this materialised, it would impose further constraint on economic growth and require the maintenance of unemployment at a high level. In such circumstances it would be difficult to get the co-operation of management and unions in measures to raise productivity. The Government’s prime responsibility was to promote economic growth and ensure full employment; if concessions on incomes resulted in failure to carry out this responsibility, the Government would rightly incur the censure not only of those who were now opposing the policy but also of the country as a whole. If the Government now retreated from the proposals for additional statutory powers which had been put to the CBI and TUC, they would be abandoning the policy which had been considered essential on economic grounds. Such a move would be interpreted as a retreat by the Government in the face of pressure by the TUC and this would have a serious effect on opinion abroad and on confidence in sterling.
On the other hand, it was argued that, if the Government were to take wider powers in the face of trade union opposition, those powers would prove unenforceable. They were likely to be challenged not only by smaller unions and those elements which had consistently opposed the incomes policy, but also by some at least of the major unions. The trade union movement as a whole could be expected to support any such challenge and the Government would be powerless to meet it. There was also a danger, if wider powers were taken, of forfeiting the co-operation of employers, which was essential for the effective administration of the powers over prices embodied in Part II: these were more extensive than was often recognised. There was moreover a risk, if the Government persisted in seeking wider powers, that this would wreck the chances of acceptance by the unions of the TUC’s proposals for a voluntary policy with the result that there would in the end be a return to unrestricted bargaining. The prospects of a voluntary policy achieving a reasonable degree of wage restraint should not be underestimated. The TUC were genuinely anxious to make it succeed. If it were backed by the powers in Part II and effective in restraint on price increases, there was a fair prospect that the trade unions would exert less than their full bargaining power and an acceptable measure of restraint would be achieved. If, however, experience should show that such a policy was proving inadequate, this would not mean that we should necessarily be faced with an economic crisis of the dimensions of that of July 1966. The effects of some degree of wage inflation on industry’s competitive ability would take time to appear. The country’s basic economic position was radically better than in 1966; it was accepted by opinion abroad that the prospects of our achieving a substantial balance of payments surplus were realistic. It should be possible to avoid a crisis of confidence so long as the Government were seen to be in control of the situation. Pronouncements by TUC spokesmen to the effect that they would prefer a reversion to “stop-go” policies rather than accept statutory powers in the incomes field were unlikely to represent the true views of the TUC General Council. If it were demonstrated that the failure of a voluntary policy was contributing to economic stagnation and high unemployment, the TUC would then be likely to accept the need for statutory powers in the incomes field and the Government would be in a strong position to take them. The right course therefore was to modify the proposals for additional powers in such a way as to offer some prospect of securing the acquiescence of the TUC. It was important that this should not be seen as a retreat in the face of TUC pressure; but the Government could reasonably argue that it had formulated its final views in the light of consultations with the main organisations concerned and that a policy on incomes which was basically voluntary represented the objective which they had consistently sought.

In further discussion it was suggested that it would be desirable for the Prime Minister to seek a meeting early in the following week.
with the Economic Committee of the TUC and to try to persuade them to accept the following measures:

(i) Activation of Part II.
(ii) New legislation, valid for one year only, extending the maximum period of standstill under Part II to six months, and taking power to prevent retrospective payment of wage increases following the imposition of a standstill and to enforce price reductions where recommended by the NBPI.

It was however urged that a reduction in the maximum period of delay from twelve to six months would be regarded by the TUC as less important than the proposal to prevent retrospective wage payments; in any case, to offer a reduction in the maximum period specifically to six months would be premature. The power to prevent retrospective wage payments was however bound to be strongly opposed by the TUC and its inclusion might prejudice the chances of securing acceptance of the package as a whole; it would therefore be better to drop this proposal. On the other hand, it was argued that the retention of this power was vital. If the TUC rejected it and if this rejection were confirmed at the conference on 2nd March, this need not be taken as final. There would be further opportunities after the March conference of bringing pressure to bear on the TUC. It should be made clear to them that the Government were not at this stage prepared to accept a rejection and there must be a process of continuing consultation on this and any other outstanding issues.

The Prime Minister, summing up the discussion, said the Cabinet agreed on balance that he should arrange to see the Economic Committee of the TUC early in the following week, accompanied by the First Secretary of State and the Minister of Labour. He would stress the importance of an effective policy on prices and incomes in securing long-term economic growth with full employment, and would put it to the TUC that the alternative to such a policy would be a reversion to “stop-go” measures. He would say that, while the Government were anxious that the TUC and CBI should develop voluntary arrangements for carrying out the policy, in view of the difficulties involved in this the Government regarded it as essential to retain some reserve powers; they therefore proposed to activate Part II before the expiry of Part IV, and they considered that the maximum period of standstill which could be imposed on wage and price increases under Part II should be extended. He would not propose to adopt a rigid position on what that extension should be; he would make it clear that this was a matter which the Government would be prepared to consider further with the TUC. He would go on to tell the TUC that in the Government’s view it was necessary to take power to prevent the retrospective payment of wage increases following the imposition of a standstill; that the Government recognised the difficulties which this proposal raised for the TUC and were not proposing to take a decision immediately; further consultations would be desirable and the conference on 2nd March, while important, should not be
regarded as in any way setting a term to consideration of this and other issues. There would be no question of withdrawing the proposal for a power to prevent retrospective wage payments as a result of the meeting with the TUC without further reference to the Cabinet. We should seek to continue consultations after the conference on 2nd March and it might prove possible to secure TUC acceptance of a power to prevent retrospective payments in return for concessions on other matters—for example on the maximum period of delay under Part II. The meeting would be concerned primarily with the question of statutory powers: decisions on the incomes norm and criteria for wage increases should be left for later consideration.

The Cabinet—

Took note, with approval, that the Prime Minister would arrange an early meeting with the Economic Committee of the Trades Union Congress to discuss further the future of the policy on prices and incomes on the lines indicated in his summing up of their discussion.

4. The Cabinet considered memoranda on Family Endowment by the Chancellor of the Exchequer and the Minister without Portfolio (C (67) 17), by the Secretary of State for Education and Science (C (67) 9) and by the Minister of Social Security (C (67) 7, 8 and 19).

The Minister of Social Security said that further consideration since their previous discussion had confirmed her in the view that the association of a general increase in family allowances with a reduction of income tax child allowances, calculated so as to ensure that the higher income families were neither better off nor significantly worse off on balance (“give and take”), constituted the most acceptable and the most effective approach to the problem of child poverty. It would enable additional family allowance expenditure to be concentrated substantially on families with incomes below supplementary benefit level, thus enabling a significant proportion of those families to be brought above that level at fairly moderate additional cost, without the need for a separate income test and without any significant redistribution between richer and poorer families as such. It also enabled a degree of help related to income to be given to families with incomes little above supplementary benefit level but below the level attracting the standard rate of tax. This would help to offset the effect of the proposed increases in school meal and welfare milk charges and in national insurance contributions as well as prospective increases in rents. Presentationally, also, it was important not to appear to concentrate solely on the lowest income families. The net extra cost of a 10s. family allowance increase, associated with a reduction of income
tax child allowance of £45, would be £32 million a year, though it would be £48 million in the first year. On this basis the family of the ordinary standard rate taxpayer would lose 4d. a week for each child after the first, but this loss could be eliminated at the cost of a further £6 million a year. Some 57 per cent of families with incomes at present below supplementary benefit level, including some 65 per cent of all children in such families, would have their incomes raised above that level. This was a higher proportion of children than would be brought above supplementary benefit level by the combination of an income tested allowance and an increased family allowance for the later children of larger families proposed by the Chancellor of the Exchequer. The additional cost in 1968 could be met within her public expenditure allocation, since national insurance benefits would not be increased in that year; additionally the scheme would make possible the proposed increase in school meal charges which would result in substantial savings.

There were strong objections on grounds of social policy to the introduction of any form of income-tested allowance as a means of concentrating additional financial help on the lowest income groups. She had recently received a deputation from the Social Insurance Committee of the TUC which had expressed strong opposition to any form of income-tested allowance, and had indicated a preference for a general increase of family allowances for all families associated with taxation changes to ensure that the effective benefit was directed to the lower income groups. These views had subsequently been confirmed by the General Council.

The Chancellor of the Exchequer said that an increase of 10s. in family allowances would cost about £160 million a year gross. Under the “give and take” proposal this would be largely financed by reducing income tax child allowances, but it would still be necessary to find from general taxation the substantial sum of £48 million in the first year and £32 million a year subsequently. Family allowances were unpopular among the older members of the community and among wage earners generally, and until recently there had been no pressure to increase them. The “give and take” type of scheme involving a general increase of family allowances would be neither a popular nor an effective way of relieving child poverty, since the benefit was insufficiently concentrated on the families in most need. Further, the scheme would result in an increase in the tax liability of some 3½ million wage earners at a time when substantial increases in taxation were likely to be needed for other reasons.

With the Minister without Portfolio he took the view that a more positive approach was needed which would enable the limited resources available to be concentrated to greatest effect where the most pressing needs had been identified. He suggested that this could best be done by a combination of specific measures. The detail of this combination would need further consideration, but he suggested that some of the elements should consist of a scheme of supplementary family allowances, applied subject to an income test.
but adapted to help those who had to pay high rents, together with an increase of perhaps 5s. in family allowances for fourth and subsequent children and special provision for the rehabilitation of primary schools in educationally deprived areas. This approach would enable a higher proportion of families with incomes below supplementary benefit level to be brought above that level at lower cost than any "give and take" type of scheme and would in particular enable relief to be given to one-child families. While recognising that the introduction of an income test in this field was not free from difficulty, such tests had been widely accepted elsewhere in the social services without the disincentive effect feared by the TUC.

In his view the choice lay between the adoption of a new and more selective approach relating improved provision closely to need, or perpetuating the policy of making universal provision irrespective of need, with the consequence of having to increase taxation on the one hand or reduce services elsewhere on the other. If the Cabinet concluded in favour of a general increase in family allowances he must reserve his position as to the means by which this should be financed and as to the implications for expenditure on other services.

In discussion there was general agreement that the extent of child poverty required an effective extension of family endowment on a selective basis. Such selectivity could only be applied by either income testing, which was an essential feature of the scheme suggested by the Chancellor of the Exchequer, or the "give and take" approach with its association of a general increase in family allowances with an increase in the tax liability of all taxpayers with children eligible for family allowance.

In further discussion of the implications of an income-tested allowance there was some difference of view and the following main points were made:

(a) Adoption of income testing would involve a departure from the principle of universality, which could have repercussions throughout the social services, including the health and education services, and should be considered in this wider context.

(b) On the other hand the principle of universality referred primarily to the universal availability of services and did not exclude the application of income tests to non-contributory cash benefits. A clear distinction could be drawn between the latter and benefits such as pensions, which were financed on a contributory basis.

(c) The problem of family poverty could not adequately be met by means of additional cash allowances alone. The improved provision of services which was also necessary could more readily be afforded in association with income-tested cash provision than with the more expensive "give and take" type of scheme.

(d) Public antipathy to means testing had little rational basis and that the application of an income test in the field of family allowances might be the more generally accepted since public attention...
had been focused on the limited extent of the problem in terms of numbers of families. On the other hand, it was suggested that concentration of benefit on the lowest income groups would be criticised as destroying working incentives where these were most needed.

(e) Relief to the poorer families might be secured earlier through the introduction of income-tested allowances, since the introduction of a “give and take” type of scheme would have to wait until April 1968. It would not, however, be practicable to introduce income-tested allowances as a purely interim measure, while a small increase in family allowance, for example for the fourth and fifth child, could be given in 1967 and subsumed later in a “give and take” scheme.

(f) There would be practical difficulties in applying an income test to people in full-time work, and income-tested allowances were likely to be more costly in terms of staff than the “give and take” type of scheme.

In relation to the “give and take” type of scheme, it was suggested that although for families on the standard rate of tax the increased family allowances would almost balance their increased tax liability, the increase of general taxation required to finance the higher family allowances for the lower paid would impose an additional tax burden on the higher-paid families. There was some support for the view that the acceptability of the scheme would depend on a means being found of avoiding any extra cost to families with children, whatever their income. The following main points were also made:

(g) An undertaking had been given in the Labour Party’s Election Manifesto to seek ways of integrating income tax allowances with cash benefits. The “give and take” approach, in endeavouring to confine the benefit of additional family allowances to those who did not benefit from income tax child allowances, was consistent with the approach already accepted in the Option Mortgage scheme.

(h) On the other hand, the “give and take” type of scheme involved a substantial disturbance of the tax system, which would be widely resented and misunderstood, in order to confer benefit on a relatively small number of families.

Summing up the discussion, the Prime Minister said that the Cabinet agreed on the need to extend family endowment on a selective basis in order to alleviate child poverty. On balance they were opposed to the introduction of income testing as a means of achieving selectivity and favoured an increase of family allowances on the lines of the “give and take” type of scheme proposed by the Minister of Social Security, provided that a means could be found of ensuring that no extra cost fell on families with children. The details of a scheme of this kind should now be examined further, and its implications should be considered in relation to, among other things, the proposals circulated by the Secretary of State for Education and Science in C(67)9. It would also be necessary to give further consideration to the implications for policy on family
endowments of any decision to seek to enter the European Economic Community and any consequent need to align the social security system in this country with the European system. The Cabinet should resume their discussion of family endowment at a later meeting in the light of the outcome of these further studies. Meanwhile, no publicity should be given to the Cabinet's decision.

The Chancellor of the Exchequer said that, while he did not dissent from the decision to adopt a "give and take" type of scheme, he must reserve his position about the method by which it should be financed.

The Cabinet—

(1) Approved in principle an improvement in family endowment on the lines proposed by the Minister of Social Security in C (67) 7, without prejudice to further consideration by the Chancellor of the Exchequer of the fiscal means by which a scheme of that kind should be financed.

(2) Invited the Minister without Portfolio, in consultation with the Chancellor of the Exchequer and the Minister of Social Security, to arrange for a more detailed examination of the implications of the decision of principle under Conclusion (1) above, in relation inter alia the proposals in C (67) 9.

(3) Invited the Minister without Portfolio to arrange for the Social Services Committee to consider the implications for our policy as regards family endowment of a decision to seek to enter the European Economic Community.

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

CONFIDENTIAL

5. The Cabinet considered a memorandum by the Lord President of the Council and the Lord Privy Seal (C (67) 21) on the proposed experiment with televising proceedings in the House of Lords.

The Lord President recalled that the Cabinet had agreed on 6th November to authorise a joint experiment in televising both Houses of Parliament at a cost, in respect of the House of Lords, of £18,000. In the event the House of Commons had decided not to experiment in their House, but the House of Lords wished to do so in theirs and the Government spokesman in the forthcoming debate on the report of the House of Lords Select Committee on the subject would be expected to make clear whether the earlier offer to meet the cost up to £18,000 stood. The actual cost of the experiment was now estimated at £16,500. It was proposed that the Government should stand by their original offer.

SECRET
In a brief discussion, the Cabinet agreed that, notwithstanding the decision not to proceed with the experiment in the House of Commons, the cost of the proposed experiment in the House of Lords should be met up to £18,000.

The Cabinet—

Agreed that the cost of the proposed experiment in televising the House of Lords should be borne by public funds up to a maximum of £18,000.

Cabinet Office, S.W.1,
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 2nd March, 1967, 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. LORD GARDINER, Lord Chancellor
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. ANTHONY CROSSLAND, M.P, Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FEED PEAR, 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. ROY JENKINS, M.P, Secretary of State for the Home Department
The Right Hon. PATRICK GORDON WALKER, 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. 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. FREDERICK LEE, M.P, Chancellor of the Duchy of Lancaster (Item 3)

The Right Hon. JOHN SILKIN, M.P, Parliamentary Secretary, Treasury

Secretariat:
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. B. M. THIMONT
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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.

Oversea Affairs Malta
(Previous Reference: CC (67) 9th Conclusions, Minute 2)

Iron and Steel Nationalisation
National Steel Corporation Salaries
(Previous Reference: CC (66) 48th Conclusions, Minute 5)

The Minister without Portfolio (Mr. Gordon Walker) said that the discussions with the Maltese Prime Minister and his colleagues on the reduction of our forces had so far been amiable in tone, but further problems had arisen not only on the interpretation of the consequences of the rundown for the timing of additional unemployment, but also in relation to the position of an observer from the North Atlantic Treaty Organisation (NATO). The Maltese Delegation had urged that a NATO observer should be asked to study the defence needs of Malta. He had opposed this in discussion and had taken the line already agreed by Ministers that it would be unacceptable that NATO should in any way be an arbiter between Malta and ourselves on the carrying out of the Defence Agreement, though we would agree that they should send an observer to be present at the talks in so far as these related to Maltese defence issues. In consequence of our acceptance of the latter arrangement, NATO had sent two observers who were taking the embarrassing line that the Maltese defence issues could appropriately be studied by NATO in its own right. These complications might well mean that it would not be possible to complete the talks by the end of the current week, but if they lasted longer the continued administrative harassment of our forces would raise awkward problems of supply.

The Cabinet—

Took note of the statement by the Minister without Portfolio.

The Minister of Power (C (67) 22) on salaries in the National Steel Corporation.

Took note of the statement by the Minister of Power (C (67) 22) on salaries in the National Steel Corporation.

Iron and Steel Nationalisation
National Steel Corporation Salaries
(Previous Reference: CC (66) 48th Conclusions, Minute 5)

The Minister of Power recalled that the Cabinet had considered the previous September the salaries to be paid to members of the National Steel Corporation; they had determined the salary to be offered to the future chairman but had left for later discussion the salaries for the members. Under the Iron and Steel Nationalisation Bill a minimum of seven members of the Corporation had to be appointed by about Easter, when the Bill would come into force. The nationalised steel industry would constitute the largest manufacturing complex in the United Kingdom and one of the largest in the world. It would face serious problems at home and fierce competition abroad. Its problems would be the more serious in that it had not only to take over and run the industry but also radically to reorganise its structure. Failure in this enterprise would have serious consequences, both economic and political. The new structure of the industry required a functional Board with members directly responsible for specific fields of policy, e.g., engineering,
marketing and production, rather than a Board of a general and advisory character. Its members would therefore have to possess proven expertise and experience and must be drawn from those already holding senior posts in industry, who earned more than those holding the highest paid posts in any of the nationalised industries.

The nationalised steel industry would differ from the other nationalised industries in two respects. First, it would not constitute a monopoly, since there would still be some 250 companies in private ownership who would compete with the Corporation for able leaders, as indeed would manufacturing industry. Second, salaries paid in the steel industry and in manufacturing industry were generally higher than those paid in the industries which had previously been nationalised: if for example the salaries offered were below the level he was now proposing the top 150 people in the steel industry would be cut off from the possible field of recruitment. The necessity for payment of suitable salaries had been generally recognised by all sides in the debates in the House during the passage of the Iron and Steel Nationalisation Bill. If the salaries of members of the Steel Corporation’s Board were too low they would tend to depress salary levels in the whole industry which would lose its leaders to manufacturing industry, both British and foreign, which was already seeking recruits from those steel companies which were to be nationalised.

Following a meeting with the First Secretary of State and the Chancellor of the Exchequer he had therefore suggested to the Chairman of the Organising Committee (Lord Melchett) the following salary structure for the National Steel Corporation—

Chairman £18,000
Deputy Chairman £15,000
Members £9,000–£13,000

Lord Melchett had since informed him that he would be unable to continue as chairman-designate of the Corporation since he did not consider that it would be possible to secure a viable Corporation on this basis. Other members, who would not be personally affected, since their salaries (which were protected by the Bill) were higher than those which had been suggested, took a similar view. A number of people who had been approached with a view to taking up appointments on the Corporation had declined on the grounds that the remuneration offered was inadequate. In these circumstances and if higher salaries were not offered it would become necessary to find Board members from outside the industry, with grave consequences for its viability. After consultation with the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster, he had therefore discussed with Lord Melchett and two members of the Organising Committee the minimum salaries necessary to secure personnel of the right calibre. The following substantive salary structure had emerged:

Chairman a personal salary to be negotiated (not necessarily very high)
Deputy Chairman £20,000–£24,000
Members £15,000–£19,000
The rate of salary within these ranges would be determined on the basis of the personal qualities of the individual appointed.

In considering the relationship of this proposal to the Government’s policy on incomes, it was relevant that these salaries were for new posts and were generally at a lower rate than existing salaries for similar jobs in the same and related industries. With one exception, they would represent a cut in substantive salary for virtually everyone, including the chairman. They also constituted a large reduction in the total salary bill as a result of concentrating 14 separate companies into probably four groups. The rates were substantive but in recognition of the incomes policy they would be abated by 12½ per cent for a period of two years. Such salaries represented the minimum required to secure the services of people of sufficiently high calibre.

In discussion it was pointed out that the Government were faced for the first time with the problem of determining salaries for a nationalised undertaking on the basis of direct relativities with an industry in the private sector, where salary was generally accepted as a measure of status. In a mixed economy it was impossible to avoid having regard to comparability. Furthermore the salaries of the Boards of existing nationalised undertakings were also proving inadequate to attract men of the right calibre.

Nevertheless, it was urged that the payment of such high salaries would inevitably have grave consequences for the general acceptance of the Government’s policy on incomes and would have repercussions unacceptable in the light of that policy on the salaries of the members of the other nationalised industries. It was suggested that these difficulties might be overcome, at least in part, by paying purely personal salaries, on the understanding that these would be revised as a formal salary structure after say two years, during which time we should seek to bring salaries in the nationalised steel industry into line with those in other nationalised industries. Moreover it should not be assumed that the only men of the necessary ability were those who were already at the top; there must be others in the middle or higher ranks of steel management who would be suitable for appointment to the Corporation and who would be content with salaries below those now proposed.

On the other hand, there was wide support for the view that it would be essential to pay competitive salaries. The need for such salaries had for example recently been demonstrated by the Co-operative Wholesale Society. On wider grounds moreover it was mistaken policy to pay to those in the service of the State salaries which compared unfavourably, having regard to all the circumstances, with the remuneration which persons of equivalent ability could earn in private industry and private professional practice. Payment of the high salaries proposed would admittedly give rise to serious political difficulty but it was essential to secure a better general understanding of the nature of the problem, both in Parliament and in the country.
The Prime Minister, summing up the discussion, said that on balance the Cabinet agreed that salaries for the members of the National Steel Corporation should be on the basis proposed by the Minister of Power. The Minister of Power should consult with the Lord President on their public presentation, which was of the utmost importance. That presentation should inter alia make it clear that the salaries, high as they were, would still be less than those paid in other industrial fields, and that the persons receiving them would in many instances receive a lower salary than those which they currently earned. The presentation should also not only emphasise the dilemma which faced the Government of the need to pay such high salaries in order to obtain people of the calibre requisite to ensure the success of iron and steel nationalisation, but should also seek to secure a better understanding of the problems arising in a mixed economy in determining the salaries of persons in the service of the State. The discussion also showed that at a later stage the salaries of the Boards of other nationalised industries would need to be reviewed.

The Cabinet—

(1) Agreed that the salaries to be paid to the senior members of the National Steel Corporation should be as follows:

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<th>Substantive Range</th>
<th>Reduced Salary</th>
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<td>Chairman</td>
<td>£20,000-£24,000</td>
<td>£17,500-£21,000</td>
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<tr>
<td>Deputy Chairman</td>
<td>£15,000-£19,000</td>
<td>£13,125-£16,625</td>
</tr>
<tr>
<td>Functional Members</td>
<td>£15,000-£19,000</td>
<td>£13,125-£16,625</td>
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(2) Invited the Minister of Power, in consultation with the Lord President of the Council, to consider in the light of the discussion the timing and presentation of the announcement of these salaries.

Cabinet Office, S.W.1.
11th Conclusions

CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 9th March, 1967, 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 Economic 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 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. PATRICK GORDON WALKER, 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 PEARL, 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. FREDERICK LEE, M.P., Chancellor of the Duchy of Lancaster (Item 4)
The Right Hon. Sir ELWYN JONES, Q.C., M.P., Attorney-General (Item 4)

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. K. BARNES

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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 Easter adjournment on Thursday, 23rd March, until Tuesday, 4th April.

_The Chancellor of the Exchequer_ said that the Cabinet would wish to consider the attitude which the Government should adopt on a motion which would be before the House of Commons on Wednesday, 15th March, proposing that ten shillings should be the basic unit, instead of the pound, for the decimal currency. A considerable campaign had been mounted by advocates of the ten shilling unit and it was now being urged on wider grounds that the motion before the House should be tested by a free vote. The reasons which had moved the Cabinet to decide in favour of the pound as the basic unit were, however, still valid and it was questionable whether in these circumstances it would be appropriate for a free vote to be allowed.

In discussion it was suggested that, in so far as the issue was technical rather than one of policy and also one which aroused considerable public interest and feeling, there might be advantage in allowing a free vote. After further discussion it proved however to be the general view that, since this was an important issue on which the Government, after full consideration by the Cabinet, had declared their policy, it would not be appropriate to accept that the decision should be subject to a free vote in the House of Commons.

The Cabinet—

Agreed that a free vote should not be allowed on the motion in the House of Commons the following week on the adoption of ten shillings as the unit of the decimal currency.

2. _The Prime Minister_ said that he and the Foreign Secretary had now completed their discussions with the Heads of Government of the Six member countries of the European Economic Community (EEC). It was now necessary to consider the procedure which would afford the Cabinet the fullest opportunity to consider what steps should be taken next. The issue whether to apply for membership of the EEC, and if so, when and in what manner, was so momentous that the Cabinet must clearly have ample time to consider and discuss it. It was necessary to avoid on the one hand undue haste in coming to a decision and on the other procrastination which (if the decision should be to apply for membership) would dissipate the momentum and interest achieved by the recent series of visits. He proposed, therefore, that the first step should be for himself and the Foreign Secretary to give the Cabinet a full factual
account of their recent discussions with the Heads of Government of the Six countries. To that end a full paper should be circulated to the Cabinet, if possible before the week-end of 18th-19th March, setting out the impressions they had gained from their discussions, but making no recommendations. In particular, the main body of the paper would set out what they had learned on the issues which had concerned the Cabinet in their discussions before the European visits, and bring out what seemed to be the more serious problems, and what were the possibilities of solving them. The paper should also set out the points of difficulty which had been raised by the Six themselves, and in particular their anxieties about the change in the character of the Community which would result if the United Kingdom and all or most of her partners in the European Free Trade Association (EFTA) were to accede to it; and also their anxieties about the position of sterling in the United Kingdom economy. The paper would thus provide a full analysis of the issues which would arise if there were to be a decision to negotiate for entry to the Community; and there should also be annexed to the paper a full summary of the discussion which had taken place in each of the capitals.

Before Easter the Cabinet should devote at least a full morning to the discussion of this paper, and if necessary the discussion could be continued after Easter. Until the position had been fully analysed in this way, it would be wrong to seek to reach a decision; he proposed, therefore, that after Easter and after the discussion of the initial paper had been completed, he and the Foreign Secretary should circulate a further paper, in the light of the Cabinet discussions, making recommendations on whether negotiations for entry to the EEC should be started and if so, when and in what manner. A considered decision could thus be reached without undue haste or undue delay.

In discussion, it was suggested that it would be helpful if the first paper to which the Prime Minister had referred could have appended to it a full record of the discussions in Paris; and that during the period of consideration of the position by Cabinet, it would especially be desirable to avoid speculation in the Press.

The Cabinet—

Took note, with approval, of the Prime Minister’s statement on the procedure to be adopted for consideration of the next steps in the approach to Europe.

3. The Minister without Portfolio said that by agreement with the Commonwealth Secretary, on the latter’s return from his tour overseas, he was remaining in charge of the current discussions in London with the Maltese delegation on the reduction of our forces there. These discussions had been greatly protracted and it seemed probable that we should have to threaten to bring them to an end if we were to elicit any decision from the Malta Government. The
real aim of the latter was to delay for two years the start of the run down of our forces. This we could not accept for reasons which would be fully supported by public opinion in the United Kingdom. The Maltese delegation had in consequence somewhat shifted their ground and were now pressing us to agree that the undrawn balance of our aid for the first three of the ten years covered by the Financial Agreement, which would lapse under the terms of the Agreement, should nevertheless not be lost to them. This was an issue on which the Maltese case would have much greater public support and it would be unfortunate if we were forced to break the negotiations on it.

In discussion there was general agreement that further consideration should be given to the possibility of our accepting in negotiation that the undrawn balances should be made available to Malta at some stage during the remaining seven years of the Financial Agreement.

The Cabinet—

Invited the Minister without Portfolio, in consultation with the Chancellor of the Exchequer and the Minister of Overseas Development, to consider further the desirability of our accepting that the undrawn balances under the Financial Agreement with Malta which had lapsed on the conclusion of the first three years should nevertheless be made available to Malta at some stage during the currency of the Agreement.

4. The Cabinet resumed their consideration of memoranda by the First Secretary of State and Secretary of State for Economic Affairs (C (67) 13 and 20) on the future of the policy on prices and incomes.

The First Secretary of State said that since the Cabinet's previous discussion, the Prime Minister, with the Minister of Labour and himself, had discussed with the Economic Committee of the Trades Union Congress (TUC) the future of the policy on prices and incomes, but no agreement had been reached on the question of statutory powers after the expiry of Part IV of the Prices and Incomes Act. On 2nd March, the conference of union executives convened by the TUC had expressed opposition to the retention of any statutory powers, but had endorsed the TUC's own proposals for a voluntary incomes policy. This represented a definite gain in view of earlier indications that, if the Government appeared to be persisting in their intention to seek further statutory powers, even the maintenance of a voluntary policy might be rejected. Its endorsement was also valuable in that the policy incorporated the proposal for annual discussion between the Government, the
Confederation of British Industry (CBI) and the TUC of economic prospects as a basis for settling the norm for wage increases.

Decisions were now urgently needed on the norm for increases in incomes and criteria for increases both of prices and of incomes in the period following July 1967; these were even more pressing than decisions on statutory powers. Claims for wage increases after July were now being made and those responsible needed guidance on handling them. He had proposed in C (67) 13 that for the 12 months following July 1967 there should be a nil norm for wage increases, which would mean that no one would become entitled to a wage increase simply because of the passage of time but only if justified by the criteria. The criteria for this period should be broadly the same as those set out in the original White Paper on Prices and Incomes (Cmd. 2639). But it would be necessary to add a further criterion whereby, in considering claims by particular groups of workers, account could be taken of whether or not the groups concerned had received increases or suffered deferment of increases during the standstill and the period of severe restraint; this would be necessary for a temporary period until the anomalies resulting from the emergency policy over recent months had been remedied. A nil norm for the period in question would be preferable to a low positive norm of, say, 2 per cent. The accumulation of wage demands during the standstill and the period of severe restraint would make it imprudent to fix any positive norm. Moreover, the TUC, while not welcoming a nil norm, were expecting it and would probably acquiesce.

As regards statutory powers, he adhered to his previous recommendation that the Government should activate Part II on the expiry of Part IV, extend the maximum period of delay on increases of prices and wages which was permissible under Part II, and take power to prevent the retrospective payment of increased wages following the imposition of a delay. There should be similar delaying powers in respect of prices and also a power to enforce reductions of prices. These powers should be exercised only if the National Board for Prices and Incomes (NBPI) so recommended, though the Government would not be obliged to accept such recommendations.

In view of the need for early guidance, the Government should publish before Easter a short White Paper setting out their intentions on norm, criteria and statutory powers for the twelve months following July 1967.

The White Paper

In discussion there was general agreement that an early statement on norm and criteria was essential in order to give guidance to those concerned with wage negotiations.

It was also urged that the statement should include some reference to the Government's intentions as regards statutory powers. The absence of any such reference would provoke an adverse reaction abroad and, since many trade unions would shortly be holding their annual conferences, the Government should give a lead if their case on future policy was not to go by default.
On the other hand it was argued that it would be unwise to publish a White Paper before Easter which included a statement of the Government’s intentions as regards statutory powers. The Prime Minister at his meeting with the TUC had made it clear in accordance with the previous Cabinet decisions that the Government did not regard the conference of union executives on 2nd March as in any way setting a term to discussions on this issue. He had emphasised that the Government had been careful not to commit themselves publicly to a position directly opposed to that of the TUC. It was significant that the General Secretary of the TUC, in addressing the conference on 2nd March, had referred to continuing discussions with the Government on the future of the policy. If the Government were now to declare in a White Paper their intentions as regards statutory powers, this would harden the resistance of the TUC, reduce the chances of a negotiated agreement following further consultations and encourage trade unions at their annual conferences strongly to oppose the Government’s policy.

In further discussion, it was suggested that the right course would be to publish a White Paper stating the Government’s intentions as regards norm and criteria, but making only a general reference to statutory powers. The White Paper could state that Part IV would not be renewed after its expiry in August 1967, that in the Government’s view the activation of Part II would then be necessary, but that discussions were continuing with the CBI and TUC on the exact form of statutory powers for this period and the way in which they would be operated. The reference would on the one hand have to preserve the Government’s freedom eventually to insist (if they so decided in the event) on a power to prevent retrospective payment of wage increases and to extend the maximum period of delay, but on the other hand should not commit the Government to this course.

Norm and criteria

In discussion on the norm and criteria it was suggested that it would be preferable to have a low positive norm of, say, 2 per cent for the twelve months following July 1967, rather than a nil norm. A nil norm might result in discrimination against employees in the public services and others who would be unable to justify increases under the criteria. Since it would also mean that all claims would have to be judged against the criteria, the load on the NBPI would be unmanageable. On the other hand, it was argued that a positive norm would inevitably become the minimum increase for all employees and the unions would invariably seek to negotiate increases beyond it: the load on the NBPI would not therefore be substantially less, while the average rise in wages would be likely to be higher than our present economic circumstances warranted. A nil norm coupled with more liberal criteria would represent a more sensible progression from the periods of standstill and severe restraint and would be better received by opinion abroad. Nor would it be necessary with a nil norm to refer all claims to the NBPI, particularly since it would be open to the Government to decide which claims
should be referred. A nil norm should not lead to discrimination against the public services, since the proposed criteria would allow increases where the pay of particular groups of workers had fallen seriously out of line with the level of remuneration for similar work. This in effect allowed wage increases on the basis of comparability, though it might be necessary to draft the relevant criterion rather more widely than in the original White Paper.

There was general agreement that the criteria for the twelve months following July 1967 should be broadly those set out in the original White Paper (Cmnd. 2639), with an additional criterion which would enable account to be taken of the experience of particular groups of workers during the standstill and the period of severe restraint.

Statutory powers

In discussion of statutory powers, the following main points were made:

(a) The Government should confine themselves to the activation of Part II, the maximum period of delay being extended to six months. The relevant legislation should then be on a permanent basis rather than valid for twelve months only. The TUC might be brought to acquiesce in permanent legislation if the scope of the powers were so limited and we should then avoid the risk of jeopardising discussions with them on legislation in the field of industrial relations following the report of the Royal Commission on Employers Organisations and Trade Unions. On the other hand, it was urged that to extend the maximum period of delay to six months, which was only two months longer than the maximum permissible under Part II, would not be worth the criticism which new legislation would provoke.

(b) The proposal for a power to prevent retrospective payment of wage increases, which was certain to prove a major irritant to the TUC, should be dropped. Its importance could easily be overstated since retrospective payments were not common in private industry. The exercise of such a power might lead to an attempt to enforce statutory sanctions, with all the difficulties which that involved. On the other hand, it was argued that negotiating practice in private industry would be rapidly adapted to conditions ruling at the time. If the Government had only a delaying power, retrospective payments would be seen as an easy way of defeating the exercise of such a power and would therefore become much more prevalent and it was urged that it was accordingly essential to retain this proposal.

(c) The Government should take power to order the rescinding of price or wage increases which had been implemented without prior notification as required under Part II; the absence of such a power would put a premium on evasion.

(d) There was no reason to suppose that the voluntary policy proposed by the TUC would be incompatible with the exercise of statutory powers by the Government. The TUC's vetting machinery might on occasion approve particular claims which the Government
thought should be referred to the NBPI; in such cases the Government would then exercise their power to enforce a standstill pending a report by the NBPI.

The Prime Minister, summing up the discussion, said that the Cabinet agreed on balance that for the twelve months following July 1967 there should be a nil norm for wage increases and all increases should be judged against criteria on the lines of those set out in the White Paper on Prices and Incomes Policy (Cmnd. 2639), with an additional criterion which would enable account to be taken of the experience of particular groups of workers during the periods of standstill and severe restraint. The Government's intentions in these matters should be announced in a short White Paper to be published before Easter. As regards statutory powers, the White Paper should say that Part IV would not be renewed when it expired in August 1967, that in the Government's view it would be necessary to activate Part II but that discussions were continuing with the CBI and the TUC on the form and scope of statutory powers after the expiry of Part IV. Statutory powers should be the subject of continuing consultations with the CBI and TUC after the publication of the White Paper: certain aspects of the Government's proposals on powers were negotiable, but the proposal for a power to prevent retrospective payment of wage increases should not be abandoned without further reference to the Cabinet. The First Secretary of State and the Minister of Labour should now hold urgent consultations with the CBI and TUC and in the light of those discussions the First Secretary of State should circulate a draft White Paper for early consideration by the Cabinet. Publication of the White Paper should be accompanied by a statement in Parliament and appropriate briefing of the Press including the editors of trade union journals. It would be helpful if the First Secretary of State would consider with those of his colleagues concerned what could be done to influence the forthcoming annual conferences of trade unions, with the object of ensuring that, even if resolutions were passed in opposition to the Government's proposals, the conferences would nevertheless take account of the fact that consultations on future policy were still continuing between the Government and the TUC.

The Cabinet—
Invited the First Secretary of State, with the Minister of Labour, to consult further with the CBI and TUC and in the light of that consultation to circulate a draft White Paper on the lines indicated in the Prime Minister's summing up of their discussion for consideration by the Cabinet in time for publication before Easter.

Cabinet Office, S.W.1,
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 14th March, 1967, at 10.00 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 (Item 1)
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 1)
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Miss J. J. NUNN
Mr. K. BARNES
Mr. L. ERRINGTON

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1. The Cabinet considered memoranda on family endowment by the Chancellor of the Exchequer (C (67) 23), by the Lord President of the Council (C (67) 27) and by the Minister of Social Security (C (67) 24).

The Chancellor of the Exchequer recalled that at their previous discussion the Cabinet had approved in principle an improvement in family endowment on the lines proposed by the Minister of Social Security, involving an increase of family allowances associated with a reduction in income tax child allowances (“give and take”), but that he had reserved his position on the method of finance to be adopted. Whatever method of finance were adopted, however, the 10s. increase in family allowances which had been proposed would add £160 million a year to public expenditure, after taking account of the saving on supplementary benefits and other payments. A decision to increase family allowances by this amount, in advance of the general review of public expenditure which was currently proceeding, would amount to a decision to give first priority in 1968–69 to family allowances, notwithstanding that Social Security expenditure would have been increased already by some £700 million a year, including the uprating of benefits which was due to take place later in the current year. Even without the increase of family allowances, it was likely that public expenditure in 1968–69 would increase by between 10 and 15 per cent as compared with an increase of 8½ per cent in the current year. Difficult decisions would have to be taken if this prospective growth of expenditure were to be contained, and it would be inconsistent to take a decision in advance to make a substantial increase in family allowances. He took the view that the maximum increase in taxation rates which would be tolerable between now and 1970 was about £300 million, and that to limit the increase to this figure required a reduction of about £500 million in the total public expenditure programmes by 1970. It was clear that an additional increase in taxation of £160 million could not be accommodated within this figure, and accordingly any increase of family allowances could only be financed by making an equivalent and additional reduction in other public expenditure programmes. It would be wiser to defer a decision on family allowances until the outcome of the public expenditure review was completed in July so that future public expenditure could be looked at as a whole. Despite the Cabinet rejection of direct means testing, this still remained in his view the most promising approach if social programmes were to be developed as they should and help given where it was most needed, without having to reduce expenditure elsewhere.

The Minister of Social Security said that a larger part of the increase of £700 million in social security expenditure was due solely to increased prices and she did not accept that a “give and take” scheme involving a family allowance increase of 10s. would increase public expenditure by £160 million. Family allowances and income
tax child allowances had a similar nature and purpose, and an increase of one matched by a reduction of the other represented only a switch of income between husband and wife within the family. In consequence, for families paying the standard rate of tax there was virtually no change of income, no loss of taxable capacity and no increase in public expenditure. The real cost of the scheme was thus confined to the cost of improving the position of the lower income groups. In relation to a 10s. increase in family allowances this would be £32 million a year, although it would be £48 million in the first year due to the time-lag in the collection of income tax. The principle involved was the same as that which had been applied to investment grants and allowances, where it had been explained publicly that the new investment grants involved no new burden since they replaced equivalent tax allowances. The "give and take" type of scheme had the advantage of concentrating the benefit of increased family allowances on the lower paid at moderate extra cost, and a 10s. increase would bring above supplementary benefit level 65 per cent of the children in families now below that level. If a decision on the adoption of a "give and take" type of scheme were deferred to July, that would prejudice the possibility of introducing such a scheme in the following April. Moreover, because of the extent of poverty among children, it was desirable that some interim improvement should be made before the winter and she had suggested that an interim increase of family allowances of 4s. for third and subsequent children of families should be made in October at a cost of some £10 million in the current year. But it was essential that the announcement of any such interim increase should be combined with the announcement of a "give and take" type of scheme if the interim increase in family allowances were to be subsequently subsumed in the "give and take" scheme.

The Lord President said that there was general agreement that child poverty constituted the largest remaining problem for the social services, and that any improved provision should be given on a selective basis. The difference of view had been on the method by which such selectivity should be applied. The choice had been between direct means testing on the one hand and the application of an indirect income test through the income tax machinery on the other, and a decision had far reaching consequences since it was likely that, whichever approach was adopted, it would be extended widely over the social services. The Cabinet had rejected means testing and accepted in principle the closer integration between tax allowances and family allowances foreshadowed in the Labour Party Manifesto. It was essential to the adequate future development of social security programmes that the Cabinet should be able to settle in this way not only the extent of additional expenditure in this field, but also the means by which it was to be financed. The principle of the Chancellor's control of the details of the Budget was not in question, but the Cabinet must retain collective responsibility for the main lines of economic and social policy. If an early decision on family endowment were not taken the introduction of a "give and take" scheme next year would go by default and the possibility of
achieving desirable economies in the field of school meals would also be lost. It was now clear that there was no practicable means of achieving selectivity except through means testing which the Cabinet had rejected, or the "give and take" approach which they had already accepted in principle.

In discussion there was some support for the view that, irrespective of the extent to which the "give and take" type of scheme increased public expenditure or reduced taxable capacity, on which there was some difference of view, a decision to increase family allowances should not be taken in isolation and in advance of the review of expenditure on other programmes which was currently proceeding. Nor was it clear that an increase of cash allowances alone constituted the most effective method of combating child poverty. It was further suggested that it would be premature to take firm decisions on the method of financing an increase in family allowances before the budgetary consequences of other prospective increases in public expenditure were apparent. On the other hand, it was pointed out that in relation to developments of policy which required long preparation, decisions necessarily had to be taken before their budgetary consequences could be assessed, and it was suggested that, since there were now no alternative means, acceptable to the Cabinet, of concentrating additional family allowance expenditure on the lower income groups (on the need for which there was general agreement) there was no advantage in deferring a decision to proceed with a "give and take" type of scheme.

In further discussion of the financing of increased family allowances through reduced income tax child allowances it was suggested that the tax-payer himself would not necessarily regard his additional tax payment as offset by the additional family allowance payable to his wife, and to this extent the switch in income within the family could not be regarded as self-balancing. An increase in family allowances would not be popular, and the method of finance proposed might increase this unpopularity. Further, if the increase in family allowances opened the way to increases in school meal and welfare milk charges and to increases in rent, families might, on balance, be worse off. Nevertheless, the Cabinet had accepted that the "give and take" approach was preferable to a straight increase of family allowances and to the application of direct means testing. While finance through reduction of income tax child allowances was an essential feature of the "give and take" approach, it was suggested that the extent to which the increased family allowances should be financed by this means required further consideration as did the amount of the increase in family allowance itself. If, however, a decision were deferred as to the form which a "give and take" scheme should take, it would be important that this deferment should not of itself rule out the possibility of introducing such a scheme in April 1968 when final decisions were taken in July. Work on the details of such a scheme should, therefore, proceed in the meantime, if that were necessary to ensure that a "give and take" type of scheme
could be introduced in April 1968. It would have to be accepted, however, that there would be little opportunity for consultation with the Trades Union Congress (TUC) or the Confederation of British Industry (CBI), desirable though such consultation was.

In discussion of the need for an interim increase of family allowances it was suggested that such an increase might be made in October 1967 to coincide with the general increase of national insurance benefits, and that expenditure on it might be of the order of £40 million in a full year, comparable to the net cost of a “give and take” scheme, and concentrated on the larger families. Such an increase might be announced in April. It was pointed out, however, that it would not be possible subsequently to subsume this increase in a later “give and take” scheme so that the cost of the interim increase would be additional to that of the “give and take” scheme and would prejudice decisions on the “give and take” scheme itself. Further, an interim increase of family allowances of this order, paid irrespective of income, would be widely criticised, notwithstanding that it would be confined to larger families. It would be insufficient of itself to enable an increase in the charges for school meals and welfare milk to be made, since these would apply to all families. It would be apparent to the public that in making a further unselective distribution of cash the Government were failing to take the basic decision of principle.

In further discussion the following main points were made:

(a) In the longer term the possibility might be explored of centralising and integrating the administration of all social security payments and income tax through the application of automatic data processing, with the object of relating such payments to income without the application of an overt means test.

(b) Whereas means tests had in the past been designed to restrict payment as narrowly as possible, they could now be represented as being designed to give the maximum help to those families and individuals who needed help most. Such tests were likely to prove more acceptable on that account.

(c) Preliminary consideration had indicated that a decision to seek to enter the European Economic Community would not have any direct implications for our policy on family endowment.

(d) It was suggested that in order to operate a “give and take” type of scheme the Inland Revenue Department would have to be given some weeks for the preparation and issue of detailed instructions to their staff before the annual recoding began in the autumn; legislation would need to be drafted for introduction early in the new Session. In consequence it was suggested that all the details of the scheme would have to be settled in consultation between the Ministry of Social Security and the Inland Revenue by July at latest.

(e) The introduction of investment grants represented a close analogy to the “give and take” approach on family allowances since the investment grants benefited, for example, small farmers, who did not benefit from the tax allowances which had been replaced.
While an increase of family allowances effectively concentrated on the lower paid would be helpful to the Government's policy on incomes and prices, it was not of major importance to it.

The Labour Party Manifesto included only an undertaking to seek ways of integrating tax allowances and social security payments and did not commit the Government to adopting integration.

Earlier consideration had not established the possibility of making any satisfactory distinction, for public expenditure purposes, between transfer payments and other forms of public expenditure.

The Prime Minister, summing up the discussion, said that the Cabinet at their previous discussion had, on balance, already rejected the application of means testing to improved family allowances and had accepted in principle that there should be an increase in family endowment based on "give and take" principles. In view of the public expenditure and fiscal considerations advanced by the Chancellor, however, they now agreed to defer until July further consideration of the issues relating to the amount of the family allowance increase (though it should be substantial) and the extent to which it should be financed by reduction of income tax child allowances, by an increase in taxation or by a reduction in public expenditure elsewhere. A decision on the charges for school meals and welfare milk and on the proposals of the Secretary of State for Education and Science in (C (67) 9) should be similarly deferred. It was, however, essential that the deferment of a final decision on the form of a "give and take" scheme should not of itself prejudice the possibility of introducing such a scheme in the following April. Consequently, urgent consideration should be given by the Chancellor of the Exchequer, in consultation with the Minister of Social Security, to the implications of such deferment on the possibility of introducing a "give and take" scheme in April 1968; he should be informed of the outcome. Unless it was clear beyond doubt that the introduction of a scheme in April would not be prejudiced by the delay, they should arrange for the details of such a scheme to be worked out interdepartmentally as far as possible and without prejudice to the final decision. The Cabinet did not favour the introduction of interim increase of family allowances in advance of a final decision on the form of a "give and take" scheme since the cost of such an increase could not be subsumed in the cost of the "give and take" scheme and would be additional to it. It would, however, be open to the Minister of Social Security, when the Cabinet resumed their discussion of family endowment in the light of the public expenditure survey, to put forward proposals for an interim increase for which it might be possible to provide legislative time late in the Session.

The Cabinet—

(1) Took note, with approval, of the summimg up of their discussion by the Prime Minister and agreed to resume their consideration of the form of an increase in family endowment in the light of the review of public expenditure.
(2) Invited the Chancellor of the Exchequer, in consultation with the Minister of Social Security, to consider the implications of Conclusion (1) on the prospects of introducing an increase of family allowances in association with a reduction of income tax child allowances in April 1968, and to report to the Prime Minister in accordance with his summing up of their discussion.

SECRET

2. The Cabinet considered memoranda by the Minister of Housing and Local Government and Secretary of State for Wales (C (67) 25) and by the Chancellor of the Exchequer (C (67) 28) on the housing programme for 1967 for local authorities in England and Wales.

The Minister of Housing and Local Government said that over the last three years we had not succeeded in building at a rate that would ensure our reaching the Government's target of 500,000 houses by 1970. Completions in the public sector would show an increase in 1967 and 1968 but the future level of completions in the private sector was very uncertain. While there were some signs that performance in the private sector would shortly improve, the number of starts in that sector during 1966 had fallen by 18,000 compared with the previous year and there was therefore considerable leeway to be made up. In January 1967 the number of houses under construction was less by 25,000 in the public sector and 11,000 in the private sector than the number in November 1966. The present programme of approvals for 1967 fell short of the 1966 programme by 4,000; in addition, an extra 3,000 approvals would be needed for houses for miners; the combined effect was to reduce the 1967 local authority programme by 7,000. If local authorities were to plan their programmes effectively, they needed adequate notice of the number of tenders they could expect to be approved during the year and they were now pressing for this information.

We had in the past told local authorities in the priority areas to build to capacity and these authorities would be able to put into tender at least 10,000 more houses this year than in 1966. If the total programme of approvals were not increased, it would be necessary either to hold back increased building in the priority areas or to inflict a cut of exceptional severity on the non-priority areas; the latter accounted for some 65,000-70,000 houses a year and if the priority areas were allowed to go ahead, the cut in the non-priority areas would amount to 17,000 houses. There were urgent housing needs in the non-priority areas which differed from those in the priority areas only in scale. The cuts would be being imposed at a time when there was spare capacity in the building industry and would be bound to provoke political criticism. The right course would therefore be to increase the programme by 4,000 in order to make good the shortfall as compared with 1966, by a further 3,000 to compensate for the extra houses required for miners, and by a further 5,000 to allow for a modest increase over the previous year, making a total increase of 12,000. However, in the light of discussion of this
issue in the Prime Minister's Group on Housing, he would be prepared to accept an addition of 7,000 and to defer a decision on a further 5,000 until later in the year.

The Secretary of State for Wales said that the rate of progress in housebuilding had been very slow over the past three years and a considerable stimulus would be needed if the target of 500,000 houses were to be achieved by 1970. If an increase of at least 7,000 houses in the 1967 programme were not authorised, we would be unlikely to reach this target and the impression would be given that the Government had abandoned it.

The Chancellor of the Exchequer said that the present authorised programmes of approvals for local authorities were designed to provide about half of the target of 500,000 houses in 1970; the programmes were not falling behind schedule. The increase in the public sector had so far been largely offset by the fall in private housing, but performance in the private sector was capable of rapid improvement. An indication of this was the difference between the forecast by the speculative builders made in October 1966 that they would start building only 179,000 houses in 1967, and the further forecast which they had made in January when their estimate had already increased to 204,000. While forward estimates for the private sector were necessarily uncertain, the Official Committee on Housing now considered that, taking public and private sectors together, the number of completions for the United Kingdom in 1968 might be between 427,000 and 442,000. This offered a reasonable prospect of reaching 450,000 by 1969 and of having 500,000 houses under construction by 1970. While the programme of approvals showed a shortfall in 1967 as compared with 1966, this was due to the decision to increase approvals in 1966 to provide a temporary boost to the programme; it was recognised at the time that there would in consequence be a fall in the number of approvals in 1967 when we reverted to the long-term programme as originally agreed. The housing programme should not be increased simply because there was spare capacity in the building industry; it was necessary to consider the claims of housing against the claims of other programmes and the current review of public expenditure would enable this to be done. It would be wrong to anticipate the outcome of that review by adding to the housing programme now. If later in the year it became clear that performance in the private sector was not improving to the necessary extent, and subject to considerations of public expenditure, it might then be justifiable to increase the housing programme; meanwhile, no increase should be authorised.

In discussion, it proved to be the general view that an increase in the programme at least of the 3,000 houses needed to offset the additional houses required for miners was justified. On the other hand there were objections to going beyond that figure, since such a decision would pre-empt the claims of other programmes of public expenditure. It would in any event be premature to authorise an increase as large as 7,000 when an improvement in the performance
of the private sector might render this unnecessary. While predictions by the private builders had proved unreliable in the past, there were now definite signs of renewed confidence in the industry and the increased flow of funds to the Building Societies augured well for the future.

In further discussion, it was pointed out that there had been a substantial increase in the number of local authority houses approved but not yet started as compared with the position a year ago; there was also an increase in the number of houses started but not completed, and delays between approval and completion appeared to be lengthening. Any action which could be taken to reduce these delays would help to mitigate the constraint on the programmes of the non-priority areas.

The Prime Minister, summing up the discussion, said that the Cabinet agreed on balance that approvals for 1967 should be increased by 5,000 and that the position should be reviewed again in a few months' time in the light of progress in the private sector.

The Cabinet—

Agreed that the programme of approvals for local authorities in England and Wales for 1967 should be increased by 5,000 houses.

CONFIDENTIAL

3. The Cabinet had before them a memorandum by the Minister of Agriculture (C (67) 26) about the Farm Price Review, to which was attached a copy of the Annual Review White Paper.

The Minister of Agriculture recalled that at an earlier meeting the Cabinet had agreed that the Agriculture Ministers should in negotiations on the current year's farm price review be prepared to make a total award of up to £25-25 million. An agreed settlement had now been reached with the Farmers Union at that level (in detail, the figure was £25.325 million). Within that total, minor adjustments had been made, in consultation with the Minister without Portfolio, on the earlier proposals for individual commodities. By making no change on potatoes and reducing somewhat the increases on milk, cattle and pigs, it had been possible to make a small award of 2/6d. per ton on sugar beet, a slight reduction in the cut on eggs, which now amounted to 3d. a dozen and—in view of the recommendation of the National Board for Prices and Incomes on increases for fertiliser prices—the cut in the fertiliser subsidy had been reduced from £4 million to £2 million. No long-term assurances had been given in respect of pigs.

The Annual Review White Paper had been agreed with the Departments primarily concerned, and would be published on Wednesday, 15th March. Both the White Paper and his usual statement about the Review after questions on the same day would emphasise that in addition to the changes which might otherwise be necessary the Government had decided this year to give a special
increase in the guarantees for the beef and dairy herds and for pigs, in order to provide the capital resources needed to finance the selective expansion programme and so save imports.

The Cabinet—
(1) Took note, with approval, of C (67) 26.
(2) Agreed that the Annual Review White Paper attached to the memorandum should be published on Wednesday, 15th March.

4. The President of the Board of Trade said that the February trade figures were now available and showed that exports in February amounted to £453 million and imports to £522 million. The export figure showed some fall from the record figure for January 1967 and the total for imports was also less than the January figure. The deficit in the trade balance was £3 million, representing a fall since the previous month when it was £7 million. During the last three months, exports had been at a rate 20 per cent higher than during the last quarter of 1964.

The Cabinet—
Took note of the statement by the President of the Board of Trade.

Cabinet Office, S.W.1,
14th March, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 16th March, 1967, at 10.00 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 (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. 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 (Items 1-3 and 6-7)
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. PATRICK GORDON WALKER, M.P., Minister without Portfolio
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science (Items 1-6)
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 (Items 1-5)
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:
The Right Hon. FREDERICK LEE, M.P., Chancellor of the Duchy of Lancaster (Item 6)
The Right Hon. EDWARD SHORT, M.P., Postmaster-General (Item 7)
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir Burke TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. K. BARNES
Mr. H. L. LAWRENCE-WILSON
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1. The Cabinet were informed of the business to be taken in the House of Commons in the following week. On Thursday, 23rd March, it was expected that the House of Commons would meet at 11 a.m., that Questions would be taken until 12 noon and that the House would adjourn at 5 p.m. until Tuesday, 4th April.

2. The Foreign Secretary said that the Federal German Cabinet had reversed their position on the offset costs of our forces stationed in Germany. They were now offering DM450 million for our financial year 1967-68, of which DM200 million would be for purchases of military equipment and DM250 million for civil purchases. If this contribution, which would amount to some £40 million, were added to the administrative economies that we were making in the cost of our forces in Germany (£10 million), savings from withdrawing one brigade (£5 million) and half of the value of the purchases which the United States Government were making under our agreement with them not to reduce our combat strength in Germany before 1st July (£6 million), the total that could be set against the oversea costs of our forces in Germany was somewhat over £60 million. In addition the United States were being pressed by their representative in the tripartite talks to provide a further £7 million. There was to be a meeting of the Tripartite Group in Washington on 20th March and we had to decide the line to be taken then on the new proposals.

In discussion it was pointed out that on the new basis we should still not cover the full oversea costs of our forces in Germany in 1967-68, which amounted to £80-85 million. Moreover, several aspects of the matter required clarification before a decision could be taken. These included in particular the response of the United States Administration to the proposal for additional relief of £7 million to our balance of payments; whether or not it was appropriate to include in the calculation the £6 million of the total of £12 million of American equipment purchases, the whole of which was to secure our agreement not to reduce our combat strength in Germany before 1st July; whether or not the Federal German Government accepted that under their proposals we should still withdraw a brigade; and finally the implications of the American plan to rotate one division of their forces in Germany. It would be necessary for the facts to be clarified, and the necessary decisions taken, on the following day by the Defence and Oversea Policy Committee.

The Commonwealth Secretary said that the situation in Nigeria was deteriorating. In particular Iboos who had jobs or were resident in the Western region might well be subject to attack, though there were as yet no reports of any being killed. In general, the outlook was serious.
South Arabia

(Previous Reference: CC (66) 60th Conclusions, Minute 2)

The Cabinet—

Took note of the statements by the Foreign Secretary and the Commonwealth Secretary.

3. The Foreign Secretary said that the situation in South Arabia was bad and was deteriorating. Terrorists organised by the Egyptian Intelligence Service from Taiz in the Yemen were very active in Aden and dissident groups were operating against us and each other. The position was made more difficult by the fact that, although nothing had been said publicly, the Federal Government had gained the impression under the previous Administration that the grant of independence in 1968 would be accompanied by a defence agreement under which we would give military support to South Arabia after independence. He had had consultations about the situation with the High Commissioner and with two Ministers of the Federal Government and there has been an intensive examination by himself and the Defence Secretary of other possible course of action. Our primary requirement was the withdrawal of our forces from South Arabia in accordance with the planned timetable. If we were to have any prospect of doing this the Federal Government must be kept in being, at least up to the time of our final withdrawal. The Federal Government were confident that they could deal with the internal security problem in Aden more effectively than we were doing, although we ourselves were doubtful of this. But they were looking to us for support against external aggression while they dealt with the internal security problem, and, unless this were forthcoming, the Federal Government were likely to collapse before we had withdrawn our forces.

In these circumstances he had considered how far we could go towards meeting the wishes of the Federal Government with the least risk either of extending the period during which we maintained forces in South Arabia or of becoming involved with Federal forces in dealing with internal security. He now proposed that the date of independence for South Arabia should be advanced from 1st January, 1968, to 1st November, 1967; this would give the new State some prospects of acceptance by the General Assembly of the United Nations during the 1967 session, although the possibility of a veto could not of course be excluded. Shortly after 1st November all our forces would finally be withdrawn from South Arabia itself, but for a period of up to six months thereafter we would station a strike carrier and a commando carrier (with an embarked commando) in the area. Their purpose would be restricted to providing the new State with air support against external aggression and, if need be, to evacuating United Kingdom nationals. It was not thought likely that Egyptian forces from the Yemen would attempt to invade South Arabia, at least as long as it was supported against external aggression and if it succeeded in establishing itself as a stable State.
thereafter. The advantages of the proposed arrangement were that we could adhere to, and indeed advance, the timetable for our withdrawal, that the risk of becoming involved in internal security operations after independence would be eliminated and that South Arabia's prospects of acceptance by the United Nations would be improved by the fact that all our troops would have left when the application was made. It was important, however, both that we should do all that we could to secure acceptance of the new federal constitution by the United Nations mission and that we should seek to broaden the basis of the Federal Government. He was taking action to this end.

If the proposals were agreed the Minister of State for Foreign Affairs (Mr. Thomson) would leave for Aden that evening in an attempt to secure acceptance of them by the Federal Government. A statement would be made in Parliament about our proposals on the morning of Monday, 20th March, as background for the debate on the Second Reading of the Consolidated Fund Bill that afternoon which would deal mainly with the Aden situation.

In discussion there was general agreement that any course open to us in South Arabia would involve serious risks and that the Foreign Secretary's proposals offered the best prospect of minimising these and of securing our objectives. It was important, however, that we should limit strictly the duration of our commitment to give support to South Arabia against external aggression to a maximum of six months after independence. It would also be both necessary, and desirable in our own interest, to announce this limit publicly.

The Cabinet—

Agreed that action should be taken in respect of our future position in South Arabia on the basis proposed by the Foreign Secretary.

4. The Cabinet considered a Memorandum by the Minister of Technology (C (67) 30) covering a report by Officials on the proposed European Airbus, and a memorandum by the President of the Board of Trade (C (67) 32) on the relationship between the Airbus and the requirements of British European Airways (BEA).

The Minister of Technology said that the proposed Airbus would be a short-haul aircraft with a capacity of about 250 seats and operating costs per seat-mile about 30 per cent below the lowest cost of present types. It was to be developed by a consortium of British, French and German firms, and should be available for sale to the airlines by 1973. As the project depended on existing technology, it could be regarded as primarily a venture in collaborative production and marketing. By 1980 there should be a world market for
700-800 airbuses of which about 300 would be for use outside the United States. The European airbus would have to face competition from United States industry, but the United States rival, which would be in service a year earlier, was likely to have a capacity of 300-350 seats and a somewhat longer range than the European machine. Should we not proceed with the European airbus, the United States would acquire a monopoly in the field of large sub-sonic aircraft, and this would have serious effects on the European aircraft industry and on the associated advanced technological industries. In view of the large launching costs for projects of this kind, United States domination could be averted only by a collaborative European effort. The British, French and German aircraft industries had a common interest in airframe development, but the United Kingdom had in addition a special interest in the development of the new engine which was proposed for the airbus.

The United Kingdom would bear 37\% per cent of the cost of launching the airbus, which was estimated at £190 million. It had been argued that this was an over-estimate and that a figure of £90-£100 million would be more realistic, but this suggestion should be treated with caution in view of the way in which initial estimates of development costs had in the past almost invariably been exceeded in the event. The total cost to the three Governments of launching the airbus, including the Rolls-Royce engine, would be £185 million, of which the United Kingdom share would be about £75 million. 300 airbuses would have to be sold if these costs were to be recovered, and the outlook for the project was poor in terms of direct profitability. However, if foreign exchange earnings and import saving were taken into account, the project appeared in a more favourable light. The calculations which were summarised in Annex 1 to the report by Officials showed that total sales of 100 airbuses would entail an implied preference of 8-11 per cent, and if total sales reached 150 no preference would be involved. If an allowance were made for interest on the Government outlay, the implied preference on total sales of 150 airbuses would be 10 per cent. If in addition the Government loss at various levels of sale were compared with the foreign exchange savings or earnings at those levels, and if the differences were then discounted at 8 per cent (to represent the present value of Government expenditure and prospective foreign exchange savings/earnings), the implied subsidy on 150 sales would be 13-17 per cent. These figures compared favourably with the preference we were prepared to accord to certain other industries—for example, computers. One of the prerequisites for our participation in the project was an assurance of orders for 75 airbuses from the national airlines of the three countries, which was 50 per cent of the total sales of 150 assumed in the calculations. The airbus would therefore have a larger assured market at the outset than any comparable project on which we had embarked in the past.

The President of the Board of Trade said that BEA would require an aircraft of the airbus type at some time after 1973-75. However, their immediate concern was with their requirement for an aircraft of intermediate size which would span the gap between the aircraft now in service or on order and the airbus. They had
now formally asked for authority to order 30 BAC-211 aircraft, with an option for a further 10, using the Rolls-Royce RB-211 engine. The BAC-211 would be the most profitable alternative aircraft to the Boeing 727, which BEA had been refused permission to purchase in 1966. It would also be less noisy. The BAC-211 was in fact a further development of the BAC-111, of which 82 had already been sold overseas, earning £99 million in foreign exchange. It might therefore be expected that the BAC-211 would also have a good prospect of export sales. There was a difficulty over the engine in that Rolls-Royce were unlikely to have the capacity to undertake the simultaneous development of the RB-207 for the Airbus and the RB-211 for the BAC-211. An alternative engine for the BAC-211 was the existing Rolls-Royce Spey, but this would be noisier and consequently would reduce the acceptable frequency of operation and the prospect of sales. A decision to proceed with the Airbus would clearly have serious implications for any intermediate aircraft which BEA would be allowed to order, and further consideration should be given to the latter problem before reaching a decision on the Airbus. BEA could not be instructed to order the Airbus, but if they undertook to do so while at the same time they were refused the BAC-211, they would seek a firm commitment that the Government would relieve them of the financial burdens which might result from the uneconomic operation of a fleet of aircraft, the composition of which had been largely determined by the Government’s policies for the aircraft industry.

In discussion it was pointed out that many of the aircraft projects sponsored by the United Kingdom industry since the war had proved to be uneconomic. It now appeared that even the best collaborative venture which could be devised on a European basis would not be economically viable. On a national basis we had already given financial support to the computer industry in order to avoid United States domination. The question at issue was whether similar action was now required on a European basis in order to preserve the aircraft industry. This was a major political problem which required further information and a more extensive review. It was also important to remember that, once we had committed ourselves to the early stages of such a co-operative project, it would subsequently prove difficult to extricate ourselves—as had already been demonstrated in connection with Concord and the programme of the European Launcher Development Organisation. The market for the Airbus would be predominantly in the United States, and the United States Airbus would be available before the European version. It seemed likely that the United States Airbus would capture virtually the whole of the American market and a significant part of other markets (e.g., in Australia). There was also some doubt whether Lufthansa would be willing to commit themselves firmly to the purchase of the European Airbus. It had been stressed that support for the Airbus would involve increases in the planned level of public expenditure in the next few years. It was therefore necessary to be clear whether a decision to participate would entail
reductions in other programmes and, if so, precisely what these would be.

On the other hand it had to be remembered that the Airbus project was important to any general acceptance of the concept of a European technological community and, bearing in mind the saving of imports that would be involved, its economic prospects had proved on examination to be more encouraging than had been expected. Moreover the estimates might well prove to be over-conservative. The acceptance of the Rolls-Royce RB-207 was of particular importance to the United Kingdom, as Rolls-Royce were hoping that the same engine might be adopted by Lockheed for the United States Airbus, in which case the RB-207 engine would power both the European and the United States machines, with very large consequential earnings of foreign exchange for the United Kingdom. Hawker-Siddeley would be willing to yield the design leadership of the Airbus project to Sud-Aviation on condition that the RB-207 engine were adopted. It was, moreover, important that we should not delay the project pending further discussions of the BEA requirements since this would at best impair the prospect of sales and might well indeed put the whole project at risk. In considering the BEA proposals, it was relevant that by comparison with the Airbus the export prospects for the BAC-211 were at least open to question. However, further information should be obtained on the ability of Rolls-Royce to develop both the RB-207 and the RB-211 at the same time. Alternative aircraft which could be adopted by BEA instead of the BAC-211 were the Trident-3B or the stretched version of the VC-10, although BEA had said that both these aircraft would be uneconomic in operation.

The Prime Minister, summing up the discussion, said that the Cabinet were on balance inclined to favour participation in the project definition stage of the Airbus on the basis proposed. At the forthcoming meeting of Ministers of the three countries concerned we should not appear to be hampering the progress of the discussion, but at the same time we should not seek to urge our prospective partners to proceed with the project against their own judgment. We should stress the five prerequisites for our participation, and in particular it was essential that the Rolls-Royce engine should be adopted. However, the Cabinet considered that further information was needed to clarify points raised in the discussion before a final decision was taken, and the Minister without Portfolio should examine these with the Ministers primarily concerned. In the light of their discussion, the issue should then be referred back to the Cabinet for a final decision.

The Cabinet—
(1) Invited the Minister without Portfolio to arrange for the Ministers primarily concerned to discuss the issues requiring clarification and to report their conclusions to the Cabinet.
(2) Agreed to resume their discussion the following week.
5. The Chancellor of the Exchequer said that the deficit in our balance of payments for 1966 showed a very marked improvement on that for earlier years. The deficit in 1964 was estimated at £822 million. This had been reduced to £410 million in 1965 and £189 million in 1966. It was particularly notable that the improvement in 1966 arose almost entirely from the change in the situation brought about by the Government’s measures in July of that year, which had led to a substantial surplus in our balance of payments for the last quarter of the year. If those measures had not been taken our economic situation would have been extremely serious. The Basle international credits had now been renewed, although it was to be hoped that it would not be necessary for us to make use of them. The trade figures for the first two months of the current year were also satisfactory. In these circumstances, and having regard to a general fall in interest rates in a number of major international financial centres, Bank Rate was from noon of that day being reduced to 6 per cent. There was, however, some slight cause for concern at the position of the gilt edged market where the need for a large issue later in the year to provide for compensation for the nationalisation of the iron and steel industry was having a depressing effect.

The Prime Minister said that this general improvement not only in our balance of payments but also in the general economic situation, should be widely publicised in Ministerial speeches and by other means.

The Cabinet—

Took note, with approval, of the statement by the Chancellor of the Exchequer.

6. The Cabinet considered a note by the First Secretary of State and Secretary of State for Economic Affairs (C (67) 31) to which was attached a draft White Paper on prices and incomes policy after 30th June, 1967.

The First Secretary of State said that, in pursuance of the Cabinet’s decision at their meeting on 9th March, he had discussed with representatives of the Confederation of British Industry (CBI) and the Trades Union Congress (TUC) the memorandum on the future development of policy on prices and incomes which was annexed to his note and which he now proposed should be regarded as the draft of a White Paper, subject to some further amendments which he proposed in the light of these consultations. The CBI had confined themselves to making a number of detailed points on the memorandum. They had asked about the Government’s intentions as regards statutory powers after the period of severe restraint. He had told them that no final decisions had been made but that the Government at present adhered to the proposals previously put forward, except that they did not wish to take up a rigid attitude
about the maximum period of delay which might be imposed on increases of prices and wages under statutory powers after July 1967. The meeting with the TUC had been difficult and they had objected to discussing the memorandum at all. They claimed in the first place that they needed more time to consider it. There had been some suggestion that they would like a further meeting with him on Monday, 20th March, but the General Secretary of the TUC had said they would need a further month to consider the memorandum and the suggestion for a further meeting had not been pursued. The main reason, however, for the TUC’s attitude was that they were unwilling to discuss the questions of a norm and criteria for wage increases until they knew the Government’s decisions on statutory powers. They had also appeared to argue that they would wish to operate a voluntary incomes policy on the basis of criteria of their own choosing and that it would not be necessary to make any precise formulation of such criteria. He had emphasised to them the need for an early Government statement on norm and criteria in order to give guidance to those concerned in wage negotiations in the coming months.

In the light of these consultations, the right course was to give the TUC until Monday, 20th March, to make any further comment and then to publish a White Paper on 21st or 22nd March in the terms of the draft annexed to his note, subject to such amendments as the Cabinet thought fit and to his discretion to make further changes of a purely drafting character. He would make a statement in Parliament and hold a Press Conference at the time of publication.

At their previous meeting the Cabinet had asked him to consider what might be done to influence the forthcoming annual conferences of trade unions in order that they might take account of the fact that consultations on future policy were still continuing between the Government and the TUC. However, it would be necessary to take decisions on the question of statutory powers shortly after Easter and there would be no important union conferences until the end of April. If the Government adhered to the proposals on statutory powers hitherto discussed with the CBI and TUC, their decisions would not be welcomed by the unions. In these circumstances, while the public presentation of the decisions would be important, it would not be appropriate for Ministers to seek to defend them by addressing the annual conferences of trade unions.

In discussion of the draft White Paper, a number of minor amendments were agreed and the following points were made:

(a) In paragraph 2, reference should be made to the Government’s success in keeping down prices and in securing reductions in interest rates.

(b) Paragraph 4 (i) should be reworded in order to convey more positively that it was the Government’s objective to secure conditions which would encourage faster economic growth and to avoid the need to revert to deflationary measures.

(c) It should be made clear in paragraph 4 (ii) that the operation of a policy on a voluntary basis, towards which it was the Government’s objective to work, must be effective.
(d) The Minister of Agriculture said that, if the supervision of prices were to be concentrated on those prices of economic significance, as proposed in paragraph 6, this would mean a looser control of food prices than under present arrangements, and there was some inconsistency between this reference and the statement in paragraph 7 that the present early warning system for prices would be continued. On the other hand, it was pointed out that it was proposed to include in the prices which would be supervised those which were of importance to the cost of living, and this would include the prices of the main foodstuffs. It was agreed that the First Secretary of State should consider further the wording of paragraphs 6–7 in consultation with the Minister of Agriculture.

(e) In the section of the draft dealing with criteria in respect of prices, a reference to the nationalised industries on the lines of paragraph 8 of Cmnd. 2639 should be inserted.

(f) The First Secretary of State should consult with the Housing Ministers on a possible rewording of paragraphs 13–14 dealing with rents.

(g) The section dealing with incomes from employment made no reference to the phasing of wage increases. This raised the possibility that substantial increases agreed after 30th June, 1967, might be implemented in full at a time when increases allowed under the criteria for the period of severe restraint were still being phased; this might produce some anomalies. The First Secretary of State should consult with the Minister of Health on this point.

(h) The reference in paragraph 16 to the tendency for any positive figure for a norm for wage increases to become in practice a general minimum increase should be either deleted or related to past experience rather than to future expectations.

(i) The proposed criteria for incomes did nothing to remedy the anomalies which had arisen where groups of workers in England and Wales received wage increases just before the standstill, while corresponding groups in Scotland had had to wait for an increase because settlements in their case usually followed some time after settlements for England and Wales and they had in consequence been held up by the standstill. This, however, was a problem which had arisen solely because of the imposition of the standstill and should not recur in the future.

(j) It should be made clear that the additional considerations to be taken into account in applying the criteria for wage increases, which were set out in paragraph 19, were without prejudice to the generality of the main criteria for incomes.

(k) The presentation of the passage on salaries in paragraphs 23–24 would be particularly important. It would be necessary to avoid giving the impression that salaried employees were being treated more favourably than wage earners. It might be desirable to bring out more clearly in paragraph 23 that employees whose salaries were subject to review at the discretion of management had been particularly affected by the standstill and the period of severe restraint.
Reorganisation of the Post Office

(Previous Reference: CC(66)36th Conclusions, Minute 4)

Draft White Paper

It would be helpful to include in paragraph 27 a reference to the present low level of profits and dividends and in particular this section should not be so phrased as to discourage the private sector of the economy. The First Secretary of State should consult with the Chancellor of the Exchequer accordingly.

The Prime Minister, summing up the discussion, said that the First Secretary of State should now, in consultation with the Ministers concerned, revise the draft White Paper in the light of the discussion, incorporating any further changes of a purely drafting character which he thought desirable. The TUC should be given until 20th March to make any further comment and the White Paper should be published on 22nd March. It would be desirable for its substance to be discussed with the Government’s supporters in Parliament before publication. The First Secretary of State should put proposals to the Cabinet on the issue of statutory powers shortly after Easter. It would be necessary to consult the TUC further before decisions on this issue were promulgated, and it might be appropriate for him to see them on the matter.

The Cabinet—

(1) Approved the draft of the White Paper on Prices and Incomes Policy, annexed to C(67)31, subject to the amendments agreed in discussion and to any further minor drafting amendments which the First Secretary of State might wish to make.

(2) Invited the First Secretary of State, in consultation with the Lord President of the Council, to arrange for its publication on 22nd March.

(3) Invited the First Secretary of State to circulate to them after Easter proposals in respect of statutory powers on prices and incomes.

7. The Cabinet had before them a memorandum by the Postmaster-General (C(67)29), to which was attached the draft of a White Paper on the reorganisation of the Post Office.

The Postmaster-General recalled that in July of the previous year the Cabinet had agreed that the postal and telecommunication services of the Post Office should be transferred to a new public corporation. It had subsequently been agreed that the Post Office Savings Department should remain in the Civil Service and should report to Treasury Ministers, although the new National Giro and the existing Post Office remittance services were to become the responsibility of the Corporation.

After the Select Committee on Nationalised Industries had reported on its current inquiry into the Post Office, and after consultation with the Staff Side, the terms of the draft White Paper had been agreed by the Ministerial Committee on Economic Policy.
The reference in paragraph 25 to the National Data Processing Service had subsequently been agreed by the Sub-Committee on Computer Policy of the Ministerial Committee on Economic Policy.

The target for vesting day for the new Corporation should now be fixed as 1st April, 1969. This would entail securing Royal Assent to the necessary Bill by July 1968. A place had been sought in the legislative programme and it was aimed to introduce the Bill in time for the Second Reading to take place before the Christmas Recess. In keeping with this timetable it was desirable to present the White Paper to Parliament before Easter.

In discussion a few minor amendments to the text of the draft White Paper were agreed and the following main points were made:

(a) It was suggested that the proposal, recorded in paragraph 31 of the draft White Paper, to make the Corporation's power to grant licences under its monopolies subject to the consent of the Minister, but to give the Corporation the sole right to refuse licences without there being an appeal to the Minister, might lead to undue restriction either of new technical developments or of local rights. It was, however, the general view that on balance the Corporation should have the unfettered right to refuse licences, though it might be necessary to consider this issue further if the relevant clause in the Bill was subjected to strong criticism in Parliament.

(b) The timetable for the necessary legislation would require further consideration by the Future Legislation Committee.

The Cabinet—

(1) Approved the publication before Easter of the draft White Paper on the reorganisation of the Post Office attached to C (67) 29, subject to the amendments agreed in discussion.

(2) Invited the Lord President of the Council, in consultation with the Postmaster-General, to arrange for the Future Legislation Committee to consider the necessary arrangements for legislation.

Cabinet Office, S.W.I,
16th March, 1967.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 21st March, 1967, 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

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 CROPPMAN, M.P, Lord President of the Council
The Right Hon. ROY JENKINS, M.P, Secretary of State for the Home Department
The Right Hon. PATRICK GORDON WALKER, M.P, Minister without Portfolio
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 PEARL, M.P, Minister of Agriculture, Fisheries and Food
The Right Hon. CLEWYN HUGHES, M.P, Secretary of State for Wales
The Right Hon. ANTHONY WEEKWOOD BENN, M.P, Minister of Technology
The Right Hon. JOHN SILKIN, M.P, Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
The Cabinet considered a memorandum by the Prime Minister and Foreign Secretary (C (67) 33) summarising their discussions on their recent visits to the capitals of the member countries of the European Economic Community (EEC). Annexed to it was the record of those discussions.

The Prime Minister said that, while the record of the discussions in each of the capitals of the Six covered much the same ground, there had been a growing concentration on, and narrowing of, the number of problems of major difficulty as the tour continued. These fell into three groups:

(i) The common agricultural policy (c.a.p.) and particularly the difficulties arising from the current system of levies. We could not expect to change the basis of the c.a.p., but once we were a member of the Community we should play an important part in determining its development. In particular the policy would fall due to be renegotiated in 1969 and if we were a member at that stage we should not be without allies among the Six in seeking lower prices for agricultural products. We should, however, need to negotiate a substantial change of the levy system under the protocol of accession since in its present terms it would have severely damaging and inequitable consequences for us.

(ii) The problem of capital movements, particularly the freedom of portfolio investment.

(iii) The residuum of major Commonwealth problems not already arising in connection with the c.a.p., and particularly problems relating to New Zealand and the Commonwealth Sugar Agreement (CSA).

There were a number of other problems which had appeared to present major difficulties at the outset; these difficulties however had diminished as the tour proceeded. In particular, it now appeared that there should be no substantial difficulty in the Government maintaining their present policies relating to regional development, since some at least of the members of the EEC had regional problems of similar and in some cases greater magnitude, and had been able to make special arrangements to deal with them with a considerable degree of freedom.

There had also been considerable discussion of issues relating to the sterling area and our balance of payments. There was a widespread fear that, since the economic troubles of any member of the Community must affect the rest, any further crisis in relation to the position of sterling (which might for example require deflationary measures in the United Kingdom harmful to the economies of the other members of the Community) would seriously damage their interests. The concern of the Six had, however, been greatly mitigated by the discussions which had taken place during
the last visits to The Hague and Luxembourg, on the application of Article 108 of the Treaty of Rome. He had made it clear that the United Kingdom would not seek to use the provisions of this Article to seek assistance from the Six in respect of difficulties arising from the role of sterling as a reserve and trading currency, but that these would be handled in the appropriate international fora, such as the Group of Ten, or the International Monetary Fund, in the same way as difficulties relating to the Italian balance of payments a few years earlier had been handled, i.e., internationally rather than on the basis of assistance from the other member countries of the EEC.

There was a sharp division between France on the one hand and the Five on the other in the attitude of the Six towards the possibility of the United Kingdom joining the EEC. In discussions in Paris President de Gaulle had not raised difficulties arising from our special relationship with the United States, nor from our North Atlantic policy. He appeared to have recognised the force of our proposals relating to technological development in the European Community, and of the broader European political developments, both internal and external, to which the Prime Minister had referred in his speech at Strasbourg on 23rd January. General de Gaulle had, moreover, acknowledged the difference between the attitudes of the previous and the present Administrations towards our joining the Community and it appeared that he was convinced of the sincerity of our approach. Nevertheless, our entry would clearly threaten the dominant position which France had hitherto maintained in the EEC and the close community of interests which had grown up between its member countries. For this reason General de Gaulle would basically prefer that we should not pursue the question of joining the Community at present and would no doubt seek to deter us by raising difficulties both of substance and of procedure, even although in present circumstances it might well be difficult for him to veto the United Kingdom joining the Community as he had done in 1963.

The Five for their part all wished the United Kingdom to join the EEC and some, particularly the Benelux countries were extremely anxious that we should do so. For the most part they had in their discussions with the Foreign Secretary and himself sought not so much to raise difficulties on their own account as to get from us explanations of our position which they in turn could use to dispel French opposition. In the last resort, however, the Five would not be prepared to disrupt the EEC in order to force the French Government to agree to our admittance if the latter were determined to oppose it. In particular, the new Federal German Government would not be prepared to take action which would threaten the resumption of cordial Franco-German relations, although this relationship would be unlikely to persist for long in the face of the real attitude of General de Gaulle towards Germany.

It might be convenient for the Cabinet if on this occasion they confined themselves to an elucidation of the position as it emerged from the discussions he and the Foreign Secretary had had with
their colleagues of the Six Governments, and to some general discussion of the range of issues involved. At subsequent meetings, such discussion could then turn to the consideration of the attitude which the Government should adopt towards each of the major problems and to the course which they should follow on the issue of whether or not we should seek to join the EEC.

The Foreign Secretary said that in considering the attitude of each of the Six Governments it should be borne in mind that the attitude of the Italian Government, friendly though it was, had been less forthcoming than it otherwise might have been, because they were the first Government to be visited and at that stage the Six had not yet been convinced of the sincerity of our desire to join the Community if we could find the right conditions for doing so. Our sincerity had been recognised in the course of the tour and this had led to the more forthcoming attitude of the Governments which had been visited last.

Further evidence was available on the attitude of General de Gaulle from an interview which he had given to our Ambassador the previous day. General de Gaulle had made it clear that the problem was one not of principle, but of timing.

Certain issues were now much clearer in consequence of the tour. It was apparent that what mattered to the freedom of action of the member Governments was not the text of the Treaties, but the arrangements which had been worked out under them: in particular, all Governments were determined to protect their vital national interests and the regulations made under the Treaties were sufficiently elastic to enable them to do so. It was also clear that the Five were conscious of the lack of political leadership in Europe but not unnaturally did not see the French Government providing it: they would accordingly welcome the accession of the United Kingdom. Finally, 1969 would be a critical year since a number of issues were then due either to be renegotiated, such as the c.a.p., or determined for the first time. If we were not a member we should then have little or no influence on the course of events, but as a member we should have the same rights and influence as others. Nor should we have to deal with a firmly united Six in the negotiations at that time. Attitudes and interests ranged widely among the Six in relation to the various issues in question, and the pattern of voting would undoubtedly change on our accession and on the accession which would probably occur at the same time of some three or four members of the European Free Trade Association (EFTA).

In discussion, members of the Cabinet first sought elucidation of a number of issues arising from the tour and the following main points were raised:

(a) Had not the attitude of the Federal German Government been affected by the timing of the visit? In reply it was explained that this had taken place immediately after the visit to the United Kingdom of the Soviet Prime Minister, Mr. Kosygin, during which
he had attacked German policies in a public speech, and had stated
that Germany would be forced to join a treaty on the non-
proliferation of nuclear weapons. We had suffered some odium in
consequence. The Federal German Government had been under
the impression that work on nuclear weapons was advantageous,
indeed highly important, to the development of civil uses of nuclear
power and hence had been particularly concerned at the effect of
the non-proliferation treaty on their competitive ability in the
latter field. However, we had subsequently arranged for
Sir Solly Zuckerman, the Chief Scientific Adviser to the
Government, to visit Germany for technical discussions and in
consequence of this and other discussions which the Germans had
had with the United States Administration and ourselves it appeared
that they now recognised that military nuclear work gave little
advantage in respect of the development of civil uses and were less
concerned at this aspect of the problem, although the discrimination
against non-nuclear Powers which would inevitably be involved
by a treaty of non-proliferation was still an irritant. The dispute
over the offset arrangements in respect of the cost in foreign
exchange of our forces in Germany was a further cause of difficulty,
although it had been accepted on the visit that this should be kept
as a separate problem for tripartite discussion with the United
States and should not be related to our joining the EEC.

(b) If we should decide to seek to join the EEC, would the
problems arising in EFTA be less than they had been at the time
of the negotiations in 1963? In reply it was stated that Denmark
and Norway (and the Republic of Ireland) would almost certainly
apply to join at the same time as ourselves and Austria was already
negotiating for membership. The attitude of Sweden had so far
changed that she was now also considering applying certainly for
association, and possibly for membership. Switzerland might also
apply for association, and only Portugal was unlikely to do so. In
considering the attitude of the member countries of EFTA it should
be borne in mind that the policy of General de Gaulle in opposing
the supra-national concept of the EEC had greatly eased the political
position of the members of EFTA, and in particular those who were
cconcerned to maintain their political neutrality.

(c) What had General de Gaulle had in mind when he had
suggested, in the course of the discussions in Paris, that, rather than
pursue the question of the United Kingdom and perhaps other
members of EFTA joining the EEC, the countries concerned should
consider "something new" or some form of "association"? It was
suggested that it seemed improbable that he contemplated an
industrial free trade area alone, since this would give the United
Kingdom a competitive advantage because of our cheaper
agricultural imports. It might well be that he had made the
suggestion either to deter the Five from supporting our application
to join, by implying that this would result in a disruption of the
Community, or else that he had sought merely to delay or divert
an application by us for membership. In any event he had not
reverted to this suggestion later.
(d) Did the discussions during the tour of the problem of capital movements suggest that Article 70 (2) of the Treaty of Rome might provide a framework for arrangements which would meet our concern on the possibility that joining the Community would lead to excessive portfolio investment from the United Kingdom to third countries outside the enlarged Community? In reply it was stated that a difficult problem still remained, but we might hope to obtain in the context of Article 70 (2) an adequate transitional arrangement until permanent arrangements could be devised to meet the problems which might arise not only for ourselves but for the Community as a whole from this issue.

(e) Did not the action which General de Gaulle might take in the event of our applying to join the Community call for further consideration? It was argued that he and the French Government as a whole were clearly opposed to our joining at the present time and that none of the Five were prepared to have a confrontation with France on this issue. In particular the Federal German Government, partly because of the nature of the coalition between the two parties forming the Government and partly because of the recent revival of their close association with France, would be prepared to bring pressure to bear on General de Gaulle to accept our application, but not to the point of outright confrontation. It must, moreover, be borne in mind that the French Government had the right in the last resort under the Treaty of Rome to veto our entry. On the other hand, it was pointed out that there had been a substantial change since 1963 in the attitude of General de Gaulle to the question of United Kingdom accession, in consequence of the recent visits of the Prime Minister and Foreign Secretary. The effect of the recent French General Election on the ability of General de Gaulle to carry his opposition to extremes must also be taken into account. The attitude of the leading members of the Federal German Government in private discussions with the Prime Minister and the Foreign Secretary had, moreover, given good reason to suppose that they would be prepared to press upon the French Government the acceptance of our entry, even although they might well think it inappropriate at the present time to bring this pressure to bear publicly. It was also greatly to the advantage of German industry that we should join, since only then would other members of EFTA join, and the latter formed a major part of the German industrial market, in which otherwise the EFTA preferential tariff would hamper them. Much was likely to turn on the way in which any negotiations relating to our entry were conducted. Protracted negotiations would facilitate a French veto, but restriction of the number of issues which we sought to negotiate before entry, as opposed to settle after entry, might well make it impossible for General de Gaulle in the last resort to impose a veto.

In further discussion the Cabinet turned to consideration of the implications of the European talks for the essential British and Commonwealth interests which would need to be safeguarded if
Britain were to enter the EEC, starting with the effects which would flow from our acceptance of the c.a.p.

*Common agricultural policy*

There was general agreement that the reiteration in each of the capitals of the Six successively of the four main problems with which the Cabinet had considered the c.a.p. would confront us had been effective in bringing home to the Six the necessity of making adjustments in that policy to meet our difficulties. Elucidation was sought, and explanation given, on the following main points:

*(f)* Had it been made sufficiently clear in what had been said about acceptance of the c.a.p., subject to adjustments to meet our difficulties, that this did not mean that we could accept that policy subject only to the concession to us of transitional periods in which to adapt ourselves to the requirements of the policy? In reply it was stated that at no point had it been said that all our problems could be solved by the concession of nothing more than transitional periods. The Foreign Secretary had stated that our attitude to the c.a.p. was somewhat like our attitude to the Treaty—it need not necessarily be an impediment to our entry provided that our problems could otherwise be solved. These problems had then been set out, in each capital, in ascending order of difficulty, starting with the effects of the c.a.p. on our cost of living, on the pattern of British agriculture, on Commonwealth trade, and finally on the balance of payments. It had been made clear, particularly in regard to the effect on New Zealand and on our balance of payments, that something more than transitional arrangements would be required. The subsequent discussions had brought out that the importance of the discussions which the Six were bound to hold in 1968 and 1969 in order to agree permanent financial provisions for the c.a.p., to replace the present provisions which applied only to the transitional period terminating at the end of 1969. These discussions would afford the United Kingdom an opportunity, if by that time she had become a member of the Community, to negotiate from that relatively advantageous position new and more favourable provisions in regard to, e.g., the size of the Agricultural Fund, the amount of levies to be paid and the amount which might be drawn back in agricultural assistance. Stress had been laid upon this possibility by our friends among the Six, so that it had become clear that, to take an extreme example, if we were granted in this respect transitional arrangements for a term of years extending up to 1970, and if we became members before then, we could negotiate as members the financial arrangements which would apply to us from 1970 onwards as part of the enlarged Community’s new financial provisions.

*(g)* Was there, in General de Gaulle’s remark about “something new” in the way of relationship between Britain and the Community, and perhaps between the existing members of the Community, a possibility which we might pick up and develop of reaching a relationship with the Community which would not involve our acceptance of the c.a.p.? If there were, it would be
wrong to disregard this possibility, since even as a member of the Community we should find that the basic interests of the Six, as agricultural protectionists who favoured high import prices, conflicted with our own; especially as the implications of this conflict in terms of the burden on our balance of payments were very serious. In reply it was stated that the talks had made it clear that if we were seriously to discuss our entry to the Community, it was meaningless for us to say that we could not accept the c.a.p. as such. In the talks we had been highly critical of the c.a.p., and it was interesting that no member of the Six had supported it—they had rather taken the line that it had only been agreed with great difficulty over a long period of negotiation, and was an accepted part of Community policy and arrangements which could not now be reversed to accommodate a new member. It had been in accordance with the Cabinet's earlier discussions to stress the effects of the levy system as the most harmful single aspect of the c.a.p. for us, and our estimates of our total payments under it if there were no adjustments, and indeed our argument that substantial adjustments would be necessary, had been supported by Dr. Mansholt, the member of the EEC Commission for Agriculture. How far we could secure adequate adjustments, whether by drawing back substantial sums in respect of Community-approved grants for our agriculture, or by negotiating a ceiling on payments such as the Germans now had, was a matter for negotiation which had rightly not been pursued at that stage. But we had pointed out that if we were to enter without adjustments both the Community's total income from levies would be increased, perhaps beyond the sum which they required, and that we should be paying a disproportionate part of it, perhaps as much as or more than the rest of the Six put together. In these respects adjustments would be essential. We should find support in the Six for such adjustments, but it would be unrealistic to expect that we could obtain any support for wholly reversing the c.a.p. or avoiding its obligations as a condition of our membership.

(h) Had there been much discussion of the other effects of the c.a.p.? It would certainly mean a departure from our own system of support which had been maintained successfully since the war; and it would destroy the pattern of British agriculture, require structural adjustments and reduce our imports of food from and trade with the Commonwealth. In reply it was stated that the Six had been left in no doubt about these effects of the c.a.p. The Prime Minister and Foreign Secretary had in particular explained in some detail, as the records made clear, the distorting effects it would have on our production as between crops and livestock, and the consequences of this for our farmers, particularly small livestock farmers and those in areas, e.g., in the west and north, which were less suited to cereal growing. It had been made clear that time and financial assistance would be necessary for us to meet the problems which would arise in this way; assistance from the Community to finance grants to our farmers could, of course, be one means of drawing back some of the excessive payments we should otherwise
make under the levy system. This suggestion had had a good reception in a number of capitals of the Six, and it had also been made clear that it would be open to us to seek, in the Six’s financial discussions in 1969, some re-negotiation of price levels, though we could only expect to do this if we had become members and not as a condition of our accession; but the prospects of securing significant reductions in price levels were not great.

Similarly we had pointed out the effects of the c.a.p. on Commonwealth trade in agricultural produce if no adjustments were made to it, and particular attention had been drawn to the need to make arrangements which would safeguard the interests of the members of the CSA: one way of dealing with this would be to prolong the CSA, which at present ran to 1974, pending the achievement of a new world sugar agreement, for which Dr. Prebisch, Secretary-General of the United Nations Conference for Trade and Development (UNCTAD), had been working under the auspices of that organisation, though this suggestion had not been discussed. As regards cereals, the issues turned at present on the outcome of the Kennedy Round discussions of a new world agreement; but in so far as the problem remained for settlement with the Six, we should not find them wholly united against us: for example the total imports of West Germany, Italy and Benelux were no more than twice ours, and those of Germany similar to ours in volume but drawn much more from other members of the Community rather than overseas. Particular stress had been laid on the problems which the c.a.p. would create for New Zealand, and this had elicited a general response from all the Six that New Zealand’s problems would require special treatment. There was no reason to expect serious problems over her supplies to us of mutton and lamb and, while butter presented more difficulty, the disposition among the Six to accept that New Zealand was a special case implied that her problems would be met if Britain’s entry was otherwise assured, whether by a Morocco-type protocol or some form of association.

Other points made in discussion of the effects of the c.a.p. were that its application by the United Kingdom would prejudice that very considerable part of our trade which at present was on a preferential basis with Australia, Canada, New Zealand and South Africa: it would however be necessary here also to take account of the extent to which these countries had diversified and were diversifying their trade, and of the effects of the Kennedy Round. It would also be necessary to review the working of the levy system, including the fixing of target and guide prices, in relation to possible future courses of world prices, and the implications which these factors might have for the future cost of the c.a.p. to our balance of payments. Further discussion would be necessary on these points at a later stage of the Cabinet’s consideration.

The Cabinet then discussed what procedure should be adopted in their further consideration of the problems presented by the decision whether or not to apply for membership of the EEC. For this purpose it would be desirable to have further studies bringing
out in detail what would be the impact on essential British and Commonwealth interests of membership of the Community, on different assumptions as to the conditions which might be expected to prevail over the next few years. It was pointed out that such assessments were bound to include a speculative element even if a range of assumptions were taken, owing to the uncertainties as to the way in which, for example, world prices might change. It would also be necessary to take into account courses alternative to that now under discussion and in particular the relative advantages and disadvantages which would accrue if we were able to take part in the formation of a North Atlantic Free Trade Area, or if we were to continue our present course in association with EFTA and the Commonwealth without forming radical new relationships with any other group of countries. In this connection, it would be important to make the best possible assessment of the future state of our economy on various assumptions, with reference both to the possibilities of development of our economy on each of these three courses and to the implications for the timing of any further discussions with the Community or with other parties of the likely progress of our economic recovery.

The Prime Minister, summing up the discussion, said that the discussion had gone some way to bring out the implications of what had been learned in the talks with the Heads of Governments of the Six as regards the difficulties presented by British membership of the EEC, with particular reference to agriculture. It remained however to complete that discussion in relation to the other main difficulties in the way of our accession to the Community, i.e., freedom of capital movements, and any questions still outstanding on Commonwealth trade, and on regional policies. It would also be necessary, to complete these initial discussions, for the Cabinet to consider the problems which the Six for their part had raised with us during the talks, and the implications these might have for our future policy. This further discussion might conveniently be taken at the meeting of the Cabinet on Thursday, 6th April. Thereafter it would be right to move to the second stage of the discussion, namely the consideration of the relative merits of the alternative courses before us. This second stage of discussion should be based upon the further paper concerning the European alternatives which he and the Foreign Secretary, at the meeting of the Cabinet on 9th March, had undertaken to prepare and circulate; and it would be appropriate to take with this paper the reports by officials on the other possible alternatives, i.e., a North Atlantic Free Trade Area, and a continuation of our present policies and associations, which the Cabinet at their discussions in October and November 1966 had asked to be prepared. The discussion of these reports and of the paper on the European alternatives, might conveniently start at the meeting of the Cabinet on 13th April; the decisions involved were momentous and it would be appropriate to devote two or three meetings of the Cabinet to them. It would be necessary to bear in mind, in this later stage of the discussion, that the
Cabinet’s decisions might well be influenced, particularly as regards timing, by external events such as the progress of the Kennedy Round.

It would be necessary, whilst these discussions were proceeding, for the strictest confidence to be maintained about them. It was known that the Cabinet were discussing the future policy of the Government on these large matters, and public interest would be correspondingly intense. The papers before the Cabinet at the present meeting, and those which he had indicated should come before it at future meetings, should therefore be restricted to members of the Cabinet; and any references in Ministerial speeches to the Cabinet’s deliberations should be limited to indicating that the Prime Minister and the Foreign Secretary had reported the results of their European discussions and that the Cabinet were now examining the issues which had arisen from those discussions.

The Cabinet—

Took note, with approval, of the procedure which the Prime Minister indicated in his summing up of their discussion.

Cabinet Office. S.W.1.
22nd March, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 23rd March, 1967, 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. 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. PATRICK GORDON WALKER, 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 PEARL, 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. ARTHUR BOTTOMLEY, M.P., Minister of Overseas Development. (Item 3)
The Right Hon. SIR ELWYN JONES, Q.C., M.P., Attorney-General. (Item 4)

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. H. L. LAWRENCE-WILSON
Dr. F. H. ALLEN
Mr. K. BARNES
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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 Easter adjournment.

The Prime Minister said that there was a possibility that the Select Committee of the House of Commons on Agriculture might seek leave of absence from the House in order to visit the European Economic Commission. Such a visit would imply a wider extension of the activities of Select Committees than had been the original intention and there was a risk that developments on these lines might establish a precedent for their activities on the lines of committees of the United States Congress. It was relevant that Select Committees on the Estimates had not previously paid comparable visits and the Public Accounts Committee itself was not in fact allowed to sit beyond the Palace of Westminster. While it would be impolitic for the Government to seem unduly restrictive over the activities of Select Committees, the issues involved by this proposal and in Ministers appearing before the Committees could usefully be further considered by the Ministerial Committee on Parliamentary Procedure. In the meantime Ministers should defer action in these respects.

In discussion there was general agreement that the issues involved called for consideration by Ministers, though it would be essential that there should be no interference with Parliamentary privilege.

The Cabinet—

(1) Invited the Lord President of the Council to arrange for the Ministerial Committee on Parliamentary Procedure to consider in the light of the discussion the method of operation of the Select Committees and in particular the attitude which the Government should adopt towards the desire of the Select Committee on Agriculture to visit the European Economic Commission and the limitations which Ministers should observe in giving evidence.

(2) Invited the Lord President of the Council to bring the issues involved before the Cabinet again in the light of the Committee's discussion.

2. The Foreign Secretary said that the Federal Government of South Arabia were unwilling to accept the proposals which had been agreed by the Cabinet at an earlier meeting for advancing the date of independence for the new State to 1st November and for providing air support for it against external aggression for up to six months thereafter. They claimed that they had been given to understand by the previous Administration that independence would be linked to an adequate defence agreement and also took the view that they would not be ready to assume responsibility for internal security in Aden on 1st November. They had however agreed not to reject our proposals.
outright provided that we did not announce them publicly as we had previously decided. The United Kingdom Representative at the United Nations (Lord Caradon) had also advised against publication of the proposals, as planned, on 20th March since this would have coincided with the arrival in London of the United Nations Mission to South Arabia. The announcement had therefore been deferred. He had since met the United Nations Mission and had been impressed with its quality and with its resolve to find a satisfactory solution to the South Arabian problem. The Mission did not however regard the Federal Government, as at present constituted, as acceptable from the point of view of the United Nations and they also wanted us to make at least a gesture towards lifting the state of emergency in Aden. On the latter point he had told them that our ability to do this depended on whether, when they visited Cairo before going on to Jedda and to Aden, they could, by bringing pressure to bear on the Government of the United Arab Republic, help to create the conditions in which the state of emergency could be relaxed. We should have to consider in the light of certain soundings which were being taken of Adeni nationalist opinion and of the visit of the United Nations Mission to Aden whether or not to proceed with our current plans for South Arabia.

The Foreign Secretary said that the Secretary General of the United Nations, U Thant, had now made proposals for a settlement of the North Vietnam conflict to the United States and North Vietnam Governments and to ourselves and the Soviet Government as Co-Chairmen of the Geneva Conference, as well as to the International Control Commission. These proposals envisaged three stages, starting with a general standstill in hostilities, to be followed by preliminary talks between the United States and North Vietnamese, with ourselves and the Soviet Union participating if desired, and then a full scale international conference. These proposals were much on the lines of those which we ourselves had made in the United Nations; he had informed U Thant and the Soviet Foreign Minister, Mr. Gromyko, that we welcomed them. The United States had accepted the proposals following the recent conference in Guam with their Manila Treaty allies, but so far there has been no response from the North Vietnamese.

The Commonwealth Secretary said that the situation in Sierra Leone was uncertain. It appeared that the Governor-General had acted prematurely after the recent general election in asking the Leader of the All Peoples Congress Party, Mr. Siaka Stevens, to form a government. At that stage the final results of the general election were not available. Mr. Stevens's party had 31 members returned and the Sierra Leone People's Party, under the leadership of the previous Prime Minister, Sir Albert Margai, had only 27 members. However, one electoral result had still to be declared and of the remaining seven independent members, five had since declared their support for Sir Albert Margai's party. It seemed unlikely therefore that Mr. Siaka Stevens would be able to form a government, more particularly if account were taken of the vote of 12 Chiefs in the Legislature, since ten of these were likely to support Sir Albert
Margai. The Army Chief of Staff, Brigadier Lansana, had placed the Governor-General, Mr. Siaka Stevens and the Minister of Information, together with some officials, under house arrest and there had been riots with some casualties. The situation might however be peaceably resolved if the Sierra Leone Parliament could meet and there seemed to be no present threat to the United Kingdom citizens in the country (who numbered somewhat over 2,000). This further example of instability and military intervention in political affairs in an African country did, however, present embarrassing problems for our policy in Africa, particularly in relation to Rhodesia.

The Commonwealth Secretary said that the situation in Nigeria was in detail obscure but was clearly deteriorating. The Chairman of the National Liberation Council of Ghana, General Ankrah, was attempting to arrange for a mission under the auspices of the Commonwealth Secretariat to go to Nigeria to seek to assist in a settlement of the current difficulties and the United Kingdom Special Representative in East and Central Africa, Mr. Malcolm Macdonald, might be a member. In the meantime arrangements to evacuate 18,000 United Kingdom nationals in the country, should it be necessary to do so, were fully planned and it might be necessary to put these plans into effect during the Easter holiday, as 31st March might prove to be a critical date.

The Cabinet—

Took note of the statements by the Foreign and Commonwealth Secretaries.

3. The Cabinet considered memoranda by the President of the Board of Trade (C (67) 35) on the Kennedy Round of tariff negotiations generally and by the First Secretary of State and Secretary of State for Economic Affairs (C (67) 38) and the Minister of Agriculture, Fisheries and Food (C (67) 36) on the negotiations for a cereals agreement within the Kennedy Round.

The President of the Board of Trade said that the Kennedy Round was now entering the critical final phase. The High Level Steering Group, consisting of senior officials from the United Kingdom, the United States and the European Economic Commission, would meet on 29th March and the broad content of the final result of the negotiations would probably emerge from this meeting. It was expected that there would then have to be a meeting of Ministers from the participating countries about 20th April.

As regards industrial tariffs, the aim had been to secure a general reduction of 50 per cent and the major participants had tabled in 1964 lists of the products which they felt obliged to exclude from such a cut. The United Kingdom list of exclusions had been considerably
shorter than those of our major negotiating partners and accordingly in November 1966 we had put in a list of further provisional exclusions designed to restore the balance. The main participants had agreed that they would during April of this year convert their offers into precise schedules of the reduced duties which they were willing to adopt in the light of the known offers by other countries. It would probably be necessary for us to incorporate further withdrawals in our final list. Since total imports of industrial goods into the European Economic Community (EEC) and the United States alone amounted in value to more than six times the corresponding imports into the United Kingdom, the new opportunities for our exporters should more than compensate for the degree to which we should have to open our market to the exports of others.

There were also important issues relating to the non-tariff barriers imposed by the United States. The principal barriers were the American Selling Price (ASP) system for valuing benzenoid chemicals for duty and the practice of wine gallon assessment whereby imported spirits were treated for tax purposes as if they were 100 proof regardless of their actual strength, the effect being to reduce seriously our export earnings from whisky. The abolition of ASP and wine gallon assessment would each require legislation by the United States Congress and the Americans were therefore not in a position to give unconditional assurances in the context of the Kennedy Round on these matters. Accordingly, the concessions which we proposed in return for abolition, which were respectively reductions in our tariffs on chemicals and abolition of the Commonwealth preference on imported tobacco, would be conditional on the passage of the necessary legislation by the United States Congress.

It would be necessary for Ministers to consider the major issues involved as the outline of the final agreement emerged, with a view to completing the negotiations by the agreed date of 30th April.

The Minister of Agriculture said that, while a cereals agreement in itself would bring no net advantage to the United Kingdom, it was crucial to the success of the Kennedy Round as a whole. There were three main elements in the cereals negotiations: first, provisions relating to access by the cereals exporters to the markets of the importing countries, which would take the form of a self-sufficiency ratio whereby the importing countries would incur penalties if their domestic cereals production expressed as a percentage of domestic consumption exceeded the agreed ratio; second, the level of minimum and maximum international cereals prices; and third, the inclusion in the agreement of a multilateral food-aid programme. As regards the self-sufficiency ratio for the United Kingdom, we had not hitherto authorised our negotiators to discuss any ratio below 72 per cent; but it was now clear that we might have to contemplate a somewhat lower ratio if an agreement were to be secured. We were, however, committed under the selective expansion programme for agriculture to an increase in domestic cereals production; in order to carry out the programme, we should aim to secure a self-sufficiency ratio as near as possible to 72 per cent and in no circumstances less than 70 per cent. It was unlikely that a cereals agreement could be
secured without the inclusion of a food-aid programme, despite the United Kingdom objections to this, and we should now indicate our readiness to participate in such a programme subject to our contribution not exceeding £5 million per annum. This should enable us to obtain more favourable terms on the self-sufficiency ratio and on price levels which would more than offset this expenditure in foreign exchange. An increase in our self-sufficiency ratio of 1 per cent would for example enable us to save cereals imports to the value of £6 million. Since the cereals agreement was bound to involve an additional cost in foreign exchange to the United Kingdom, it would be necessary to ensure that we received compensating benefits in other sectors of the negotiations; but it would be necessary to proceed cautiously in attempting to bargain our participation in a cereals agreement against concessions on non-tariff barriers, lest this should result in a cereals agreement on such terms as would seriously damage our interests.

The First Secretary of State said that the Sub-Committee on External Economic Policy of the Ministerial Committee on Economic Policy had considered the issues in the cereals negotiations at their meeting on 21st March. They had agreed that we should instruct our delegation to impress on the United States delegation that we should not be prepared to sign a cereals agreement unless they could offer us substantial concessions in return, particularly on non-tariff barriers. Subject to this, the Sub-Committee had agreed that our delegation should be authorised to explore what were the best terms we could secure on price and access if we were prepared to accept a food-aid programme at a cost to us not exceeding £5 million a year, and to indicate in their exploratory talks that we might be prepared to contemplate a self-sufficiency ratio somewhat below 72 per cent. The Sub-Committee had felt that a ratio below 70 per cent should not be completely ruled out at this stage, since it was conceivable that if we were prepared to go below 70 per cent we could obtain offsetting advantages on the other elements in the agreement.

In discussion of the general situation in the Kennedy Round negotiations, the following points were made—

(a) Some of the restrictions which we were seeking to persuade the United States to remove (and for which we were prepared to make concessions in our legitimate tariff measures) were contrary to the General Agreement on Tariffs and Trade (GATT). If we did not get satisfaction on these issues, it might be necessary to consider retaliatory measures.

(b) Our position in the negotiations was complicated by the possibility that we might later enter the EEC. In that event, it would be contrary to our interests if during the Kennedy Round we had succeeded in bargaining for reductions in the EEC tariffs which would be contrary to our interests when we ourselves became a member of the Community. On the other hand, we could not afford to forgo the possibility of achieving any reductions in EEC tariffs now, since it was uncertain whether we should later become a member. There was the
further difficulty arising from the possibility of our joining the
Community that at that stage we should, by definition, have to agree
on the eventual achievement of a common tariff for the enlarged
Community. It would be important to ensure that we should not, as
the price of doing so, have to make further concessions to our other
trading partners to retain benefits which we had derived from the
Kennedy Round and for which we would already have paid in
concessions in the present negotiations. However, in the event of our
entering the EEC any adjustments of agreements arising from the
Kennedy Round which might be sought by others would have to be
negotiated with the enlarged Community as a whole. It was
understood that the question was already being considered of our
negotiators stipulating that any agreement on the conclusion of the
Kennedy Round would contain a saving clause in respect of the issues
arising from our subsequent entry into the Community.

(c) If the EEC persisted in excluding heavy lorries from its tariff
offer on motor vehicles, we should have to consider whether to
withdraw our own offer on passenger cars. Further consultations
with the industry would be necessary, in the light of which Ministers
should re-examine the issue.

(d) The position on textiles was that we could not offer to reduce
our tariffs on cotton or jute textiles, and we should have to withdraw
our offer on wool in the absence of reciprocity from the United States.
Unless we maintained significant offers in other parts of this sector,
principally in man-made fibre textiles, there was a danger of the EEC
and the United States withdrawing much of their offers on textiles.
These offers would indirectly be to our benefit by offering a larger
market for cotton textiles from the developing countries, so relieving
the pressure on the United Kingdom market. It would, however, be
essential to ensure that the interests of our own industry were
adequately safeguarded in the outcome of the textiles negotiations as
a whole. The President of the Board of Trade would shortly be
holding consultations with the Textile Council, who should be told in
broad terms of our intentions. Ministers should consider further our
offer on textiles in the light of these consultations.

(e) The United States were pressing us to reduce our measures
to give preferences on citrus fruits and other tropical products, but
we were resisting this. We must however recognise that the protection
which we gave to citrus was contrary to the GATT.

In discussion of the negotiations on cereals, the following points
were made—

(f) We should not contemplate a self-sufficiency ratio of less than
70 per cent, and the exploratory talks by our delegation should be
conducted on that basis. The question of the self-sufficiency ratio
should be reconsidered only by Ministers in the light of the outcome
of those talks.

(g) It was not clear what the effect would be on a self-sufficiency
ratio determined in the context of the Kennedy Round if we were
subsequently to enter the EEC. Presumably in those circumstances
we should share a common self-sufficiency ratio which would apply to
the whole of the enlarged Community. Before Ministers made further
decisions on the cereals negotiations, following exploratory talks by our delegation, they should have before them a report on this question and its implications for the present negotiations.

(b) It would have been preferable to avoid the inclusion of a food-aid programme in a cereals agreement. There were objections to aid of this kind, which tended to discourage the recipient countries from improving agricultural production. We should, however, indicate our readiness to participate in a food-aid programme in the interests of the success of the Kennedy Round as a whole. However, if we did eventually participate, we should be doing so because of general balance of payments considerations quite unrelated to the purposes of aid. It would therefore be wrong for our contribution to count against the budgetary limit imposed on our aid programme; either our contribution should be additional to the aid programme, or it might possibly be related to the loan element in that programme. This was one example of a number of problems related to budgetary provision for the aid programme; further consideration should be given to these, including the question of tied aid.

The Prime Minister, summing up the discussion, said that as regards cereals, our delegation should be authorised to explore the most favourable terms we could secure if we were to accept a self-sufficiency ratio somewhat lower than 72 per cent and if we were prepared to participate in a food-aid programme at a cost to us not exceeding £5 million per annum but they should not contemplate the possibility of a ratio below 70 per cent. The delegation should report the results of their exploratory talks to enable Ministers to decide on final instructions. The Minister of Overseas Development should also arrange for the Ministerial Committee on Overseas Development to consider the general problems of budgetary provision for the aid programme, including the question of tied aid and food aid, bearing in mind that there were substantial objections to our contribution to the latter counting against the budgetary limit on our general aid programme. Before Ministers took further decisions on the cereals negotiations, they should have a report on the implications for the negotiations, particularly as regards the self-sufficiency ratio, of our possible entry into the EEC. The Sub-Committee on External Economic Policy of the Ministerial Committee on Economic Policy should consider our offers on motor vehicles and textiles in the light of further consultations with the industries concerned. The Sub-Committee, and subsequently the Cabinet, should consider the outline of the final proposals as a whole as they emerged from the meeting of the High Level Steering Group.

The Cabinet—

(1) Invited the President of the Board of Trade to arrange for instructions on the cereals negotiations in the Kennedy Round to be sent to the United Kingdom delegation as indicated in the Prime Minister’s summing up of their discussion.
(2) Invited the Minister of Overseas Development to arrange for the Ministerial Committee on Overseas Development to consider the problems of budgetary provision for the United Kingdom general aid programme, including the question of tied aid and food aid on the basis indicated by the Prime Minister.

(3) Invited the First Secretary of State, in consultation with the President of the Board of Trade, to arrange for the Sub-Committee on External Economic Policy of the Ministerial Committee on Economic Policy—

(i) to consider a report on the implications for the negotiations on cereals of the possible entry of the United Kingdom into the EEC, before further decisions were taken on those negotiations;

(ii) to consider whether we should seek to stipulate that any agreement on the Kennedy Round should contain a comprehensive saving clause in respect of the issues arising from our possible subsequent entry into the EEC;

(iii) to consider further our offers in the Kennedy Round on motor vehicles and textiles following consultations with the industries concerned;

(iv) to consider and make recommendations to the Cabinet on the results of the negotiations of the High Level Steering Group in the Kennedy Round beginning on 29th March.

The “Torrey Canyon”

4. The Secretary of State for Defence said that it was necessary for the Cabinet to consider certain issues which might arise in the near future in respect of the action that should be taken by the Government to deal with the tanker Torrey Canyon which had been wrecked on the Seven Stones Reef on the previous Sunday. There had already been a very large leakage of oil which might well pollute the beaches of the whole of Devon and Cornwall and there was still another 100,000 tons of oil in the tanker. Although the weather so far had been unusually favourable, with winds from the north and west which were blowing the oil “slick” southwards, there was a continual risk that a south-westerly gale might blow up and bring the oil back to this country. The governmental arrangements for dealing with the problem so far had been co-ordinated by the Ministry of Defence and a committee of scientists (with a representative of British Petroleum) had been set up under Sir Solly Zuckerman, the Chief Scientific Adviser to the Government, to consider all the ways in which the problem might be dealt with. A number of ships were in action to try and break up the main “slick” of oil but, even if no more oil escaped, some ten days would be needed before the oil mass could be dispersed by the use of detergent and by wind and weather. The major problem, however, was what action should be taken in respect of the tanker itself and oil still within it. The best course would undoubtedly be to float off the tanker during a high spring tide; and
the best prospect for this to be done was the following Sunday night. This operation was being considered by a Dutch salvage firm, which was probably the most expert firm in the world in this type of operation. They would receive all possible assistance from the Royal Navy. Even if they were successful, however, there would then be the problem of where the ship should be towed. This would not be for the Government but for the salvage firm themselves to decide. The best place might prove to be Bantry Bay, but otherwise it might be necessary for the ship to be towed into one of the Cornish bays and it was for consideration what rights the Government would then have to restrict the operation. If attempts to float off the tanker failed it would also be for consideration whether the Government should arrange for the ship to be set on fire and what rights we had to order this to be done. In any event, it was questionable whether this would be the wisest course, for in a similar operation in the Persian Gulf some while ago, the ship had burned for three months and at the end of that time two-thirds of the oil still remained. Furthermore, the attempt to fire the tanker might result in an explosion, so releasing all the remaining oil. The best technical advice was being taken on all these issues, but the legal position was uncertain and it might be necessary to take action in an emergency over the weekend. In that event, the Cabinet might be disposed to authorise the Prime Minister, in consultation with the Attorney-General and himself, to decide on this action even if this might call for subsequent validatory legislation.

The Attorney-General said that our present view was that the Torrey Canyon was outside territorial waters. The legal position was complex: in particular there was conflict of obligations between the International Convention for the Prevention of Pollution of the Sea by Oil on the one hand, and the International Convention on the Territorial Sea and the Contiguous Zone on the other. The test of what action it would be appropriate for the Government to take depended on what they were advised would be reasonable in the circumstances at any given time. If they were advised that in certain circumstances the towing of the ship to a United Kingdom bay might lead to its collapse or to extensive pollution of the sea and the beaches, then the Government would be entitled to take action to resist this course, though naturally it would be preferable to seek the consent of the owners of the ship to whatever course we adopted. As long as the ship was on the high seas any sanctions under International Conventions could only be exercised by the Government of Liberia, since the ship was on the Liberian register, though the United States Government might also exercise influence as the ship was owned by a United States firm. The owners of the ship were themselves under a legal obligation to take reasonable precautions to prevent the pollution of the sea by the oil from the tanker and, if the wreck of the ship had been due to negligence in navigation, the owners were liable for the consequences. In considering what was reasonable action at any time, relevant factors would be the value of the ship and the value of its surviving cargo on the one hand, as compared on the other with a reasonable estimate of the damage which might be caused by further
pollution to inshore fisheries and with the cost of dealing with pollution both on the sea and on the beaches. In certain circumstances, these factors might entitle the Government to arrange for the ship to be set on fire. The Government could not be sued in United Kingdom courts for such an act, which would constitute an act of state, but they might be liable to be sued in the International Court of Justice.

In discussion there was general agreement that in view of the great importance of preventing the extensive pollution of British fisheries and beaches all possible action should be taken by the Government to prevent this and that the Ministers immediately concerned should be authorised to take whatever action they judged reasonable in the circumstances to that end. The following points were also made—

(a) Even in the most favourable circumstances, the cost of the detergent necessary to disperse the whole of the contents of the cargo would amount to some £12 million and in present conditions the cost would be much greater. It was not however necessary to emulsify all the oil, since eventually it would disperse naturally and the problem was to prevent pollution of the fisheries and beaches meanwhile.

(b) There was reason to think that there might have been negligence in the navigation of the ship and the circumstances suggested that it might be desirable for the Ministers concerned to consider later the broader questions arising from the operation of flags of convenience.

(c) While the control of the governmental operations at the present stage was a matter for the Ministry of Defence, since the main activities were being carried out by the Royal Navy, the responsibility for answering questions in the House of Commons and for co-ordinating the financial aspects of action by local authorities would pass to the Minister of Housing and Local Government if the oil approached the land. The Official Committee on Emergencies had already met and the Ministerial Committee on Emergencies should meet whenever circumstances made this desirable, to consider the co-ordination of all governmental action.

(d) In considering any action which the Government might take in respect of the ship itself, it would be desirable to seek the concurrence of the foreign governments concerned, though we should not necessarily be bound to obtain their agreement if the risk to our interests made it essential in our view for action to be taken.

The Prime Minister, summing up the discussion, said that the Cabinet were impressed by the extent and efficiency of the action which the Royal Navy had already taken to deal with the situation. They agreed that further action in respect of the tanker should be decided by the Defence Secretary and the Attorney-General, in consultation with himself. Other action in respect of the oil at sea would remain the responsibility of the Ministry of Defence, which would co-ordinate governmental action in this regard. Action on land, and immediately off shore, should be co-ordinated by the Official and Ministerial Committees on Emergencies. At that stage the
Minister of Housing and Local Government would be responsible for answering questions in the House of Commons.

The Cabinet—

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

(2) Invited the Secretary of State for Defence to convey to the Royal Navy their appreciation of the work which had been done in dealing with the problem.

(3) Invited the Home Secretary, in consultation with the Secretary of State for Defence and the Minister of Housing and Local Government, to arrange for the Ministerial Committee on Emergencies to keep the situation under review and to meet as necessary to consider the co-ordination of government action by the Government and by other public authorities.

(4) Invited the President of the Board of Trade to consider whether it would be appropriate to review the issues arising from the operation of flags of convenience.

The Airbus Industry

The Airbus

Previous Reference: C (67) 34th
Conclusions, Minute 4)

5. The Cabinet considered a memorandum by the Minister without Portfolio (C (67) 34) on the outcome of his consultation with the Ministers immediately concerned about the Airbus and associated questions.

The Minister without Portfolio said that the discussion with his colleagues had clarified the facts about new engines and the aircraft in which they could be used. The Ministers concerned had agreed that British European Airways (BEA) should undertake an urgent study of the various aircraft which could meet their interim needs, including the BAC-211, the Trident 3B and the stretched VC-10. While recognising that no decision could be made until the results of the study were available, they were inclined to look unfavourably on the BAC-211 project. On the Airbus, they recommended that the United Kingdom should now proceed to the project definition stage, subject to the strict observance of six prerequisites. The first five of these were as set out in the Minister of Technology's earlier memorandum (C (67) 30), although condition (ii) about the necessity of re-examining the estimate of launching costs had been somewhat strengthened. The sixth prerequisite referred to the capacity of the Airbus, which they believed should not exceed 250 seats in the version to be first developed—although it would doubtless be open to “stretching” in subsequent years if there were a commercial demand for this.

In discussion it was pointed out that increasing the capacity of the Airbus above 250 seats would make it easier to reduce the operating costs and might also make it easier to secure the adoption of a Rolls-Royce engine. However, these considerations were
outweighed by the fact that a larger European airbus would be in direct competition with the airbus to be produced in the United States, and this would greatly reduce its prospect of sales. It was essential that the European airbus should differ significantly in size from the United States machine and should thus appeal to a somewhat different market.

The Cabinet—
Agreed that, subject to the agreement of the French and the Federal German Governments, the United Kingdom should proceed to the project definition stage of the European airbus, subject to the strict observance of the six prerequisites set out in C (67) 34.

Cabinet Office, S.W.1.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 4th April, 1967, 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. LORD GARDINER, Lord Chancellor (Items 2 and 3)
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. PATRICK GORDON WALKER, 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. 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. ARTHUR BOTTOMLEY, M.P., Minister of Overseas Development (Item 3)
The Right Hon. KENNETH ROBINSON, M.P., Minister of Health (Items 1 and 2)
The Right Hon. LORD CHALFONT, Minister of State for Foreign Affairs (Item 3)
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. K. BARNES
Mr. H. L. LAWRENCE-WILSON

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1. The Prime Minister said that the draft of a White Paper on the Torrey Canyon had been circulated by the Home Secretary to the Cabinet under cover of C (67) 43. The timetable had however, exceptionally, made it impossible for the draft to be discussed in Cabinet in accordance with normal practice for White Papers and members of the Cabinet had instead been asked to let the Home Secretary have by the end of the previous day any amendments which they wished to suggest. The White Paper would be published that afternoon and it was for consideration whether it would be appropriate to put down a Government motion, on the issues which arose, for debate the following week.

In discussion there was general agreement that the desirability of putting down a motion for debate could best be judged after the statement which the Prime Minister was to make in the House of Commons on the Torrey Canyon that afternoon.

The Prime Minister recalled that the Minister of State, Ministry of Technology, had made a statement in the House of Commons on 22nd March about the repayment by Bristol Siddeley Engines Limited to the Ministry of Technology of £3,960,000 in respect of excessive profits which the firm had made between the years 1959 to 1963 on a number of contracts for the overhaul of certain types of aeroplane engines. Further investigations since the statement, and the Parliamentary and public reactions to it, suggested that there was need for a formal inquiry into these transactions. It would not be wholly appropriate that the inquiry should be conducted by the Public Accounts Committee and the balance of advantage lay in instituting an independent inquiry on the lines of that which had been carried out under the Chairmanship of Sir John Lang, a former Permanent Secretary of the Admiralty, into the excessive profit which had been obtained by Ferranti Limited on the contract for the BLOODHOUND guided missile. It might also prove desirable subsequently for this or a comparable inquiry to cover transactions in respect of contracts for certain other weapons systems. Initially, however, the inquiry could best be confined to the transactions of Bristol Siddeley Engines Limited which were immediately in question. The statement which would be made in the House of Commons the following day would be in terms which would not pre-judge the outcome of the inquiry or the attitude which the firm had adopted towards these profits and their repayment.

In discussion the Cabinet were informed that the issues of principle relating to Government contracts which arose in this connection were being discussed with the Confederation of British Industry. Particular difficulties had arisen in respect of contracts with firms producing aircraft and electronic equipment. It would not, however, be appropriate for these issues to be raised in Parliament the following day.

The Cabinet—

Took note of the statements by the Prime Minister on the Torrey Canyon and on Bristol Siddeley Engines Limited.
2. The Cabinet considered a memorandum by the First Secretary of State and Secretary of State for Economic Affairs (C (67) 39) on the question of taking further statutory powers in pursuance of the Government's policy on prices and incomes.

The First Secretary of State said that it was now necessary to reach decisions on further statutory powers over prices and incomes for the period after the expiry of Part IV of the Prices and Incomes Act in August 1967. The existing powers under Part IV were comprehensive in character, though their exercise in practice had been limited. We should face a difficult economic situation after the end of the period of severe restraint, with pent-up wage demands and a consequent threat of pressure for prices to rise. If movements of prices and wages were allowed to go unchecked, there would be a risk of a renewed crisis of confidence in sterling and the need for further drastic economic measures. There were a number of policies which the Government could follow to prevent this, of which the policy on prices and incomes was only one, though an important one. The Government’s long-term objective should be an effective policy in this field conducted on a voluntary basis, but the present issue was the speed with which the Government could move from a situation of extensive statutory control to a completely voluntary system.

The right course was for the Government, before the expiry of Part IV of the Act, to activate Part II and to seek additional powers which would be valid for 12 months only. To seek powers for a longer period than this would provoke hostility unnecessarily; on the other hand, the Government might be placed in difficulties later if they undertook at this stage that they would not seek further powers at the end of 12 months; there should therefore be no commitment either way. When the additional powers expired at the end of 12 months, it would be important to ensure that Parts I-III of the Act still remained on the statute book and were capable of being activated if necessary. The existing powers under Part II, when activated, provided for Orders imposing a standstill of up to one month on proposed increases of prices and wages pending a decision on whether to make a reference to the National Board for Prices and Incomes (NBPI), and a further standstill of up to three months if a reference to the Board were made. A further power should now be sought extending the maximum period of standstill to cover one month pending a reference to the NBPI and an additional six months beyond that, making a total of seven months' delay from the date of notification of the proposed increase. Provision should be made whereby Orders imposing a standstill should remain in force for their appointed period, even though the parent legislation might have expired before then. This was a modification of the proposal previously considered by the Cabinet whereby a maximum delay of 12 months could be imposed from the date of reference to the NBPI but the relevant Orders would be of no effect after the expiry of the parent legislation;
this would have meant that the maximum period of standstill would in practice progressively shorten as the date of expiry of the parent legislation drew nearer. The present proposal was preferable since a maximum period of six months would be more acceptable to the Trades Union Congress (TUC) than one of 12 months and since it would be more equitable and administratively more practicable to maintain the same maximum period of standstill throughout the currency of the legislation. It would also be essential to take powers to prevent retrospective payment of wages in respect of a standstill period and to enforce reductions of prices. All these powers should be exercised only in pursuance of a recommendation by the NBPI, though the Government would not be obliged to make an Order whenever the NBPI so recommended. A provision, exercisable by the Government on their own initiative, would be necessary to enforce the temporary reversion of an increase of prices or wages which had been implemented before the issue could be referred to the NBPI. Finally, it would be necessary to include a provision protecting employers against actions for breach of contract where they had deferred increases of wages in accordance with a request by the Government during the periods of standstill and severe restraint, but had not gone through the statutory procedures which were necessary if they were to be protected from such actions by Section 30 of the Act.

The Minister of Labour said that he was deeply concerned at the present general deterioration in industrial relations. It was important to avoid taking decisions which would exacerbate the situation. Many trade union leaders now felt that as a result of the conference of trade union executives on 2nd March they were committed to oppose the retention of any reserve powers by the Government. There was no longer any prospect of securing by further negotiations even the reluctant acquiescence of the TUC in the taking of additional statutory powers. It was nevertheless necessary for the Government to retain some reserve powers. He was prepared to accept the proposals put forward by the First Secretary of State; he had, however, serious reservations about including the power to prevent retrospective payment of wage increases, which would provoke bitter opposition.

In discussion, it was argued that the proposals put forward by the First Secretary of State would mean only that increases of prices and wages could be delayed for up to seven months instead of up to four months in accordance with the provisions of Part II; this was only a marginal extension of statutory control and would not have sufficient impact on the economic situation to justify incurring the industrial and political difficulties attendant on further legislation. It was not necessary to take further powers from the point of view of the effect on overseas opinion, which was less concerned with the Government’s policy on prices and incomes than it had been a year earlier, but was influenced rather by the progress being made towards a continuing surplus in our balance of payments. It would therefore be preferable for the Government to confine
themselves to the activation of Part II, which in itself represented a substantial measure of statutory control, but to make it clear that, if the policy on this basis were to prove inadequate, the Government would be compelled to introduce more comprehensive legislation.

On the other hand it was urged that the power to delay increases by up to seven months would constitute a considerable brake on price and wage movements. Without such a brake, it was likely that increases of wages over the next 12 months would more than pre-empt the whole of the increased spending power which would be generated if we achieved the economic rate of growth now expected. If this happened, it would be necessary either to introduce substantial increases of taxation or to reduce programmes of public expenditure of great social importance. If the Government were to confine themselves to the activation of Part II, their powers over prices would be limited and this would help to stimulate further increases of wages. Moreover, it would be impossible to avoid giving the impression that the Government had retreated from their original position under pressure. Recent contacts with Commonwealth Governments had shown that international opinion was still greatly concerned about the future of the policy on prices and incomes in relation to the future of sterling.

It was also suggested that the proposal that Orders imposing a standstill on increases of prices or wages should remain in force even after the parent legislation had expired would mean that statutory control would continue until virtually the end of 1968; this would provoke strong opposition. On the other hand, the TUC themselves had stressed the inequity of the original proposal whereby the maximum period of standstill would in practice diminish towards the end of the period for which the legislation remained in force, and the present proposal was unlikely to increase materially the hostility of the TUC.

In further discussion, it was argued that the proposal to take power to prevent retrospective increases of wages should be abandoned. If it were retained, the legislation would attract even stronger opposition both industrially and among the Government's supporters in Parliament. Retrospective increases of wages were not likely to become widespread; retrospection was not a familiar concept to those concerned with wage negotiations in the private sector and they would be unlikely to change their habits quickly. Moreover it should be possible to use the Government's powers over prices to check any tendency on the part of employers to give way to demands for retrospective payments. In any case, it would not be possible to prevent agreements for retrospective increases being reached after the expiry of the proposed additional statutory powers; and in view of this it was at least questionable whether it was worth while to seek to prevent them solely during the lifetime of the proposed new legislation. The Government's primary object should be to do everything possible to ensure the success of the TUC's arrangements for controlling movements of wages and from this point of view it would be better to drop the power to prevent
retrospective payments, which would provoke a bitter reaction from the TUC and prejudice their own efforts to work out an effective policy. The Government could, however, make it clear that, if retrospective increases of wages began to be made on such a scale as to undermine the policy, they would be prepared to take powers to prevent them. Indeed there would be advantage in making it clear that, if the policy of relying primarily on voluntary controls coupled with the activation of Part II were not to be effective, the Government would take far more draconian powers in this field.

On the other hand it was argued that the proposals for additional powers had already been considerably diminished and, if the power to prevent retrospective increases were to be dropped, the proposals as a whole would no longer be worth pursuing. Retrospective increases could be expected to become considerably more frequent if they represented the only way of circumventing statutory Orders imposing a standstill, and it was necessary to have power to prevent them if minority groups who challenged the policy were to be dealt with effectively. If this power were dropped, we should in effect be reverting to the system obtaining before July 1966; and there was no evidence that this would work any more effectively in the future than it had done in the past. The Government would then be relying on a policy which was virtually certain to result in increases of wages on such a scale that in order to safeguard the balance of payments it would be necessary to pursue policies which would inhibit economic growth, to maintain unemployment at a higher level and to restrict public expenditure still further. If, concurrently with the increases of wages which such a policy would permit, the Government continued to restrain prices, there would be a consequential diminution of profits which would adversely affect investment, to the further detriment of economic growth.

The Prime Minister, summing up the discussion, said the Cabinet on balance agreed that the Government should activate Part II before the expiry of Part IV and take further powers as proposed in the annex to C (67) 39, except for the power to prevent retrospective payment of an increase of wages following the imposition of a standstill. The powers should be valid for 12 months and should enable a standstill to be imposed on proposed increases of prices or wages for up to one month pending a decision on a reference to the NBPI and for a maximum of a further six months where this was recommended by the NBPI. Provision should be made for the relevant Orders to continue in force for their appointed period, even where this extended beyond the date of expiry of the parent legislation. As regards the power to prevent retrospective increases of wages, while strong arguments had been adduced for taking such a power, the Cabinet's view on balance was that it would be preferable not to do so, but to make it clear that the Government would be prepared to introduce further legislation on this specific issue if it should prove that retrospective increases were undermining the policy. Indeed, when the Government introduced their proposals for legislation, it would be necessary to
make it clear that they would bring forward more comprehensive legislation providing for stronger and more comprehensive powers if the policy on the basis proposed were to prove ineffective. It would be important when the Government’s policy was announced for all Ministers to seek every possible opportunity for its public exposition.

The First Secretary of State said that a decision not to take powers to prevent retrospection would not only be regarded as a retreat by the Government but would also have serious implications for the practicability of the remaining powers which it was proposed to take. It would for example no longer be possible to obtain the agreement of the Confederation of British Industry to the powers which were proposed in respect of prices. In these circumstances he would wish to consider the repercussions of the Cabinet’s decision on the Government’s policy on prices and incomes as a whole before the decision was implemented in its present form.

In renewed discussion it was generally agreed that the First Secretary of State should accordingly circulate a further memorandum for consideration the following week.

The Cabinet—

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

(2) Invited the First Secretary of State to circulate to the Cabinet for consideration in the following week a memorandum assessing the implications for the proposals for statutory powers as a whole of a decision to omit the power to prevent retrospective payment of an increase of wages following the imposition of a standstill.

3. The Cabinet had before them memoranda by the Secretaries of State for Foreign Affairs and for Defence (C (67) 40) and by the Secretary of State for Commonwealth Affairs (C (67) 41) on the defence expenditure studies.

The Defence Secretary said that the series of defence expenditure studies set in hand in the autumn had now progressed far enough to show that there was no hope that, by making reductions in our forces but without major changes in our oversea policies, we could reduce planned defence expenditure in 1970-71 by £200-300 million in addition to the reduction achieved during the previous defence review of £400 million for that year. Subsequent consideration had emphasised the need for the maximum contribution on defence account to a reduction in the cost of present planned programmes of public expenditure as a whole in 1970-71. On the basis of the defence studies we could only look for savings of £100-125 million in 1970-71, although these would increase by up to £25 million in subsequent years. Whereas in the defence review it had been

* Previously recorded in a Confidential Annex.
possible to make large economies in defence expenditure by obtaining better value for money and without large reductions in our military capability, it was now no longer possible to make further cuts in defence expenditure on the scale required without reducing the size of our forces and therefore their capability. This must carry with it reductions in their tasks and commitments which would involve major changes in our foreign policy.

Our room for manoeuvre in the next few years was limited mainly to our Far Eastern deployment and commitments, and to the consequential effects of changes in these on the forces, facilities and stocks which we maintained in the United Kingdom. So far, the defence studies had taken as a main assumption the reduction of our forces in Singapore/Malaysia by about half by 1970-71. Larger savings would be possible if the rundown could be made part of a firm plan to withdraw all our forces from Singapore/Malaysia no later than 1975-76 with, if necessary, a military presence in the Far East consisting of small naval and air forces based on Australia. A very tentative estimate was that savings in the planned defence budget might on this basis be £150-200 million by 1970-71, compared with the £100-125 million foreshadowed by the present defence studies, and up to £300 million in all by 1975-76.

If we were to make savings of this order and in this time-scale, it was essential that decisions should be taken and announced in July so that the Services would have a firm plan on which to work. Before this would be possible, however, we must consult our Allies on the proposals, notably the United States, Australia, New Zealand, Singapore and Malaysia. Major renegotiations of our force declarations to the South-East Asia Treaty Organisation (SEATO) and of our treaty obligations to Malaysia and Singapore would be necessary; we should have to renegotiate our agreement with Brunei and, soon after 1970-71, we would no longer be able to contribute land forces to the Commonwealth Brigade although we could contribute maritime and air forces to a Commonwealth Strategic Force. Apart from these wide-ranging changes in political and military commitments, and the very large problem of disbandment, reorganisation and retraining that would be involved for the Services, and for the army in particular, the economic consequences in the area as a whole would be considerable and in Singapore would be grave, since expenditure by our forces there provided 20-25 per cent of the Gross National Product and since we employed some 10 per cent (33,000) of the local labour force which already had an unemployment rate of at least 10 per cent. It would be difficult for us to carry our partners with us in this new approach but it was essential for us to try to do so and to embark quickly on the necessary process of consultation. Although he would be seeing the United States Secretary for Defence later that week he had agreed with the Foreign and Commonwealth Secretaries that this should not be the occasion on which to discuss with him even the general shape of our plans. This would be done by the Foreign Secretary with the Americans and with the New
Zealand Prime Minister at the time of the SEATO Council meeting on 18th-20th April and, at the same time, the Prime Minister might send a message to the Australian Prime Minister, Mr. Holt. He suggested that he himself should visit Singapore and Malaysia to discuss our plans with their Governments very soon thereafter.

In discussion it was agreed that there was insufficient time on this occasion to discuss the present proposals adequately and that a final decision on the future disposition of our forces must in any event be left until a fully considered plan had been worked out and presented in the context of the defence studies as a whole in June-July. It would however be necessary for the Cabinet to decide before the Foreign Secretary went to the meeting of the SEATO Council whether we should plan a withdrawal from the Far East on the scale and timetable proposed by the Foreign and Defence Secretaries. It was of particular importance that strict secrecy should be maintained about our plans until the time came to discuss them with our Allies since we should otherwise face united opposition to them.

The Cabinet—
Agreed to resume their discussion in the following week.

*Cabinet Office, S.W.1,
4th April, 1967.*
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 6th April, 1967, 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. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. PATRICK GORDON WALKER, 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 following were also present:

The Right Hon. FREDERICK MULLEY, M.P., Minister of State for Foreign Affairs (Item 4)

The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:

SIR BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. H. L. LAWRENCE-WILSON
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Parliament

The Torrey Canyon

(Previous Reference: CC (67) 16th Conclusions, Minute 1)

1. The Cabinet were informed of the business to be taken in the House of Commons in the following week. They also discussed the terms of a Motion for debate in the House of Commons on the wreck of the Torrey Canyon and the possibility that a Select Committee of the House of Commons might be appointed to enquire into certain aspects of the disaster. There was general agreement that it would be inappropriate for a Select Committee to be appointed for this purpose alone, since this might give the appearance of an inquest being carried out on the action which the Government had taken, whereas the important issue was to consider what measures and precautions should be taken to provide safeguards against future disasters of this nature. It would therefore be preferable for the existing Select Committee on Science and Technology to be invited to examine these aspects in due course, after the work at present in hand in the two Ministerial Committees, with their supporting Official and Scientific Committees, had been brought nearer conclusion.

The Cabinet—

1. Invited the Home Secretary to consider with the Secretary of State for Defence and the Minister of Housing and Local Government, in the light of their discussion, the terms of the draft motion to be tabled in the House of Commons on the Torrey Canyon.

2. Invited the Lord President of the Council, in consultation with the Minister without Portfolio, to consider inviting the Select Committee of the House of Commons on Science and Technology to consider the measures which should be taken to guard against or deal with any future disasters like that which had been caused by the wreck of the Torrey Canyon.

2. The Prime Minister recalled that he had circulated the previous September a procedural memorandum (C (P) (66) 8) inviting Ministers to restrict travel abroad as far as possible and, when they found it necessary to make journeys overseas, to take the minimum number of officials with them. There had recently been some occasions when our delegations to conferences overseas seemed to have been unduly large and Ministers should seek to ensure that on future occasions they were accompanied by the smallest possible number of advisers.

There was a further related issue to which he would invite the attention of Ministers. This was the growing tendency for departmental representation at meetings of the main Whitehall committees for Departments to be represented by two, three or even four spokesmen. While allowance must be made for those cases
where several divisions within a Department had a major interest in the subject under discussion, the result in general was both wasteful and inefficient and the tendency should be reversed. It should be regarded as a Department’s duty to maintain such necessary co-ordination as to enable it to be adequately represented at interdepartmental meetings by one, or at the most two spokesmen. He would consider how these issues could best be pursued.

In discussion there was general recognition of the need to restrict the size of delegations to conferences. The suggestion was made that there would, in particular, be advantage if one Minister were in charge of each delegation and consequently responsible for restricting its total size, even although he might need to be accompanied by other Ministers. There was also agreement on the need to avoid attendance at committee meetings by several representatives of any one Department.

The Cabinet—

Took note, with approval, of the Prime Minister’s statement on the need to restrict the size of United Kingdom delegations on overseas visits and to restrict the number of departmental representatives at meetings of committees.

3. The Commonwealth Secretary said that the situation in Nigeria was still unstable. Although it had been thought that 31st March might prove a critical date in relations between the Eastern Region and the Federal Government, the former had not in fact declared its secession. The Eastern Regional Government were however now diverting to themselves revenue from oil royalties which under the Constitution should be paid to the Federal Government. The Chairman of the National Liberation Council of Ghana (General Ankrah) was continuing his attempts to achieve agreement between the leaders of the Federal Government and the Government of the Eastern Region. The suggestion for an initiative by the Commonwealth Secretariat in which the United Kingdom Special Representative in East and Central Africa, Mr. Malcolm MacDonald, might play a part had however been rejected, primarily because General Ankrah and others concerned had felt that a solution should be found by the Africans themselves.

The Commonwealth Secretary said that the Minister of State for Commonwealth Affairs (Mr. Thomas) had on his present visit to Uganda succeeded in allaying the fears of the President of Uganda (Dr. Obote) that we were endeavouring to interfere in Ugandan affairs or to assist the exiled Kabaka of Buganda. Dr. Obote's own position was in doubt, however, and a military coup d’état against him might well take place, though probably not in the immediate future.
The Commonwealth Secretary said that the recent military coup d'état in Sierra Leone had been successful and the National Reformation Council led by Colonel Juxon-Smith was wholly in control. Brigadier Lansana, the head of the army and leader of the previous attempted coup, had been sent to a post in the United States. The position relating to the Governor-General was constitutionally somewhat confused but in effect he had been suspended but not dismissed, and no problem of recognition of the new régime in Sierra Leone therefore arose. There was no threat to Europeans in the country.

In discussion it was recognised that these further examples of instability in African ex-colonial territories seriously embarrassed our Rhodesian policy.

The Cabinet—

Took note of the Commonwealth Secretary's statements.

4. The Cabinet resumed their consideration of the memorandum by the Prime Minister and the Foreign Secretary summarising their discussions on their visits to the capitals of the European Economic Community (EEC) and the annexed Record of these discussions (C (67) 33). They also had before them a Note by the Secretary of the Cabinet covering a further memorandum by officials on agriculture and the Common Market (C (67) 44).

The Prime Minister recalled that the Cabinet had agreed at the end of their previous discussion of this subject a provisional procedure for further discussions, namely that they should first conclude their assessment of the results of the European tour, i.e., the main obstacles to our entry to the EEC which the Cabinet had not already discussed (freedom of capital movements, Commonwealth problems, and regional policies) and the two main concerns expressed by the Six (the problem of sterling as a world currency, and the change in the character of the Community which would result from the entry of the United Kingdom and from the entry or association of her partners in the European Free Trade Association (EFTA)). The Cabinet should then turn to consider the further paper on the common agricultural policy (C (67) 44) for which they had asked at their meeting on 21st March, and any further interdepartmentally agreed factual papers on other subjects which the Cabinet might need. Thereafter it would be necessary to consider the report which the Cabinet at their meetings in October and November had asked officials to prepare on courses alternative to entry to the EEC, i.e., membership of an Atlantic Free Trade Area, and a policy of abstention from any new association with wider groupings of countries. This report might be considered on 13th April. The Cabinet might then go on to consider the further memorandum which he and the Foreign Secretary had
undertaken to provide, analysing the various options open if it were decided to continue with the approach to Europe. It was difficult to lay down any more precise programme, since the timetable would need to be settled by the Cabinet in the light of the progress of their discussions, which in view of the issues at stake must be thorough and have adequate time. Provisionally, if the Cabinet were to devote their meetings on the 13th, 20th and 27th April and probably also on 4th May to the programme he had indicated, the stage at which a decision could be taken should be reached about 10th or 11th May, and this would permit an announcement of the decision before the probable date for the Whitsun Recess. This would be desirable, since otherwise at least two weeks would elapse during the Recess and further delay would ensue thereafter, since his visit to the United States and Canada would begin on 29th May. It would therefore be convenient if the Parliamentary debate which would have to be held after any such announcement could take place before the Recess, though it could if necessary be held afterwards.

In discussion of further procedure the following points were made—

(a) It would be desirable for the Cabinet to have additional factual assessments of the economic effects of entry to the Community if this were in 1967 or alternatively in 1968; of the total effect of entry, and not simply the effect of the common agricultural policy, on our balance of payments; of the legal and constitutional consequences of entry; and of the implications of free movement of labour within the Community. It was agreed that the first two studies should be prepared by officials in consultation with the Economic Advisers: arrangements had already been made to review and re-circulate to the Cabinet the previous report (E (66) 10, circulated to the Cabinet before CC (66) 53rd Meeting) on legal and constitutional questions and considered in the Cabinet's discussions in October and November; and a paper by officials on the freedom of movement of labour would be ready for the Cabinet's consideration on 13th April. It would be desirable that Ministerial papers should not be circulated until after the Cabinet had completed their consideration of the necessary studies by officials.

(b) It was suggested that there might be some advantage in arranging, at an appropriate stage, for the Cabinet to consider the implications of entry into the EEC in discussions on the lines of those which had been held at Chequers in October 1966.

(c) The timing suggested by the Prime Minister and particularly the period envisaged for a definitive decision would be likely to fit in well with other events to which their decision was related, notably the crucial stages of the Kennedy Round of tariff negotiations and the proposed meeting of Heads of the EEC Governments in Rome. It was possible that a decision reached about 10th or 11th May would precede the determination of the outcome of the Kennedy Round; and this must be avoided; on the other hand the French, who throughout the Kennedy Round had been the most dilatory negotiators, now contemplated a conclusion of these negotiations about 7th May; and it would be very difficult for a successful
conclusion of the Kennedy Round to be delayed significantly beyond 15th May. It was also important that the Cabinet's consideration should not be so prolonged as to give an impression of lack of determination or of divisions of opinion which might itself prejudice the success of a decision, if such were taken, to apply at once for negotiations for entry into the EEC.

(d) The nature and timing of the consultations with EFTA and the Commonwealth to which we were committed would present a difficult problem. If the consultations were delayed until after a decision had been taken (but not announced), or even when it was about to be taken, it must be regarded as certain that the decision or the prospect of it would become public knowledge before it could be announced to the House of Commons; and it was imperative to avoid this. The pressures from EFTA for consultation were much more insistent than those from the Commonwealth. The prime concern of the EFTA countries was to be informed of our decision in advance, so that if it were to apply for negotiations for entry, they could then consider, in the light of the consequences for EFTA, what action they themselves should take; they did not wish, however, to be faced with a fait accompli. There were two possibilities. We could consult EFTA on a hypothetical basis at an early date: but it was doubtful whether this would satisfy our partners in the Association. On the other hand it would be dangerous to reach a decision, and to announce it almost simultaneously to EFTA and Parliament, but before the Kennedy Round had finished. Officials were considering whether there was any way of avoiding this dilemma by such devices as separate bilateral consultations with EFTA by one or two Ministers, perhaps followed by a collective meeting with EFTA on the date on which our decision was announced. It would be desirable to await the outcome of these enquiries and to consider what course should be followed later in April when the prospects for the Kennedy Round might have been somewhat clarified.

The Cabinet then turned to the consideration of the other issues arising from the tour.

Capital movements

The Chancellor of the Exchequer said that the United Kingdom now operated a rigid control over capital movements to the non-sterling area, including European countries, and a voluntary programme of restraint on the export of capital to the sterling area. If we were to enter the EEC without making provision for the continuation of our exchange controls, there would be unacceptable consequences for our balance of payments. It would therefore be necessary for us, in any negotiations with the EEC, to secure a transitional period until such time as the strength of our balance of payments had been increased and established. The risks were more serious in respect of portfolio than of direct investment. Investors in the United Kingdom were more accustomed to international investment than those in the Community; for example, an upsurge of equity prices on the United States Stock Exchange on Wall Street
would, without exchange control, result in substantial flows of capital from the United Kingdom. As regards direct investments, outflows if we were to join the Community might clearly be greater than they were now, but it was not possible to estimate what they would be, and in any event there would be an off-setting and probably greater inflow, especially from firms in the United States, who would prefer to establish or expand enterprises in this country where their conditions of operation and notably the common language would be more convenient than on the Continent. It would no doubt be possible to produce a range of figures for the net outflow or inflow representing the best consensus of expert opinion, but no reliance could be placed on figures based on such a wide range of uncertain factors. The essential point was that we must develop and establish during a transitional period an external surplus such that our financial stability could not be shaken by any capital movements likely in those circumstances.

The Prime Minister said that during the European tour he and the Foreign Secretary had drawn a sharp distinction between portfolio and direct investment. As regards direct investment one could only guess at the net result of the inflows and outflows; his own view was that there might well be a net outflow of direct investment to the Community, offset by a larger inflow from the United States for the reasons given by the Chancellor of the Exchequer. Such a result would be advantageous for our regional policies because we should be able to insist that the new investment should take place in the development areas.

In discussion, it was suggested that there were serious risks that the removal of foreign exchange controls and the consequential flow of direct investment funds would lead to the movement of industry both to the EEC and to those parts of the United Kingdom which were closest to the Continent, notably the South East of England, especially when the Channel Tunnel was completed. It would be no consolation even for a relatively prosperous area of the United Kingdom to lose employment in this way that there was offsetting new employment elsewhere arising from new investment by the United States, even if that new employment were in a development area. Indeed some Ministers saw a risk that the United Kingdom itself might increasingly assume the characteristics of a development area owing to the gravitational pull in a large area of free trade of the regions of greatest economic and industrial activity. The lower basin of the Rhine and the adjacent ports such as Rotterdam exemplified an area whose facilities and levels of activity would be likely to attract industry away from the United Kingdom.

It was further urged that the real risk to our regional policies did not arise from the provisions of the Treaty of Rome or regulations so far made under it, but from the effect which the removal of our foreign exchange control would have in weakening our capacity to enforce our regional policies, whether by the restrictions of the Industrial Development Certificates (IDCs) or by our fiscal and financial incentives favouring the development areas. At present, many United States concerns took the view that so long as there were two blocs

SECRET
in Europe, EFTA and the EEC, it was advantageous to maintain a factory or factories in each bloc. But if the two blocs were merged, such firms might choose to concentrate their activities on the Continent, and there was some evidence for this in the fact that our failure to enter the Community in 1963 had not, as had been expected, reduced American investment in the United Kingdom, which had in fact increased since then.

On the other hand it was pointed out that many large firms had maintained factories in the United Kingdom and increased their exports from them, despite having to face the Community tariff and despite their possession of plants in the EEC which were not so handicapped. Our motor industry had been cited as being at risk, but Fords for example had said that they would have transferred their activities in Dagenham to the EEC but for their expectation that the United Kingdom would join the Community. Chrysler’s investment in Rootes had been similarly protected by specific pledges; General Motors were expanding in Lancashire, and BMC would remain a British firm. The investments which had been made of very large sums in plant now in the United Kingdom would inhibit transfers of the activities represented by these investments to the Continent. It was also necessary in these matters to consider the balance of advantage between what would happen if we entered the Community and what would happen if we did not; in the latter event, given the size and wealth of the Community market, it was even more likely that there would be a slow transfer of investment and economic activity from the United Kingdom to Europe in order to avoid the tariff barrier. Moreover it would be difficult in the long run to use our exchange controls against United Kingdom firms who were unable to export to Europe over the EEC tariff and who consequently wished to establish factories on the Continent.

In further discussion it was suggested that, whereas the effect on our balance of payments of freedom of capital movements in regard to direct and portfolio investment had been taken into account, the effect of a flight of capital had not. It was pointed out on the other hand that in the discussions with the Dutch we had been amply assured that we should be able as members of the Community to protect ourselves against such threats. Moreover in our balance of payments crisis leads and lags in payment had played a much greater part than capital flight; and recent international monetary arrangements such as currency swaps between Central Banks and the Basle Agreement had substantially reduced the dangers of capital flight.

Portfolio investment presented a more serious risk than direct investment or capital flight unless in the event of our entry into the Community sufficient protection against these risks was negotiated. There were two risks, namely that the flow of portfolio investment funds to the EEC would be greater than the reverse flow to the United Kingdom; and that the absence or inadequacy of a fence of foreign exchange control round the Community would permit a large net outflow of United Kingdom funds to third countries, notably the United States. Of these two risks the latter appeared the more
serious in view of the skill of our merchant bankers in arranging profitable transfers of funds with great rapidity. For these reasons it had been made clear on the European tour that we could not relax our controls on portfolio investment to the EEC until the EEC itself had instituted similar controls; and even if the Community did, the doubt would remain whether their controls would be sufficiently effective in view of the difficulties of regulating flows of funds. Nevertheless there was some reassurance in the fact that Article 70 of the Treaty of Rome provided for a member country which was threatened by such flows of funds to exercise national control against them, provided that the EEC was informed; once we were members we could ourselves propose the institution of effective Community controls. In such a proposition we might well find that the French would be our best allies.

The Prime Minister, summing up this part of the discussion, said that it had perhaps been based too much on the circumstances of the present and of recent years in which the economies in Europe had been strong, and our own and that of the United States in deficit. A more dynamic analysis, recognising the growing strength of our own position and the great change which would come about in the position of the United States economy if the war in Vietnam were brought to an end, might well show a substantial change in circumstances, especially over a period of several years for which we might hope to secure transitional provisions in respect of freedom of capital movements. It had been made clear on the European tour that we should require such provisions and the discussion had brought out that it would be particularly important to secure effective safeguards in respect of portfolio investment.

Regional policies

The Prime Minister and the Foreign Secretary said that they had nowhere found during their recent tour any disposition to question the acceptability of the regional policies which we at present operated. It had become increasingly clear that each of the Six countries was able to pursue regional policies suited to its circumstances and their hosts had clearly expected that we should be allowed similar latitude provided that our measures did not involve discrimination against other member countries or their nationals. Although the issue had been discussed at considerable length only in Rome, it had been clear from their subsequent discussions of this subject, both formal and informal, in other capitals that the Governments concerned were aware of our position and did not take the view that this would give rise to any difficulty in relation to the policy and practice of the Community. During the visit to The Hague, for example, the Netherlands Prime Minister had stated that the Netherlands Government operated regional policies designed to promote investment in certain parts of the country and, as a corollary, to inhibit developments in other parts.

In discussion it was recognised that it seemed that we should be free to continue our present policies of regional development if we were to join the EEC. It was however argued that their effectiveness would, in such circumstances, be considerably weakened. The system
of control on the siting of new firms and factories which was operated through IDCs would be less effective; while it would be open to us to require any firm, whether British or foreign, seeking to set up a new factory in the United Kingdom to establish it in a development area, it would no longer be possible to prevent United Kingdom firms establishing branches in Europe. Moreover, the effectiveness of the system of IDCs in relation to foreign firms seeking to establish new factories would also be lessened when, by establishing a factory in Europe, they could export its products duty free to the United Kingdom. Furthermore, it was argued that the encouragement to United States investment in the United Kingdom which would be afforded by our joining the EEC had been over-emphasised and that the level of United States investment during the previous few years had derived much of its incentive, not from the prospects of our entering into the EEC at some later date, but rather from the need of the firms in question to establish themselves within the tariff preference area of EFTA. The firms in question which had, for the most part, also established branches within the EEC might well be disposed to concentrate on the latter if we were to join the Community and therefore come within the same tariff area. In considering the extent to which United Kingdom firms themselves might, if we were to enter the Community, be encouraged to expand in order to increase their exports to Europe, we must also have regard to the extent to which our entry would lead to the loss of our present Commonwealth and EFTA preferences and hence diminish the markets available for our exports other than in the EEC itself.

It was also argued that some of the firms which had established factories in the development areas in recent years were, to the extent that this process had been in part subsidised as a result of regional development policies, not firmly based and were therefore particularly susceptible to competition from European firms in the event of our entering into the Community. The position in Wales up to the early part of the 1970s gave cause for particular anxiety because of the extent to which in that period there would be further closures of collieries and the need to develop alternative sources of employment. On broad economic grounds, it was argued that there was likely to be a gradual concentration of industry in the central industrial area of Europe and in these circumstances there was reason to fear that the United Kingdom would increasingly be on the periphery of industrial development. This would be particularly disadvantageous in so far as Community policy, whether on freedom of capital movements or on regional development, might weaken the restrictive parts of our regional controls and so require the incentive parts to be strengthened at further cost to the Exchequer.

On the other hand it was argued that the incentive which would be given by entry into the Community to United Kingdom firms to establish branches in Europe had been greatly over-emphasised. The greater part of the industrial production of most firms was for sale in the home market. It seemed improbable that such firms would establish new factories on any scale outside the United Kingdom in
order to produce goods solely for export. In any event, to the extent that there was such an incentive, it was greater in present circumstances than it would be if we were to join the Community, because of the present need of United Kingdom firms to escape the Community tariff by basing some of their production in Europe. Nor did the argument relating to the incentive given to the United States firms to establish branches in the United Kingdom as well as in Europe in order to have bases of production within two separate tariff areas seem justified by experience, since there was good reason to suppose that despite the setback in 1963 a considerable part of recent United States investment in this country had been prompted by the prospect of our eventually joining the EEC. We could moreover reasonably expect that, to the extent that some United Kingdom firms did establish branches in Europe, there would be some counter-balancing investment in this country by European firms who might find it advantageous to base some of their production here for sale in the United Kingdom market. Nor should the extent to which the central industrial area of Europe attracted new industrial investment, including investment by United Kingdom firms, be over-emphasised. An undue concentration in this area would undoubtedly lead to higher wage rates and other effects which would prove a disincentive to industry. Moreover the substantial success which had been achieved by the Italian Government in promoting industrial development in Southern Italy, or the similar success which had been achieved in South West France, and even the establishment of new industries in areas of the United States remote from the central industrial areas, showed that even in existing circumstances such attractions as were offered by a central industrial complex like that in the lower Rhine basin could well be effectively countered by national policies within the EEC. If our own policies in development areas had in some instances led to the establishment there of firms which were not soundly based, this would in the longer run be disadvantageous to our economy whether or not we joined the EEC. The strength and growth of our economy as a whole had a greater influence on the extent of investment in development areas than any other factor. There was good reason to think that our entry into the EEC would prove a substantial incentive to industry to increase investment and would therefore lead to a faster rate of economic growth. The need to face European competition would necessitate the formation of bigger United Kingdom industrial units which would also call for increased investment. This view was strengthened by the results of the recent survey which had been carried out by the Confederation of British Industry, which showed that United Kingdom industry in general took the view that our entry into the Community would be to our industrial advantage. Both on particular grounds relating to our regional policies and on broader grounds relating to industrial development which would be crucial to further growth in the development areas, it was therefore urged that our entry into the Community would at the least not be disadvantageous to regional development. To the extent that particular problems arose in the next two or three years, these could be met by transitional provisions such as we might reasonably expect to be able to negotiate.
In further discussion there was general agreement that it would be helpful for a study to be carried out departmentally by officials of the effect of entry into the Community on our planning policies: such a study should take into account the influence which would in any event be exerted by the opening of the Channel Tunnel on industrial development in the South East of England. But the wide range of variation over a period of years of other factors relating to industrial growth in the development areas would make it impossible to make any reliable quantification of the effect on such development of our entry into the Community.

The international role of sterling

The Prime Minister said that the British economic position, the international role of sterling and the sterling balances had been a prominent feature in the discussions on the tour. Throughout these, he and the Foreign Secretary had emphasised the favourable development of our balance of payments and our belief that the sterling balances would not and should not become a drag on the Community. The Dutch had suggested that the Community should be protected from any obligation to assist us financially if any future difficulties on our balance of payments arose from sterling's role as an international currency rather than from the United Kingdom balance of payments as such. We had confirmed that we did not regard Article 108 of the Treaty of Rome as obliging the Community as such to underwrite difficulties that we might encounter in consequence of the world-wide uses of sterling and had undertaken to consider, if they wished, giving them a derogation to this effect. It appeared that the tour as a whole and this discussion in particular had done much to reassure the members of the Community on this particular issue.

The Cabinet—

(1) Took note, with approval, of the Prime Minister's proposals for their programme of further discussions of the approach to Europe and of alternative policies; that he would arrange for the preparation of further studies on the aggregate effect of entry into the EEC on the balance of payments of the United Kingdom, and of the economic effect of entry for say 1967 as against 1968: for any necessary revision of the study of the legal and constitutional effects of entry considered by the Cabinet in November 1966: and for circulation of the report by officials on the implications for the United Kingdom of freedom of movement of labour between members of the Community.

(2) Agreed to postpone consideration of the nature and timing of consultation with EFTA and the Commonwealth until a further study of the problems of such consultation was available and until the end of the Kennedy Round negotiations was more clearly in sight.
(3) Took note that the Prime Minister would arrange for an interdepartmental study by officials of the effect of entry into the EEC on United Kingdom planning policies.

(4) Agreed to resume their discussion on the approach to Europe at a subsequent meeting.

_Cabinet Office, S.W.1,
6th April, 1967._
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Monday, 10th April, 1967, 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. 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. Patrick Gordon Walker, 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

Also present:
The Right Hon. John Silkin, M.P., Parliamentary Secretary, Treasury

Secretary
Sir Burke Trend

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1. The Foreign Secretary informed the Cabinet that he intended to make a statement in the House of Commons that afternoon about the circumstances in which the United Nations Mission to South Arabia had broken off discussions in Aden and had withdrawn from the Colony after publicly expressing resentment at the manner in which they alleged they had been treated by the British authorities. It had clearly been necessary to take stringent precautions to ensure the personal safety of the members of the Mission; but it was unfortunate that these had apparently given them the impression that they were being deliberately prevented from making contact with the local population or visiting such establishments as they wished to inspect. It was even more regrettable that they had been abruptly refused permission by the Federal Government to broadcast to the people of South Arabia on the grounds that they intended to take this opportunity publicly to deny the Federal Government's authority in the territory. Had we been given adequate notice of their application to broadcast we could have taken on ourselves the responsibility for dealing with this question, since it was essentially a matter of external policy and was therefore reserved for our decision under the existing arrangements. As it was, the action of the Federal Government, coupled with the generally hostile attitude of the local inhabitants, had finally convinced the Mission that no useful purpose would be served by their trying to pursue their enquiries in Aden.

The Mission were at present in Geneva; and efforts were being made to persuade them to stop at London on their return journey to New York in order that we might try to minimise the probable repercussions of their visit to Aden on future discussions about South Arabia in the United Nations.

Meanwhile, this incident had made it clear that it was essential to provide a more effective and immediate political presence in Aden; and he had therefore arranged, with the approval of the Prime Minister, for the Minister without Portfolio (Lord Shackleton) to visit the Colony for a period in order to assist the High Commissioner, to keep a close watch on local developments and to exercise general supervision over the manner in which our intentions as regards the future constitutional advance of South Arabia should be pursued. The Federal Government appeared to be not unwilling in principle to consider our latest proposals; and we need not yet abandon hope that popular opinion in Aden might also be eventually reconciled to them.

In discussion there was general agreement with the Foreign Secretary's recommendations. It would be necessary to make it clear in any public statement that the security precautions which had been adopted in Aden in relation to the United Nations Mission had been wholly justified; and, if the United Nations nevertheless maintained their irresponsible criticism of our Administration in the
Colony, we might have to consider offering to transfer to them the whole task of promoting a constitutional settlement for South Arabia and ensuring the subsequent defence of the area against aggression, provided that they were prepared to accept responsibility for implementing and enforcing whatever solution they devised.

CONFIDENTIAL

2. 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,
10th April, 1967.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 11th April, 1967, 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 (Items 1-4)
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. BARBARA CASTLE, M P, Minister of Transport
The Right Hon. RICHARD MARSH, M P, Minister of Power

The following were also present:
The Right Hon. ARTHUR BOTTOMLEY, M P, Minister of Overseas Development (Item 4)
The Right Hon. KENNETH ROBINSON, M P, Minister of Health (Item 5)
The Right Hon. LORD CHALFONT, M P, Minister of State for Foreign Affairs (Item 4)

The Right Hon. FREDERICK LEE, M P, Chancellor of the Duchy of Lancaster (Item 5)
The Right Hon. REGINALD PRENTICE, M P, Minister of Public Building and Works (Item 4)
The Right Hon. SIR ELWYN JONES, Q C, M P, Attorney-General (Item 5)
The Right Hon. JOHN SILKIN, M P, Parliamentary Secretary, Treasury
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1. The Cabinet considered a memorandum by the Lord President of the Council (C (67) 45) on Parliamentary procedure.

The Lord President said that the Ministerial Committee on Parliamentary Procedure had considered the recommendations made by the Select Committee on Procedure in their First, Second and Fourth Reports of the current Session.

The Ministerial Committee recommended the adoption of the proposal of the Fourth Report of the Select Committee for an experiment in having a voluntary timetable for the Finance Bill. This would be backed by a new Sessional Order which would allow Ministers, if agreement could not be reached through the usual channels on a voluntary timetable or if the House failed to adhere to it, to move a resolution which would be debatable for a limited time only, to set up a Business Committee of the type provided for in Standing Order No. 43, with power to determine the number of days to be allotted to the Bill and its further stages and the allocation of time within those days. The Government would be in a majority on the Business Committee, whose recommendations would be submitted to the House and put to the vote without any further debate. It was likely that the experiment would be acceptable to the Opposition and, if adopted, it would represent an important development which would be capable of extension to other Bills.

The Select Committee had also discussed the possibilities of committing the whole of the Finance Bill to a Standing Committee or of dividing it between a Standing Committee and a Committee of the whole House; both were controversial and were open to practical objections as well as objections of principle. The Ministerial Committee had concluded that consideration of the need for more drastic changes in the handling of Finance Bills, in order to reduce substantially the time taken on the Floor of the House, should await the outcome of the experiment in a voluntary timetable.

The Ministerial Committee also recommended that as an experiment the Speaker should be authorised by a resolution of the House to declare at any time in any debate that he intended to limit all speeches to a specified length during a specified period. He had ascertained that the Speaker would be willing to operate such an arrangement. The Select Committee had proposed more specifically that speeches by back-benchers should be limited to 15 minutes, and that front-bench speakers should be invited by resolution of the House to limit themselves to half-an-hour. The Ministerial Committee, however, were opposed to this proposal on the grounds that it appeared to create a distinction between first-class and second-class Members.

The Ministerial Committee further recommended the adoption of the proposal in the Select Committee’s Second Report for shortening the period of notice of the subjects of Private Members’ motions, but thought that the Select Committee’s other proposals, which would increase the frequency of debates on matters of urgency
under Standing Order No. 9 and increase the opportunities given to
the Opposition and back-benchers to raise debates on topical matters,
should be deferred until the Select Committee had completed their
work and a balance could be struck between changes which would
work to the benefit of Government, Opposition and back-benchers
respectively.

In discussion there was general agreement that advantage should
be taken of the recommendation of the Select Committee for an
experiment in a voluntary timetable for the Finance Bill. This, if
successful, would go far to remove the present criticism of Finance
Bill procedure arising from its uncertainty and the frequency of late
night sittings; the experiment would also pave the way for later
extension of timetables to facilitate legislation generally. It would
be important, however, that the experiment should not be presented
in such a way as to suggest that the Government were seeking to
restrict debate, and it should be made clear that the Government
would hope to avoid the use of the power to impose a timetable under
the new Sessional Order. It was desirable that the Liberal Party
should be included in the discussions to settle the timetable. It was
pointed out, however, that difficulty might be caused where
back-benchers failed to observe the agreed timetable. Where this
happened, the House would rise at the time previously agreed and
would have to catch up with the programme of business on the
following day. It was suggested that such difficulties could be resolved
through the usual channels and that in the last resort it would be
possible to move a resolution to enforce the timetable. Agreement
on a timetable would leave Government supporters freer to speak
than was the case under existing procedure but it was desirable that
they should exercise restraint to avoid allegations that the
opportunities for Opposition speakers were thereby curtailed.

In discussion of the proposal to give the Speaker discretion to
limit the duration of speeches, it was suggested that the matter was
better left to the general sense of the House and that the normal
process of debate should continue. Informal arrangements were
already operating satisfactorily, for example, in relation to the
duration of speeches winding up debates. On the other hand, it
was pointed out that the matter was one on which there was strong
feeling among back-benchers, and it was suggested that further
consideration should be given to the Select Committee’s proposal
to establish limits of 15 and 30 minutes for back bench and
front bench speakers respectively. A distinction could properly be
made between the two on the basis of their functions, and it was
to the advantage of the House that front bench speakers should be
given more time than back-benchers. It would, however, be necessary
to allow the longer period to back-benchers when opening debates,
for example, on statutory instruments. A specific allocation of time,
as proposed by the Select Committee, was likely to work more easily
in practice than a procedure which left the imposition of limits
entirely to the Speaker’s discretion. It would also avoid the risk that
the Speaker might be pressed to impose the same limits on
Government spokesmen as on back-benchers and the risk that, if
time limits were enforced during certain periods only, a different
style of debate would develop during those periods. On the other hand, it was suggested that inflexible rules were unlikely to operate satisfactorily and would unduly handicap the back-bencher who had an important contribution to make to a debate. It would, therefore, be preferable to give the Speaker discretion, as proposed by the Ministerial Committee, in the light, for example, of the number of Members wishing to speak in any particular debate. Such a system already operated informally and there was no reason to suppose that the Speaker would have difficulty in operating a more formal arrangement in the light of his sense of the feeling of the House, which tended to favour strict handling of such matters. It would be understood that the Speaker would not impose limitations on front bench speakers, but it was suggested that it would be preferable that there should be a limited period, for example, between 6 p.m. and 9 p.m., during which the Speaker would be able to impose limitations on the length of speeches for a period of an hour or two. It was important that he should be able to extend the time limit to compensate for interruptions to a Member's speech.

In discussion of the Select Committee's recommendations on urgent and topical debates, it was suggested that these would confer important advantages on the Opposition and should only be conceded in return for concessions from the Opposition, for example, on the timetables for Bills and on the taking of censure motions in Opposition time. There was general agreement that a decision on these recommendations should be deferred until the work of that Committee had been completed, apart from the recommendation to shorten the period of notice which had to be given of the subject of Private Members' motions.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that an experiment should be conducted in a voluntary timetable for the Finance Bill on the lines proposed by the Select Committee. In recommending this proposal to the House, however, it would be important to avoid suggesting that the Government were seeking to restrict discussion. The Cabinet also agreed with the proposal of the Ministerial Committee that, as an experiment, the Speaker should be given discretion by a resolution of the House to set a time limit on speeches, but considered that the exercise of this discretion should be limited to a specific period, say, between the hours of 6 p.m. and 9 p.m. The Cabinet further agreed that apart from the proposal to shorten the period of notice of the subject of Private Members' motions, a decision on the recommendations of the Second Report of the Select Committee relating to urgent and topical debates should be deferred until the Select Committee had completed their work.

The Cabinet—

(1) Agreed that the discretion to be given to the Speaker to set a time limit on speeches should be limited to a period to be specified by him between the opening and the closing speeches.
Parliament
Attendance of
Ministers before Select Committees
(Previous Reference: CC(67) 15th Conclusions, Minute 1)

(2) Subject to Conclusion (1), approved C(67) 45 and invited the Lord President of the Council, in presenting the proposals to the House of Commons, to be guided by the Prime Minister's summing up of their discussion.

2. The Cabinet considered a memorandum (C(67) 47) by the Lord President of the Council about the attendance of Ministers before Select Committees.

The Lord President said that the new Specialist Committees, which would be concerned with matters of policy, would expect Ministers to appear before them, and the Select Committee on Nationalised Industries were inviting Ministers to give evidence on the relationship between Ministers and the Nationalised Boards. Attendance before Select Committees might become an important part of a Minister's responsibility to Parliament and it was desirable to work out a code of practice for dealing with matters which might be sensitive in one department but not in others. The Ministerial Committee on Parliamentary Procedure proposed that Ministers called before a Select Committee should submit a written memorandum of evidence and that a convention should be established that subsequent questioning would normally be confined to the scope of the memorandum. Ministers should normally give evidence themselves only where issues of policy were being raised. No simple rule could be laid down on whether Ministers should appear in public or in private session and, if the latter, on whether they should give evidence for the record or confine themselves to excluding specific passages from publication. On delicate matters such as relationship with Nationalised Boards it might be unwise to give evidence in public; but on some other matters there would be no objection to a Minister giving public evidence if he so wished. It would be for the Select Committees to consider whether they would derive more benefit from evidence given informally with no record taken; and Ministers should not appear to be striking a bargain on this point.

The Ministerial Committee considered that the Cabinet should define certain topics which Ministers should not discuss in giving evidence: information obtained in confidence on the private affairs of individuals, companies or institutions; information affecting national security; matters which were the subject of sensitive negotiation with Governments or other bodies; cases where the Minister had a quasi-judicial or appellate function and matters on which Government policy had been decided and legislation was shortly to be introduced. If the Cabinet agreed on the conventions to be adopted he proposed to see the Chairman of the Select Committees and explain the conventions to them.

In discussion doubts were expressed about the wisdom of giving Specialist Committees opportunities to question Ministers on policy. A Minister's appearance as a witness would enable members of the Committee to examine him more closely and persistently than was
possible either at Question Time or in debate. This would be advantageous to members of the Opposition, but it was doubtful whether it was compatible with good government, particularly with the purposive style of government to which the present Administration was committed, or with the maintenance of the principle of collective responsibility. Specialist Committees might be less willing in examining Ministers than Select Committees had hitherto been in examining officials to accept a refusal to answer embarrassing questions; they might seek to elicit evidence revealing differences of opinion within the Government and Ministers might be under some temptation to seek the support of a Committee for their departmental points of view. On the other hand it was argued that the appearance of Ministers before Specialist Committees would provide valuable opportunities to explain Government policy, to remove misconceptions and to answer points made by earlier witnesses, for example, chairmen of nationalised industries discussing the relationship of their Boards with Ministers. Moreover if Ministers refused to appear before Committees or were unduly cautious in giving evidence they would lose the benefits which they had hoped to obtain by involving Private Members of the House of Commons in the formulation of policy and would expose themselves to criticism and misunderstanding. It was not clear, for example, how the Government could justify discussing their policy with such bodies as the National Economic Development Council before announcing it to Parliament if they were unwilling to be equally frank with Specialist Committees; and the anxieties which had been expressed might well be proved by experience to be as unfounded as those which had preceded the establishment of the Select Committee on Nationalised Industries. Since the experiment with Specialist Committees had been launched it must be carried through; if the results were unsatisfactory the Committees could be discontinued. Meanwhile in view of the risks that had been mentioned it was important that Ministers should consult one another before giving evidence on topics which concerned more than one Department. They should make it a rule that they would give evidence only on matters covered initially in a written memorandum and should insist on being given sufficient time to prepare the memorandum to allow for consultation with other Ministers concerned. They should not allow themselves to be drawn into discussion in giving oral evidence on matters on which Ministerial opinion was divided.

In further discussion the following points were considered—

Publication of evidence

(a) It was suggested that, although experience of the Public Accounts and Estimates Committees gave no reason to suppose that the Specialist Committees could not be relied upon to preserve the secrecy of information given in confidence, it would be wise not to give such evidence in the presence of the Press and the public even with a specific request that it should be regarded as not for publication. Ministers should indicate in their initial memorandum what parts of
their evidence they would wish to give in private and, if they were asked in public session a question to which the answer was confidential, they should offer to submit a further confidential memorandum on which they could be questioned in private.

Evidence on matters under negotiation

(b) It was suggested that the rule proposed in paragraph 4(3) of C (67) 47 should apply to matters “which are the subject or may become the subject of sensitive negotiation”. There should certainly be no discussion with a Specialist Committee of, for example, the extent to which the Government might be prepared to make concessions in negotiation and it might on occasion be embarrassing to discuss even the Government’s objectives while negotiations were pending. On the other hand the rule might be too restrictive in relation to domestic affairs if topics likely to be the subject of negotiation, for example with industry, were excluded. Ministers could be relied on to use their own discretion in withholding information about particularly sensitive areas of negotiation without excluding the whole topic from their evidence. The risk of embarrassment could be obviated by prior consultation. The rule should accordingly run as follows: “Matters which are or may become the subject of sensitive negotiation with Governments or other bodies should not be discussed without prior consultation with the Foreign Secretary or, in relation to domestic matters, the Ministers concerned.”

Evidence on legislation

(c) The purpose of paragraph 4(5) of C (67) 47 was primarily to prevent members of Specialist Committees from anticipating the Second Reading debate on a Bill; but the rule might have the undesirable effect of limiting the part which Specialist Committees could play in the formulation of the policy to which a Bill was designed to give effect. It was pointed out, however, that there had recently been occasions—for example in relation to the Leasehold Reform Bill—when, after decisions on policy had been taken, insuperable difficulties had been discovered in the process of drafting and it had been necessary to reconsider the policy. If in the meanwhile a Minister had disclosed the original decision to a Specialist Committee the Government would have been exposed to considerable embarrassment. Moreover if a Committee were given prior information about the content of a Bill the House itself might be affronted and the ultimate impact of the publication of the Bill on public opinion would be reduced. If therefore a Minister wished to discuss proposals for legislation during the course of the drafting of a Bill he should ensure that the proposals were first made public by means of either a White Paper or a statement in Parliament. It was suggested that a distinction should be drawn between topics, not the subject of party controversy, on which the Government proposed to introduce legislation but had not formed views on the content of the Bill and wished to consult a Specialist Committee before reaching decisions, and Bills designed to implement the Government’s own policies. On the latter there should be no discussion with a Specialist Committee.
Committee during the period between the submission of the proposed policy to the relevant Cabinet Committee and the introduction of the Bill.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that Ministers should be free to accept invitations to give evidence on matters of policy before the Specialist Committees or the Select Committee on Nationalised Industries and should seek to establish conventions on the lines proposed in C (67) 47. In particular they should first submit to the Committee a memorandum of evidence and should normally limit their oral evidence to the ground covered by the memorandum. Where more than one Minister was concerned with the topic before the Committee a Minister should consult his colleagues both on the memorandum and on the content of his oral evidence. A Minister should indicate to a Committee which parts, if any, of his memorandum he wished to be treated as confidential and should ask that oral evidence on those parts should be taken in private. If confidential matters were raised in public session he should offer to submit a memorandum on them. Evidence should not be given before the Committees on the matters indicated in paragraph 4 of C (67) 47, subject to the revision of paragraph 4 (3) on the lines indicated in discussion and to further consideration by the Ministerial Committee on Parliamentary Procedure of the rule in paragraph 4 (5). The Lord President should submit to that Committee a further draft of this rule in the light of the discussion. Thereafter he should explain to the Chairmen of the Specialist Committees the practice which Ministers proposed to follow in giving evidence before them.

The Cabinet—

(1) Invited the Lord President of the Council to arrange for the Ministerial Committee on Parliamentary Procedure to consider a draft rule on evidence about impending legislation revised in the light of their discussion.

(2) Subject to (1) above and to the revision of the rule in paragraph 4 (3) as agreed in their discussion, approved the proposals in C (67) 47.

(3) Invited the Lord President of the Council to explain to the Chairmen of the Specialist Committees and the Select Committee on Nationalised Industries the practice which Ministers proposed to follow in giving evidence before them.

Overseas Affairs

3. The Foreign Secretary informed the Cabinet that there had been little change in the position in relation to Aden since the previous day, except that he was now more hopeful that the United Nations Mission would visit London for discussions and he did not rule out the possibility that they might even be persuaded to return to Aden to pursue their enquiries.
The Cabinet resumed their discussion of memoranda by the Secretary of State for Foreign Affairs and the Secretary of State for Defence (C (67) 40) and by the Secretary of State for Commonwealth Affairs (C (67) 41) on the defence expenditure studies.

The Foreign Secretary said that the proposals which he and the Defence Secretary had jointly put before the Cabinet should be presented to our allies as a major change of policy not as a reduction of forces dictated by economic considerations alone. Otherwise we should be under pressure to keep commitments and we should then be unable to make the reductions in defence expenditure that were needed, since these depended on a decision to leave the mainland of Asia and on giving up the capability to intervene there, with reinforcements. The advice of our Ambassador in Washington was that it might not be too difficult to obtain United States acceptance of our plans, but it was essential that, in the consultations which he would initiate with our allies at the time of the forthcoming Council meeting in Washington of the South East Asia Treaty Organisation (SEATO) there should be some flexibility on the dates for reducing our forces by half in Singapore/Malaysia, on the date for complete withdrawal from these two countries, and on the extent of the maritime and air presence that we might maintain in the Far East after 1975-76. The latter might be crucial to obtaining the acquiescence of our allies in our change of policy.

The Commonwealth Secretary said that he had felt it necessary to set out in a separate memorandum the grave effects which acceptance of the proposals of the Foreign and Defence Secretaries was likely to have on the Commonwealth countries concerned. During the past year a series of Ministerial statements had been made both in this country and in the Commonwealth countries concerned based on the expectation, following the Defence Review, that we should accelerate the rundown of our forces in the Far East between now and 1970. Australia and New Zealand had accepted this since they were not so much concerned with the size of our forces in the Far East as with our maintaining military presence there. But there had been no suggestion that we had it in mind to withdraw altogether from Singapore/Malaysia by 1975-76 and if we were to say in the next few months that it was our intention to make this major change in our policy, their attitude was likely to be very different, particularly if this were to coincide with an application on our part to join the European Economic Community (EEC). So far as Singapore, and to a lesser extent Malaysia, were concerned the consequences of the complete withdrawal of our forces in the timescale proposed would be very serious indeed and would involve large expenditures on aid to be set against savings in the defence budget. Singapore already had a high level of unemployment and this would be greatly increased as a result of our withdrawal. Although the Singapore Prime Minister, Mr. Lee Kuan Yew, was at present in control of the situation, there was a strong Communist element in the island which in these circumstances would be likely.
to gain significantly in strength. In view of our experience in Malta, where we had progressively been forced to make concessions on our original timetable for running down our forces, the best course in the Far East would be to decide now to reduce our forces in Singapore/Malaysia by about half by 1970–71, leaving the question of complete withdrawal for later discussion. In any event we should present our proposals as being necessary on economic and not politico/military grounds and we should be flexible in accepting the need to adopt our proposals in the light of the views of our allies.

The Chancellor of the Exchequer said that the requirements of our defence strategy overseas and those of our economic strategy at home were in conflict. We were carrying a much heavier burden of governmental overseas expenditure than other comparable countries and this was seriously inhibiting our efforts to achieve our economic and social programmes. We needed to make a saving of £300 million on defence expenditure as a contribution to a saving in present planned programmes of public expenditure as a whole of £500 million by 1970–71 in order to achieve a viable economic strategy. He supported the proposals of the Foreign and Defence Secretaries in respect of the Far East but on this basis it appeared that total savings on the defence budget by 1970–71 would not be greater than £200 million. This would entail correspondingly higher reductions in the planned programmes of civil expenditure in 1970–71 and we should therefore consider what other savings in defence expenditure could be achieved, including the possibility of disbanding forces withdrawn from Germany rather than earmarking them for assignment to the North Atlantic Treaty Organisation.

In discussion there was general agreement that in presenting proposals on these lines to our allies it would be necessary to use economic and politico/military arguments, since both were relevant. Some support was expressed for the view that at this stage we should not discuss with our allies plans beyond a reduction by about half of our forces in Singapore/Malaysia by 1970–71, particularly in view of the line which Ministers had taken publicly about our policy in the Far East in the recent past, and of the likelihood that, if we were to go as far as was now proposed, we should be unable to sustain our proposals in the event. We might in fact find that we did not enter the EEC and at the same time we had succeeded in estranging ourselves from the United States and from the old Commonwealth countries.

Against this is was argued that unless we began now to plan on leaving Singapore/Malaysia at least by 1975–76 and to give up any capability to intervene on the mainland of Asia with reinforcements, there was no possibility of achieving savings in defence expenditure of the order that, subject to further examination, seemed possible under the proposals of the Foreign and Defence Secretaries. The question was not whether these proposals went too far but whether they went far enough, particularly in view of the relatively small savings in defence expenditure that would accrue from them during the lifetime of the present Parliament. It was
important also to know whether the proposal to maintain a small maritime and air presence in the Far East would prevent us from making substantial economies in the equipment programme of the Service, for example in the purchase of the F111 aircraft, and to leave open the possibility of making greater savings than were now being suggested when final decisions on the defence programme came to be taken in June and July. It would be more logical to decide to withdraw altogether from the Far East than to maintain a maritime and air presence in Australia.

In further discussion it was pointed out that major difficulties arose in effecting such large changes in our overseas policy, particularly where these might, like those now in question, have such grave consequences for our allies. Moreover the rate of disbandment which would be involved would present serious difficulties for the armed forces and consequential problems in the United Kingdom for additional housing and in other respects. Adequate time for planning and carrying out these reductions both at home and overseas was essential.

The Prime Minister, summing up the discussion said that on balance the Cabinet agreed that consultations on our Far East policy should be initiated with our allies on the basis of the proposals of the Foreign and Defence Secretaries. The consultations must however leave open for decision in June /July the date of our eventual withdrawal from Malaysia and Singapore and whether or not we were to maintain maritime and air forces using facilities in Australia after our withdrawal from Singapore/Malaysia and, if so, of what size they should be. The Cabinet would be able in June /July to take decisions on our defence programme as a whole including the size of the armed forces and the equipment they would require. The Foreign Secretary would, during the forthcoming SEATO Council meeting, initiate consultations with the United States Government with Mr. Holyoake, the New Zealand Prime Minister, and with the Australian Minister for External Affairs. He would himself write to the Australian Prime Minister at the same time about our proposals. The Defence Secretary would then initiate consultations with the Malaysian and Singapore Governments on his forthcoming visit to those countries.

The Cabinet—
Tried note, with approval, of the Prime Minister's summing up of their discussion.

5. The Cabinet considered a memorandum by the First Secretary of State and Secretary of State for Economic Affairs (C (67) 46) on the question of taking further statutory powers in pursuance of the Government's policy on prices and incomes.

The First Secretary of State said that at their previous discussion the Cabinet had taken the view on balance that, while the Government should activate Part II of the Prices and Incomes Act before the expiry of Part IV and should seek further statutory powers for a
temporary period thereafter, those further powers should not include a power to prevent retrospective payment of increased wages following the imposition of a standstill on the wages in question. He remained of the view that the omission of this power would weaken the proposals for statutory powers as a whole; these proposals should nevertheless be pursued. The powers under Part II to delay increases of prices or wages for up to four months would not be sufficient to control the situation in the second half of 1967, in view of the pressures for increases of wages in that period which were already mounting. The Government should therefore take power to enable them, at their own discretion, to implement recommendations by the National Board for Prices and Incomes (NBPI) that an increase in price or in pay should be deferred (or implemented in part or in instalments) for a further period after the Board had reported, subject to a maximum of six months from the date of reference to the Board. Power should also be taken to secure a temporary reversion of an increase either of pay or in price which had already occurred but which merited examination by the NBPI; and provision should be made by amending Section 30 of the Act to remove the cause of actions for breach of contract against employers who had deferred increases of wages in accordance with a request by the Government during the periods of standstill and severe restraint.

However, if the proposal for a power to prevent retrospective payments of increased wages were to be abandoned, it would be a necessary consequence that the proposal previously considered for a power to enforce reductions of prices should also be dropped; otherwise, it was clear from his previous discussions with the Confederation of British Industry (CBI) that management would regard the proposals as a serious disturbance of any reasonable balance between the treatment of prices and pay, the more so because retrospective increases of prices were in most cases quite impracticable. The proposal for a power to enforce reductions in prices should therefore not be pursued.

In discussion, it was argued that the Government would be justified in seeking such a power even if the proposal for a power to prevent retrospective payments of increased wages were abandoned. It was not necessary to preserve equality of treatment as between prices and wages: prices were determined unilaterally whereas wages were fixed by collective bargaining, and there was a significant difference in the attitude of the public towards controls over prices as compared with controls over wages. A power to enforce reductions in prices would be a useful instrument for stiffening the resistance of employers to excessive wage claims and so supporting the efforts of the Trades Union Congress (TUC) to control movements of wages on a voluntary basis. Productivity agreements would be an important element in the policy on incomes and it would be necessary to ensure that part of the benefits of such agreements accrued to consumers; a power to enforce reductions in prices would enable the Government to secure this. The taking of such a power would not in itself necessarily provoke strong opposition from employers; they would
be more influenced by the way in which the power was exercised and they could be assured that it would only be used after the fullest investigations.

On the other hand, it was pointed out that, even without a power to enforce reductions in prices, the proposed powers would be substantially more extensive in respect of prices than in respect of wages, since there would be no power to prevent retrospective increases of wages whereas retrospective increases in prices were not normally practicable. To take power to enforce reductions in prices would enhance this imbalance. It would moreover not merely provoke a hostile reaction from the CBI but would constitute a serious blow to the confidence of management in industry generally, who would see the Government’s proposals as portending increased pressure on margins of profit. The effect of this would be to discourage industrial confidence and investment at a time when the primary need of the economy was to encourage them. If there were no power to enforce reductions in prices it would still be possible for the Government to refer cases to the NBPI where such reductions might be justified and for the Board to recommend reductions; the value of the role of the NBPI, in this as in other respects, did not depend primarily on the existence of statutory powers to enforce the Board’s findings.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that further statutory powers should be sought for a temporary period after the expiry of Part IV of the Act in the terms now proposed by the First Secretary of State. The First Secretary of State should now arrange to inform the CBI and the TUC of the Government’s intentions and to make a statement in Parliament, probably on Monday, 17th, or Wednesday, 19th April; he should consult further with the Lord President and the Chief Whip on the Parliamentary handling of the Government’s decision. It would not be necessary to issue a White Paper.

The Cabinet—

(1) Agreed that the Government should activate Part II of the Prices and Incomes Acts before the expiry of Part IV and should seek the further temporary statutory powers over prices and incomes proposed in paragraph 5 of C (67) 46.

(2) Invited the First Secretary of State—

(i) to inform the CBI and TUC of the Government’s intentions as in Conclusion (1); and

(ii) to announce the Government’s intentions to Parliament at an early date and to consult further with the Lord President of the Council and the Chief Whip on the timing of the announcement and the Parliamentary handling of the matter.

Cabinet Office, S.W.1,
11th April, 1967.

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## CABINET

**CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 13 April, 1967, 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. 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. Frederick Willey, M.P., Minister of State, Ministry of Housing and Local Government (Item 3)
- The Right Hon. John Silkin, M.P., Parliamentary Secretary, Treasury

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**Secretariat:**

Sir Burke Trend  
Mr. P. Rogers  
Mr. W. A. Nield  
Mr. K. Barnes

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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 resumed their discussion on the approach to Europe. They had before them a memorandum by the Prime Minister and the Foreign Secretary (C (67) 33) on the outcome of their visit to the capitals of the member countries of the European Economic Community (EEC), a note by the Secretary of the Cabinet (C (67) 45), to which was attached a report by the Official Committee on the Approach to Europe on the implications of entry into Europe for the mobility of labour and for immigration policy, and notes by the Secretary of the Cabinet (C (67) 44 and C (67) 49) to which were attached respectively a memorandum by the Official Committee on the Approach to Europe on the common agricultural policy of the EEC and its implications for British agriculture and a table of comparative figures of imports of cereals by the United Kingdom and the EEC.

The Prime Minister said that since the Cabinet's last discussion he had been giving further thought in consultation with the Foreign Secretary to the timetable for their future discussions. It would be desirable on many grounds for the Cabinet to complete these in time to reach and announce a decision and to hold a Parliamentary Debate on it before the Whitsun Recess, which was at present planned to start on 12th May. If this were not possible, three weeks would be lost, since the Recess would be for a fortnight and in the following week he would be visiting Canada and the United States. He had considered the possibility of postponing the Recess for one week, but many Members of Parliament had made arrangements for the Recess on the basis of earlier intimations that it would start about 12th May. There were also difficulties in recalling Parliament for the last week of May, while the Foreign Secretary would then be making his visit to the Soviet Union and to delay or curtail it might have undesirable consequences for our foreign relations. Moreover, the second week of the Recess immediately preceded the Bank Holiday weekend. On the basis that it was hardly possible to postpone the Recess, the Cabinet's future programme might be on the following lines. After the completion of the agenda for the present meeting, the Cabinet should consider on 20th April the substantial report on an Atlantic Free Trade Area and on a policy of abstention from any wider association, as alternatives to entry into the Community, and also the memorandum for which they had asked on the impact of entry on our physical planning arrangements. On 27th April they might consider the report being prepared on the impact of entry on our balance of payments as a whole, the Commonwealth Secretary's memorandum on the future of the Commonwealth, and any other papers which Ministers might wish to submit, together with the memorandum he had earlier undertaken to circulate on the
alternative courses before them if the approach to Europe were to be pursued. Thus by 27th April the Cabinet would have available all the papers which were relevant to their decision. Time for their full consideration was essential and he had suggested at the last meeting of the Cabinet on this issue that it might be advantageous to hold a meeting of the Cabinet throughout Sunday, 30th April, at Chequers. This might follow the procedure of the Ministerial meetings held there in October and November, 1966, as a meeting of members of the Cabinet with officials and advisers present in the morning, and a meeting of the Cabinet in the afternoon and, if necessary, in the evening. The time available for discussion might thus in total be the equivalent of about 10 ordinary meetings of the Cabinet. It would not be appropriate to take a decision at the Chequers meeting, but to reach a stage where the decision could be taken at a normal meeting of the Cabinet in the following week; any further prolongation of discussion might be unfruitful and might prejudice the Government's position nationally and internationally.

The Cabinet would need to bear in mind as regards timing that the date for ending the definitive part of the Kennedy Round of tariff negotiations, which had now been set for 30th April (though the 7th May was more probable) could be still further delayed; and they would need to examine carefully the impact which the announcement of the Cabinet's decision on the approach to Europe might have on the negotiations if these had not been completed in principle at the time when the decision was announced. While those negotiations should not be prejudiced by any decision we might make, it would clearly be best for them to be concluded as quickly as possible; and we should instruct our representatives to exert all the pressure they could for an early conclusion. It would be possible, but not desirable, to postpone a Parliamentary Debate on the Government's decision until after the Recess. The procedure followed in 1961 before the proposed negotiations for entry had set a clear precedent. A further relevant factor which he had discussed with the Foreign Secretary was the nature and timing of consultation with the European Free Trade Association (EFTA) and it would be necessary for him to consult the Commonwealth Secretary on similar problems in regard to the Commonwealth; but it was clear that these consultations could be fitted into the programme he had outlined. If during the latter part of the programme it were to appear for any reason that it would be a mistake to seek a decision and a debate before the Recess, this could be reviewed in the light of the new circumstances.

In discussion of future procedure the following main points were made—

(a) Whilst from many points of view it would clearly be advantageous to reach a decision on the approach to Europe and to have it debated in Parliament before the Recess, this would entail some compression of the considerable programme of discussion before the Cabinet, and it might well be that external events such as the critical phase of the Kennedy Round and the proposed meeting of the Heads of Government of the member countries of the EEC would also make such a timetable impracticable. It would moreover be important that if such a timetable were adopted it should not become
public knowledge, since this might itself give rise to new factors which would complicate the Cabinet's discussions. On the other hand it was pointed out that it might be disadvantageous to prolong the Cabinet's discussions unduly and that the resulting delay might be taken publicly as implying serious difficulty in reaching a decision; this would be undesirable in relation to both domestic and foreign opinion, particularly that in the EEC. If further time for discussion were required, it would be possible to hold the proposed meetings at Chequers over two days rather than one, i.e., 29th and 30th April.

(b) If the Cabinet were to decide to develop our approach to Europe in some way, the tactics to be pursued would be of great importance and indeed would have a bearing on the issue of principle. It would, therefore, be important that tactics should be discussed not later than the proposed meeting at Chequers. The proposed programme provided for this, however, since the memorandum on alternative means of pursuing the approach to Europe would be circulated to Cabinet in time for their discussion on 27th April. It would inter alia have to cover such questions as whether or not to make an early application for negotiations for entry; or alternatively to seek further exploratory discussions with the Six with or without a declaration of intention to join; whether such exploration should be bilateral or multilateral; and what type of negotiations should be sought.

(c) It was suggested that, if a meeting at Chequers were to be held, officials and advisers should be present for the first part of the session. A wide range of subjects would have to be covered and Ministers might wish to be able to consult their officials on questions of fact; there was more than one precedent for such a procedure. On the other hand it was urged that a better procedure might be for factual questions to be put forward by Ministers and the necessary answers to them prepared by officials, before the definitive stages of the Cabinet's consideration. In any event Ministers would themselves deal with any questions of opinion. However it was suggested that any requirements for further factual advice could be reconciled with constitutional precedent and propriety if in appropriate cases each Minister so concerned were accompanied for this purpose by an official to whom he might himself wish to refer as he thought fit; attendance at the Cabinet meeting of others than Cabinet Ministers would, in accordance with constitutional usage, be for decision by the Prime Minister.

(d) Consultation with EFTA and the Commonwealth presented a difficult problem; our commitment to EFTA was to consult them before a decision had been taken by the Cabinet and we were also committed to the closest consultation with the other members of the Commonwealth. It must however be regarded as certain that any advance intimation of a decision or of a pending decision by the Cabinet would become public knowledge before it could be announced to Parliament; and it would therefore be necessary that any meeting of EFTA Ministers should not be held before such a decision: consultation with the Commonwealth seemed to present
less difficulty since the other members were concerned primarily with
the negotiation of safeguards for their own interests if we were to
enter, rather than with our decision to seek entry as such. The right
course would be for the Cabinet at an early date to consider a
memorandum setting out the problems and the alternative means by
which they might be solved.

(e) A number of Ministers were proposing to make foreign visits
during the course of the proposed programme for consideration of
the approach to Europe. It would be for Ministers to consider
whether to make such visits in view of the difficulties of timing the
Cabinet had discussed, since it would clearly not be possible to delay
the Cabinet's programme on that account. Ministers who were
unavoidably absent from the meetings of Cabinet would, however, be
able to follow the proceedings in the Cabinet records.

The Prime Minister, summing up this part of the discussion, said
that the general view was that the Cabinet's further consideration of
the approach to Europe should pursue the course he had outlined at
the outset of their discussion, with the object of reaching a decision
during the first week of May, unless such circumstances were to arise
as would require the programme to be reviewed. He would consider
further the arrangements for a meeting at Chequers on the weekend
of 29th/30th April and would also arrange for the Cabinet to consider
at an early date a memorandum on consultation with the
Commonwealth and EFTA.

The Cabinet—

(1) Took note, with approval, of the procedure the Prime
Minister had indicated.

The Cabinet then turned to discussion of the papers before them.

Sterling

The Prime Minister said that sterling's role as a world currency
has been extensively discussed during the European visits. The
growing strength of sterling had nowhere been questioned: indeed
the French Prime Minister, M. Pompidou, had disclaimed the reports
current the previous July of doubts he was alleged to have expressed
on this score; and on all the visits tributes had been paid to the
efficacy of the measures Her Majesty's Government had taken to
improve our balance of payments. Although there had been full
discussions of sterling's role as a world currency, it was not until the
visit to The Hague on 27th and 28th February that the real anxieties
of the Six on this had emerged. Under Article 108 of the Treaty of
Rome a member country of the EEC in balance of payments
difficulties as a result either of overall disequilibrium "or of the kinds
of currency at its disposal " might, in taking measures to overcome its
difficulties, either give rise to deflationary repercussions on the
economies of the other member countries, or become entitled to
assistance by them. The Six were concerned lest a sterling crisis
arising not from an imbalance in the overseas payments of the United
Kingdom, but from external causes related to sterling's role as a world
trading and reserve currency, should have such consequences for the

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other members of the Community. Article 108 had been drafted at a time when the currencies of several members of the Community were not fully convertible and it would be outwith the intentions underlying the clause for it to be invoked, as it could conceivably be, if a crisis arose from circumstances concerning sterling's role as a reserve and trading currency and not as a result of the balance of payments of the United Kingdom itself. In the discussion in The Hague of this problem our view had been that, when an important currency encountered major difficulties, it would be right for assistance to be given under wider international arrangements such as were provided by the International Monetary Fund (IMF) and the Basle Agreements. This indeed had been the case recently when Italy had encountered financial difficulties; the other members of the Community had participated in the wider arrangements for assistance as well as the United States, ourselves, and other countries. We would therefore expect, if sterling were to encounter difficulties arising from its world role and not from an imbalance in United Kingdom payments, that any necessary assistance would be provided by international arrangements on the wider basis; in such a case we would not expect to invoke Article 108. In The Hague and in Luxembourg we had been told that an understanding of this kind would entirely remove the anxieties expressed by the Six, and the news of these discussions had gone far to reassure the legitimate anxieties of France, though this did not mean that the world responsibilities of sterling would not be used by the French as a political argument that we were insufficiently European.

In discussion the following points were made—

(f) If sterling and our economy were strong, it would be immaterial whether we were a member of the EEC or not. But if our balance of payments were adverse as a result of our entry into the EEC, should we then be able to invoke assistance under Article 108? In reply it was pointed out that we should presumably not agree to enter on terms which were likely to entail an unacceptable burden on our balance of payments; and we could reasonably expect to negotiate transitional arrangements and other easements which would prevent this. But if we did encounter difficulties as a result of the obligations of membership, we should certainly be entitled to invoke Article 108. The Six might be unwilling to admit us to the EEC if this were in prospect, but the Prime Minister and Foreign Secretary had said on the European tour that we should regard ourselves as being on the same basis as the Six in regard to Article 108. Doubts in some circles of the Six were directed not so much to the possible consequences of sterling's roles as a reserve and trading currency, but rather to our ability to maintain the strength of our economy as being basic to the strength of sterling, a course which it was in any event essential for us to pursue.

(g) While it was unlikely, in view of the favourable opinions held in world financial circles of our entering the Community, that entry would cause a lack of confidence in sterling, it might nevertheless be unwise for use to renounce, as part of negotiations with the EEC,
any rights we might be able to claim under Article 108. Moreover, it would be wrong to forgo by such a renunciation any opportunities which might arise out of negotiations for entry to make international arrangements to relieve us of such burdens as the sterling balances imposed on us. We should need to be clear on the help the Six would give us if we did encounter balance of payments difficulties after entry. It was pointed out however that this was what had been discussed during the European tour, namely the negotiation of arrangements which would define our rights under Article 108, having regard to the world role of sterling. We had also made clear that, if the Six wished to discuss with us the possibility of new international arrangements for relieving us of the burden of the sterling balances, we should be glad to co-operate : no option had been closed in this respect.

There was some prospect that our application for entry to the Community, if we decided to make one, and any subsequent negotiations, might unfortunately coincide with the development of critical difficulties in the current international monetary discussions, in which the French were playing a devious role. They had started by insisting upon the establishment of a new international reserve unit as a solution to the problems of world liquidity, and we had persuaded the Americans to support this; but the French had subsequently reversed their position and were now insisting upon a rival solution by means of increases in drawing rights under the International Monetary Agreement (and so of their voting power under the IMF) in opposition to Anglo-American support of a new reserve unit. Our objective was to reach a solution to the problem of world liquidity and it would be wrong for us, for the sake of appearing more European during our approach to the Community, to change our attitude in the monetary negotiations in response to the changing French manoeuvres. To avoid unnecessary friction however we had asked the Federal German Government to find out what was the true French position and were in close touch with the United States.

It was suggested that our entry into the Community would be bound to impose a considerable burden on our balance of payments; moreover we should have to renounce the freedom and powers we now had to regulate our balance of payments. In the long term, whether as a member of the Community or otherwise, we could not hope to avoid occasional periods of economic or financial difficulty in which we should need those powers. It would be difficult to rely upon assistance from the EEC under Article 108 both because we might have on joining to renounce some rights we might otherwise enjoy under it and because in any event it would be difficult to distinguish between the international and national causes of any balance of payments difficulties. On the other hand it was urged that such a view exaggerated our problems. If we were a member of the EEC it would be in their interest to help us in any difficulties we might encounter, since otherwise they would put themselves at risk from the consequences for the enlarged Community as a whole. They had as members of the international financial community given us assistance in the sterling crisis the previous year and it was inconceivable that the Six would treat us worse as members than
they would as non-members; and if we were members, we should clearly be in a position to bring other powerful pressures to bear on them. Moreover experience suggested that some of the freedoms and powers referred to were not in practice open to us, because of the adverse international reactions and consequent damage to our interests that would ensue if we were to use them.

The Prime Minister, summing up this part of the discussion, said there would be an opportunity to consider these questions further in the later stages of the programme of discussions the Cabinet had earlier approved.

Mobility of labour and immigration policy

The Home Secretary said that our entry into Europe and acceptance of the provisions of the Treaty of Rome and the Regulations made under it in respect of the mobility of labour might result in some increase in the entry into the United Kingdom of labour from Europe. It seemed improbable however that this would be substantial. The right of free movement within the Community was based on nationality, not on residence or previous employment and applied only to nationals of the European territories of the Community: for example even workers from French Oversea Departments did not qualify in this respect. There would be certain technical problems for us relating to the machinery for the control of movement but the contrast between on the one hand the system of control in the member countries of the EEC, based primarily on internal controls, and on the other hand our own system, based primarily on the control of immigration at the point of entry, was not in practice as clear cut as this difference of principle might suggest. Moreover our own system might well in any event have to be modified as a result of the consideration which was currently being given to the right of appeal against a refusal to admit entry and modifications made for this purpose would be likely to make our system more compatible with that in the EEC. Admittedly there was the difficulty of principle that entry into the EEC would involve giving priority for immigration to nationals of member countries of the EEC over the nationals of Commonwealth countries but in practice more European nationals than Commonwealth nationals were already admitted to the United Kingdom under our existing system. The major difference was that a large proportion of the latter wished to settle in this country, whereas by far the greater part of the European nationals came for temporary employment and returned home on its conclusion. It would moreover still be open to us to give nationals of Commonwealth countries priority for immigration over the nationals of foreign countries other than the members of the EEC. The regulations within the EEC relating to the admission of dependants were somewhat more favourable than our own regulations restricting the admission of the dependants of Commonwealth immigrants and it might well be necessary to bring the latter into line with the former. However the present high rate of admission of dependants was primarily due to the entry of the large number of dependants still outstanding of immigrants admitted before
the institution of our present immigration controls and might be expected to diminish sharply fairly soon. It might well prove possible therefore to bring our practice in respect of our Commonwealth dependants into line with that of the EEC without this resulting in any substantial increase in the admission of Commonwealth dependants.

In discussion the following main points were made—

(i) It was argued that the acceptance of the provisions of the Treaty of Rome relating to the mobility of labour would result in a major change of principle in our present immigration policy which would be highly embarrassing to the Government, since the priority for immigration which would be given to nationals of the EEC countries over Commonwealth nationals was contrary to the Government's present declared policy of giving preference to Commonwealth nationals. Furthermore we should then be faced with a problem either of giving European nationals priority even over the nationals of the Old Commonwealth countries, which would create political difficulties both in the latter and in the United Kingdom, or else of differentiating between nationals of the Old Commonwealth countries and those from the New Commonwealth countries, so introducing the principle of colour differentiation into our immigration policy. On the other hand it was pointed out that, while the latter difficulty would admittedly remain, the basic change of policy as between nationals of EEC countries on the one hand and Commonwealth nationals on the other was more apparent than real in view of the existing pattern of immigration to which the Home Secretary had referred. Moreover not only did it seem probable that the change might lead to some improvement in the rules regarding the admission of dependants of Commonwealth immigrants but also the latter would, it appeared, obtain the right of entry into the other member countries of the EEC. While such a right would not extend to Commonwealth immigrants into the United Kingdom who were not citizens of the United Kingdom, it was in practice relatively easy for those who were not already United Kingdom citizens to be naturalised after five years' stay in this country. Entry into the EEC might well therefore be advantageous to Commonwealth immigrants who had settled in this country, some of whom might well be attracted by employment in Europe. It also appeared that the right of entry into member countries of the EEC would be conferred upon United Kingdom nationals at present resident elsewhere in the Commonwealth, such as the large number of Asian United Kingdom nationals resident in East African countries. This aspect should be further investigated.

(k) The Trades Union Congress (TUC) were concerned at the possibility of an influx of European labour. It appeared that an entry permit to take up employment could not be denied without reasonable cause to nationals of other EEC countries and, although member states might give priority to home nationals for a period of two weeks in any occupation or region where there was a considerable surplus of labour, this did not apply to foreign workers who had been employed within the country in question for a minimum of one year and the next Regulation under the Treaty might provide for the
unrestricted right of entry. Furthermore the fact that a supplementary benefit was under present United Kingdom legislation more freely available than comparable assistance within the EEC might well attract an additional influx of foreign labour. On the other hand it was pointed out that the anxieties expressed by the TUC were now much less acute than those which they had previously expressed: indeed it did not appear that there was now really serious concern on this aspect. Furthermore there was no surplus of labour now available within the EEC and, apart from the extent of the availability of supplementary benefit, the current level of social benefits in the EEC was in general higher than that available in the United Kingdom. It might prove necessary to amend our own practice regarding the availability of supplementary benefit for immigrant workers, but this should not present a serious problem and it did not appear likely that there would be difficulties in respect of the admission of foreign workers which could not adequately be dealt with by the negotiation of transitional provisions. It would however be of advantage to carry out a fuller study of the current position in one of the more prosperous members of the EEC regarding the problems arising from the admission of foreign workers and the way in which these were handled and to consider further the machinery which would be required in the United Kingdom for the control of admission and movement. Such an enquiry should elucidate the extent to which under the Treaty of Rome and Regulations made under it it would be open to the Government to deport foreign immigrants.

The Cabinet—

(2) Took note that the Prime Minister would arrange for a report to be made by officials on the experience of the mobility of labour under the provisions of the Treaty of Rome of a member of the EEC where conditions were broadly comparable with those in the United Kingdom, on the machinery for the control of immigration and movement which would be required in the United Kingdom, on the possibility that the EEC would accord unrestricted freedom of movement within the Community to EEC nationals, on the extent (if any) to which the United Kingdom would have the right to deport EEC nationals and on the implications for the right of entry into other member countries of the EEC of United Kingdom nationals of Commonwealth origin, including those now resident in other countries of the Commonwealth.

Legal and constitutional implications

The Prime Minister recalled that, in discussion the previous autumn of the possibility of the United Kingdom seeking to join the EEC, the Cabinet had considered a report on the legal and constitutional implications which had been circulated to the Ministerial Committee on Europe as E (66) 7 and had also been circulated to all members of the Cabinet. This report had been reviewed to ensure that it still represented an up-to-date survey of
the problem in so far as information was available from United
Kingdom official sources and no change had been made in it.

The Lord Chancellor said that the wide range of issues dealt
with in the report were summarised in paragraph 85. The major
political aspects related to the extent to which our entry into the EEC
would involve a loss of sovereignty. Some loss would admittedly be
involved but this was true in respect of every international treaty
which we ratified and which subsequently restricted our freedom of
national action and the issue was therefore one of degree, not of
principle. Entry to the EEC would of course involve much important
new legislation; and some aspects of the problems which would arise
from our entry had not yet been resolved and would require further
review at such stage as the Government felt free to take the opinion
of judges, lawyers or organisations outside Government circles. In
particular, it was yet uncertain whether acceptance of the Treaty of
Rome implied the right subsequently to withdraw. One further issue
which was not considered in the report, and of which the Cabinet
should be aware, was the extent to which the Government were not
at present fully equipped, legally speaking, to enter the EEC. Such
entry would involve numerous and far-reaching legal problems and
the legal members of the Civil Service were already insufficient in
number to fill present establishments and to meet the Government's
current requirements. Admittedly it would on entry be open to the
Government to seek legal assistance outside Government circles, but
it would be important and urgent that adequate legal staff should be
recruited at the earliest possible moment. Other legal problems
would also have to be met, such as the need for authorised English
texts of EEC legislation.

In discussion it was argued that there was a difference of principle
in the extent of the restriction on our sovereignty imposed by entry
into the EEC on the one hand and the signing of other international
treaties on the other hand. The latter clearly specified the extent
to which our subsequent freedom of national action was restricted
by signature of the treaty and this restriction was not thereafter
increased except by an amending treaty. If we were to become a
member of the EEC however there would be a progressive limitation
of our national sovereignty through the legislation which the
Community was empowered to pass and we should, therefore, not
know at the time of entry how extensive the restrictions on our
sovereignty would subsequently prove to be. Furthermore, there was
no national representation on the European Economic Commission,
which itself had the power to legislate. It was, however, pointed out
that the Commission itself was effectively subject to the power of
the member Governments of the EEC. As regards the power of the
latter to legislate, present practice provided for unanimity in voting
and we need not, therefore, be concerned that our entry into the
Community would result in subsequent restriction of our national
sovereignty except with our agreement. It might well prove to be in
our interest, however, later to accept that decisions of the Community
should be taken by majority vote since we could be confident of
sufficient support under a system of majority voting to be able to
resist legislation which we judged to be contrary to our national
interest, once not only we but some of our present partners in EFTA had become full members of the EEC.

The following main points were also made—

(i) In addition to the problems of substance arising from the extent to which we might accept the Common Agricultural Policy, entry into the Community would involve the extensive amendment of our present system of agricultural legislation, with consequent legal and practical problems.

(m) It seemed probable that the development by the Community of a common transport policy might be on lines which would be contrary to those which the Government were currently considering. The Community policy was likely to be based on a system of rigid controls and restrictive quotas for motor transport, whereas our own policy was moving towards a much more flexible system of control based on qualitative rather than quantitative regulation. On the other hand it was argued that definitive Regulations and decisions to give effect to a common transport policy had not yet been made; that, provided we observed any quotas we might negotiate for ourselves as an island, we might seek to do so by qualitative means; and that the barrier posed by the Channel to the free movement of motor transport from the United Kingdom, as compared with the geographically unfettered freedom of movement of road transport within the member countries of the EEC, put us in a substantially different position from the present member countries. It would be open to us, particularly in the light of this factor, to negotiate on entry an adequate national quota which it should then be open to us to enforce by qualitative rather than quantitative regulations.

The Cabinet—

(3) Agreed to resume their discussion at a subsequent meeting.

3. The Cabinet considered a note by the President of the Board of Trade and the Minister of Housing and Local Government (C(67)50) to which was annexed a draft White Paper on the provision of a third London airport.

The President of the Board of Trade said that a decision was now needed urgently on the site of a third London airport. With the expected increase in traffic, it was estimated that the combined capacity of Heathrow and Gatwick airports would be fully used by the mid-1970s and possibly earlier. The French were seeking to establish Paris rather than London as the leading centre for European air travel and they might succeed if an early start on a third airport were not made. The proportion of the increased traffic which would need to be brought to the London area made it inescapable that the third airport should be sited in the South East, though consideration would soon need to be given to the provision of a fourth major airport and it would be important to ensure that this was sited outside the South East. The previous Administration had published
the report of an Interdepartmental Committee in 1964 and had endorsed its conclusion that the third airport should be sited at Stansted. The report of a public inquiry into this proposal in May 1966 did not give a firm recommendation either for or against Stansted, but recommended that a further review of the whole problem should be undertaken. It would however serve no useful purpose to set up further public inquiries into particular alternative sites, since local opposition could in each case be expected to produce a negative result. The Departments concerned had carried out a full examination of the alternatives, but had concluded that Stansted presented the fewest disadvantages. The best of the alternatives from a civil point of view would be a site in the area of Silverstone, midway between London and Birmingham; but the construction of a major airport on this site would involve the closure of eight military airfields in the Midlands and the cost of their replacement elsewhere would be of the order of £100 million. The Minister of Housing and he were satisfied, after searching inquiries, that this result could not be avoided and that any conceivable future changes in defence requirements would not alter the position. The other suggested sites all presented difficulties on grounds of cost or for other reasons. The Government should therefore announce a decision to site the third airport at Stansted and should publish a White Paper in terms of the draft annexed to C (67) 50 explaining their reasons.

The Minister of State, Ministry of Housing and Local Government said there was an urgent need to announce a decision on the site, since important developments in regional planning, including the New Towns programme, were being delayed because of the uncertainty.

In discussion, considerable doubts were expressed about the urgency of providing a third airport. A new airport could be built in three to five years, and it seemed likely that a longer period than this would elapse before the combined capacity of Heathrow and Gatwick was fully used. The previous Administration had given certain assurances that Gatwick would not be expanded into a major airport; it was not clear whether these assurances were still inhibiting plans for its development. It appeared that Gatwick was at present working to only some 50 per cent of its capacity. In particular, it seemed possible that an extension of the existing runway and provision of a second runway might enable Gatwick to absorb for a considerable period traffic which Heathrow could not take and that the provision of a third airport could accordingly be deferred. Construction of a new airport would make considerable demands on economic resources and public expenditure; and it was not evident that an early start on the project would be in accordance with reasonable economic priorities in the immediate future.

Doubts were also expressed whether Stansted was the right choice. An airport on that site would create a considerable problem of noise and would involve an extensive loss of good agricultural land. The possibilities of developing a major airport at Luton were not dealt with in the draft White Paper. There were serious objections to creating a third major airport which would be land-locked: many
of the major capitals abroad had their principal airports flanked on one side by water, thus reducing the nuisance from noise. Further consideration should therefore be given to a site near the Thames Estuary where this problem would be minimal. The objection had been made to a site in that area that it would be too close to existing airports, but there were examples, for instance in the United States, of major airports operating successfully at a distance from each other of as little as eight miles.

On the other hand, it was argued that, while it might be possible to defer the start of work on a third airport, the choice of site should be announced without delay so that regional planning would not be held up. Because of the physical limitations of the Gatwick site, it was improbable that even with the maximum possible extension of facilities it would be able to absorb the growing excess of traffic from Heathrow to an extent which would justify deferment of the third airport beyond the time envisaged in the draft White Paper. The view of the British Airports Authority and of the major airlines was that work on a third airport should be started without delay if the probable increase in traffic were to be successfully absorbed.

The Prime Minister, summing up the discussion, said that the Cabinet were not satisfied on the evidence before them that the case had been made out for an early start on the construction of a third London airport or that Stansted was the best site. The President of the Board of Trade and the Minister of Housing should consider further the doubts which had been expressed in discussion and should circulate a further memorandum to the Cabinet in due course giving their views on them.

The Cabinet—
Invited the President of the Board of Trade and the Minister of Housing and Local Government to circulate a further memorandum in the light of their discussion.

Cabinet Office, S.W.1.
14th April, 1967.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 18th April, 1967, 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. 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. PATRICK GORDON WALKER, 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 PEARL, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. Clwydwy Hughes, M.P., Secretary of State for Wales

The following were also present:
The Right Hon. FREDERICK MULLEY, M.P., Minister of State for Foreign Affairs
The Right Hon. Sir ELWYN JONES, Q.C., M.P., Attorney-General (Item 3 (ii))

The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. H. L. LAWRENCE-WILSON
Mr. K. BARNES

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1. The Minister of State for Foreign Affairs said that the Foreign Secretary had had a very lengthy meeting on 16th April with the United Nations Mission to South Arabia. He had succeeded, though with great difficulty, in reaching agreement with them on a joint statement about the current situation in South Arabia and about how the United Nations might still help in finding a solution to the problems there. The Mission still adhered rigidly to their own view of their terms of reference and seemed quite unsuitable for their task. They were returning to New York that day and could be expected to make a critical report to the United Nations on the situation in South Arabia; they were not expected to go back to Aden. The Minister without Portfolio (Lord Shackleton), who was in Aden, was still endeavouring to arrange a meeting with the nationalist leaders Al Asnag and Mackawi but so far without success.

The Minister of State for Foreign Affairs said that, until the Spanish Government had tabled with the International Civil Aviation Organisation (ICAO) their precise proposals for the area near Gibraltar in which they had announced their intention of prohibiting aircraft from flying, the effects of such a ban would not be clear. It was important to know how far the area extended over sea as well as over the land. It appeared that we were likely to be in a strong position to resist the proposed ban in ICAO. There was no immediate prospect of resuming talks with Spain: these had not formally been cancelled but only postponed.

The Cabinet—

(1) Took note of the statements by the Minister of State for Foreign Affairs.

The Commonwealth Secretary said that the recent attempted coup against the National Liberation Council in Ghana had failed and the situation in Accra was now quiet. The cause of the attempt appeared to be purely internal dissension not related to the previous régime. It appeared that only a small element of the Ghanaian forces had been affected and that the attempt would probably not have taken place but for the preoccupation of the National Liberation Council with the possibility of an attempt on the part of the former President, Dr. Nkrumah, to return to power.

The Commonwealth Secretary referred to a virulent attack on the United Kingdom in a recent public speech by Mr. Simbule, the Zambian High Commissioner Designate in London. Although he had agreed some weeks ago to the appointment of Mr. Simbule it would now be necessary to reconsider this, even though to refuse to accept Mr. Simbule might lead to a break in our relations with Zambia.

In discussion there was agreement that the Government could not appear to ignore this attack and should be seen to react strongly to it.
The Cabinet—
(2) Took note of the Commonwealth Secretary’s statements.

2. The Cabinet considered a memorandum by the First Secretary of State and Secretary of State for Economic Affairs (C (67) 51) on the location of a decimal factory and the re-location on the same site of the Royal Mint.

The First Secretary of State said that it had been agreed that a temporary factory to produce decimal coinage should be sited in a development area and that the Mint itself should subsequently move to the same location. The choice of site had been narrowed down to Llantrisant in Wales, Cumbernauld in Scotland and Washington in the Northern development area. When this question had been discussed by the Ministerial Committee on Environmental Planning, it had been recognised that a strong case could be made on employment grounds for each of the three areas, and the Committee had taken the view that in these circumstances the deciding factor should be the views of the management of the Mint. The management considered that resistance to dispersal on the part of their employees could jeopardise the successful completion of decimalisation of the coinage and might injure the valuable export trade of the Mint; and that the choice of Llantrisant would minimise these risks. The Ministerial Committee had accordingly agreed on balance, with the Secretary of State for Scotland dissenting, that the choice should fall on Llantrisant.

The Committee had taken into account two other major dispersal projects which were relevant; it had recently been decided that the Ministry of Transport vehicle and driver licensing and test-booking centre should be established at Swansea; and it was likely that certain Ministry of Defence supply and production staffs, in respect of whom a decision would shortly be needed, would be dispersed to South Wales. It had been argued in the Committee that, if the Mint were also to be moved to Wales, Wales would be getting a disproportionate share of dispersal projects. If the whole period since 1963 were taken into account, the number of jobs created under the dispersal policy in Wales, with a population of 2,700,000, was nearly 9,000, including the Ministry of Transport centre; the corresponding figure for Scotland, with a population of 5,200,000, was 6,560; and for the Northern development area, with a population of 3,300,000, 3,900. This meant that Wales had fared best over the period, while the Northern development area had fared worst. But it would be unwise to allow the principle of seeking to share such projects fairly between different regions to determine decisions on dispersal. There were many other factors to be taken into account, notably the effects of the choice of a particular site on the operational efficiency of the organisation concerned. The Ministerial Committee in considering dispersal questions should have available information on the effects of the policy on the different regions since its inception and this was being arranged; but if the need to share projects between different
areas were allowed to become the overriding factor, the policy would be brought into disrepute.

The Secretary of State for Scotland said that dispersal policy under the present Government, leaving out of account cases where there was no alternative to dispersal to Scotland, had resulted in the creation of only 65 additional jobs in Scotland. Unemployment in Scotland had over a long period been heavier than in any other part of Great Britain, even though the true position had been masked by a heavy rate of migration to the rest of the country. The present number of unemployed in Scotland was double that in Wales and was increasing against the seasonal trend. There was a prospect of unemployment exceeding 5 per cent during the next winter. The unemployment problem in the Rhondda Valley, which was relevant to the Llantrisant site, had arisen only relatively recently through pit closures and there were many places in Scotland where a comparable level of unemployment had persisted for longer periods. The reduction in employment in coalmining had been more severe in Scotland than in Wales and the prospective reduction over the next two years was 7,000 as compared with 4,000 for Wales. The number of vacancies in coalmining, to which redundant miners might move, was much greater in Wales than in Scotland. The Government's policy for distribution of industry had also been less effective in Scotland, where 8.2 million square feet of factory space, providing 20,000 jobs, had been created in 1966, compared with 9.2 million square feet providing 22,800 jobs in Wales. The choice of location for the Mint should not be allowed to turn on the preference of its present employees; when their representatives had visited Cumbernauld, they had had no contact with the New Town Corporation or with his Department and had therefore been in no position to take account of future provision of amenities such as housing, medical services and schools. It would not be practicable for the Ministry of Defence production and supply staffs to be moved to Scotland and it would be indefensible to Scottish opinion if the Mint, in addition to the other two major dispersal projects, were to move to Wales. The Cumbernauld site should therefore be chosen.

The Minister of Housing and Local Government urged the claims of Washington. If the Mint, in addition to the other two major dispersal projects, were to go to Wales, the result would be that the number of jobs created there under the dispersal policy would be twice as great as the number created in the Northern development area. There was a high level of unemployment in the Washington area and with the decline in basic industries such as coalmining and shipbuilding this was likely to continue. A suitable factory was already available on the Washington site and communications to the area were excellent. There would also be the advantage of co-operation with the New Town Corporation, which was one of the most efficient in the country.

The Secretary of State for Wales said that, while he accepted that the other areas had difficult unemployment problems, unemployment in the Rhondda Valley, which was within commuting...
distance of Llantrisant, presented the most intractable problem in the
United Kingdom. Male unemployment was now over 10 per cent and
two pits employing 16 per cent of the male population were due
to close by 1970. If nothing were done to alleviate the situation,
unemployment in the area might well reach 15 per cent by that time,
despite a continuing high rate of migration. Because of the
characteristics of the area it was difficult to attract new industry to
it. It had been agreed by Departments that in Wales as a whole the
male working population would be some 675,000 by 1970, while
opportunities of employment would be only 640,000–650,000. The
industrial area of South Wales accounted for some 80 per cent of
the total working population and might therefore have a shortage
of some 20,000 jobs by 1970, implying unemployment of over 5 per
cent. The benefit to Wales of the establishment in Swansea of the
Ministry of Transport centre should not be over-estimated since the
centre would employ mainly women whereas the need was for
employment for men. It was misleading to consider dispersal policy
in isolation from other forms of assistance to the regions, and on
this broader basis it could not be said that Wales had received a
disproportionate share of help. The total of loans and grants under
the Local Employment Acts for the five years to 1966 was only
£37 million for Wales as compared with £30 million for England and
£44 million for Scotland. The previous Administration had
concentrated their efforts on assistance to the North of England and
Scotland, while most of Wales had been removed from the schedule
of development areas; this policy had not been reversed until 1964–65.
The present and prospective level of unemployment was so serious
that some major measure of assistance, which would constitute an
act of faith in the industrial future of Wales, was now needed; to
move the Mint to Wales would fulfil this need and the decision of the
Ministerial Committee in favour of Llantrisant should therefore be
endorsed.

In discussion, there was some support for the view that if the
Mint were to be moved to Llantrisant then, taking account of other
decisions on dispersal, this would mean that Wales was receiving an
unjustifiable degree of preference, over other areas. The
unemployment problem in Scotland was likely to be more acute than
in Wales both in the immediate future and in the long term, and was
far greater in terms of absolute numbers than in any other area. On
the other hand, if the decision were to turn on ensuring a fair share
between the regions of employment opportunities created by
dispersals, this would point to the choice of Washington. Although
the preference of the Mint employees was for Llantrisant, this should
not be allowed to decide the issue: it would be impossible to maintain
a rational dispersal policy if staff preferences were given such priority
and it was relevant that the move of the Post Office Savings Bank
to Glasgow, which was the major example of dispersal to Scotland,
was effected against the opposition of the staff.

It was argued on the other hand that it was wrong to consider
the dispersal of the Mint and the other two major dispersals together
yet in isolation from other measures to stimulate employment in
development areas, simply because they happened to coincide in time.
The distribution of dispersals between the different regions even over a longer period was only one of the factors which should be taken into account. In particular, considerable weight should be given to the views of the management concerned. This would accord with the Government's policy towards private industry where the choice of location was normally left to the management concerned, provided they were prepared to move to a development area. The views of the management were particularly important in the case of the Mint since the success of the decimalisation programme was dependent on the willingness of a substantial proportion of the present employees to transfer to the new location. These employees, even where they were established civil servants, did not in practice accept the same liability to move to different areas as the Civil Service generally. If a location other than Llantrisant were chosen, there was a serious danger that resistance on the part of Mint employees would in practice make it impossible to implement the decision.

In further discussion the following points were made:

(a) The representatives of the Mint employees who had visited the possible sites had insisted on making their own arrangements for the visits. Any attempt to stipulate that they should meet the local authorities in the course of these visits would have been likely only to increase resistance to any dispersal at all. On the other hand, it was difficult to see how the visiting parties could properly assess conditions in the different areas without being informed by the local authorities about future plans for provision of the main amenities.

(b) It was too late to reverse the decision to establish the Ministry of Transport licensing and test-booking centre at Swansea.

(c) It would not be justifiable to move the Ministry of Defence production and supply staffs to a location in Scotland. These staffs needed constant access to defence establishments in the South and West of England and to the staff already dispersed to Bath; to transfer them to Scotland would involve unacceptable expense and would risk the danger of a breakdown in operational efficiency.

(d) In the administration of dispersal policy generally, it was essential that decisions on major projects should not be prejudiced by commitments to particular sites or by undertakings to the parties affected—or even by discussion with them—before the issues were considered by Ministers.

The Prime Minister, summing up the discussion, said that the Cabinet on balance endorsed the decision in favour of Llantrisant. The Secretary of State for Scotland had, however, made a strong case for further Government action to reduce unemployment in Scotland; indeed, the Cabinet's discussion had emphasised the need for similar action in all development areas. A reduction of the disparity in levels of unemployment as between these areas and the rest of the country would permit a faster rate of growth in the economy as a whole without the recurrence of balance of payments difficulties and such a reduction was therefore an essential part of our whole economic strategy. The scheme for special employment premiums
under the Selective Employment Tax, on which the Government had recently published proposals, could make a major contribution to this end and the Cabinet would have an opportunity to discuss these proposals in the light of the public reaction to them soon after the Whitsun Recess. But that scheme would assist employment in the development areas as a whole; further measures should be considered to deal with the problems of particular districts within the development areas where unemployment was especially severe and employment unresponsive to more general measures of assistance. The Ministerial Committee on Environmental Planning should commission a study which would identify the districts where such problems now existed or were likely to arise within the next two or three years and should formulate proposals for action. Among other measures, the Committee should consider how far the provision of more and possibly bigger advance factories could meet the need; also whether a contribution could be made by the suitable location of new industrial projects directed to the saving of imports and based on nuclear or other forms of cheap power. In formulating their proposals the Committee should give the fullest consideration to the needs of districts with particularly high unemployment in Scotland.

The Cabinet—

(1) Agreed that the site for a decimal factory and for the subsequent re-location of the Royal Mint should be at Llantrisant.

(2) Invited the First Secretary of State to arrange for the Ministerial Committee on Environmental Planning to consider further measures to assist districts in the development areas with particularly serious unemployment problems, on the lines indicated by the Prime Minister in his summing up of their discussion.

(i) A possible White Paper

3. The Cabinet had before them a note by the Secretary of the Cabinet (C (67) 55) to which was attached a memorandum by officials on the possibility of issuing a White Paper on the Approach to Europe.

The Prime Minister said the Government were now committed to publishing the speech made by the Foreign Secretary to the Parliamentary Labour Party on 6th April and his own forthcoming speech to the Party on 25th April. It was for consideration whether these speeches should be supplemented by a summary of the non-confidential information which they had obtained during their recent European tour and whether the resulting document should be issued as a White Paper or in some other form. Whether it was decided that the speeches in question should be published as a White Paper or otherwise, the Cabinet might take the view that there would
be little advantage in publishing in addition the non-confidential information resulting from the tour, since this was already fully summarised in the Foreign Secretary's speech. In the light of the decision on this aspect the Cabinet would also wish to consider whether there should later be a further White Paper containing the statement the Government would make to Parliament about their decision on the approach to Europe and whether this should be followed by the publication of the draft booklet which had been prepared by the Central Office of Information (COI) describing the institutions and policies of the European Economic Community (EEC) and the corresponding United Kingdom arrangements and policies.

In discussion it proved to be the general view that there were constitutional and political objections of principle to publishing as a White Paper speeches made in the first instance to a parliamentary party: it would therefore be preferable for these speeches to be made available to Parliament as a whole by other means. There was some support for the view that, when the Government had taken their decision on whether or not to seek membership of the EEC, it would be desirable to publish simultaneously with the statement in Parliament on that decision, or very shortly thereafter, a White Paper which might consist of a brief restatement of the decision and of the reasons for it, together with a number of more detailed appendices on various aspects of the problem. There might for example be an appendix on the Common Agricultural Policy (c.a.p.) based on the memorandum prepared by the Ministry of Agriculture for submission to the Select Committee on Agriculture. Having regard to the repercussions of any documents on this issue which were published by the Government in the near future, it would be preferable that any papers submitted in future to the Select Committee should first be considered by the Cabinet. It was also the general view that, if in the event it were decided to publish a White Paper, there would also be advantage in publishing the COI booklet.

The Cabinet—

(1) Took note that the Prime Minister, in consultation with the Lord President of the Council, would arrange for the speech by the Foreign Secretary to the Parliamentary Labour Party on 6th April and for his own speech to that body on 25th April to be published, though not as a White Paper, and to be made available to Members of Parliament.

(2) Agreed to give further consideration to the issue of a White Paper simultaneously with or very shortly after the statement of the Government's decision on the approach to Europe.

(3) Agreed that no further papers relating to the approach to Europe should be presented to Select Committees of the House of Commons until they had been considered in draft by the Cabinet.
(4) Agreed that, in the event of the publication of a White Paper in the light of Conclusion (2), the booklet by the Central Office of Information should be published simultaneously.

(ii) Consultations with the European Free Trade Association, the Commonwealth and the Irish Republic

The Cabinet had before them a note by the Secretary of the Cabinet (C (67) 54) to which was attached a memorandum by officials on consultations with the European Free Trade Association (EFTA), the Commonwealth and the Irish Republic.

The Prime Minister recalled that at the recent meeting of the Ministerial Council of EFTA at Stockholm the Government had accepted a commitment to discuss their approach to Europe with the other members of EFTA after the discussions by the Foreign Secretary and himself in the capitals of the EEC and before any final conclusions were drawn from them. There were three possible ways of carrying out this commitment to consult EFTA. The first, a meeting at which we indicated the line the Government expected to take before the Cabinet had taken a decision was clearly impracticable since no such indication could be given before the decision had in fact been taken, and anything said at such a meeting would be bound to become known. Secondly, a meeting could be held at which EFTA could be consulted on a purely hypothetical basis and thereafter, when the Cabinet had taken their decision in the light of the views expressed by the other EFTA Governments at this meeting, those Governments could be informed of it immediately before it was announced. This however would merely be to repeat what had happened at the meeting of EFTA held in Lisbon at the end of the previous year and our EFTA colleagues would find it most unsatisfactory. Furthermore, the news of the arrangements for such a meeting would be taken publicly as implying a decision by the Government to apply for membership of the EEC and might be seized upon by the French or by the Community as an excuse to reconsider or withdraw offers already made in the Kennedy Round of tariff negotiations. The third course would be to approach other EFTA Governments now through diplomatic channels, say that we recognised our obligation under the Stockholm communique to hold a further Ministerial meeting with them before we came to a final decision, but point out that any conceivable way of meeting this obligation had grave disadvantages for all members of EFTA, for the reasons that he had indicated in describing the other two courses. If nevertheless all other EFTA Governments urged us to meet our undertaking by holding a conference for consultation on a hypothetical basis, we would endeavour to do so; but we considered that it would be preferable for the main consultation to be carried out in the first instance through bilateral contacts and possibly at a later stage at one of the regular meetings of the EFTA Council. We would then hope, if our decision were to apply for membership of the Community, that there would be a Ministerial meeting of the EFTA Council to consider the situation and consult together shortly after the Government's decision had been taken.
Commonwealth interests lay more in the terms that we should seek if we applied for membership than in the question of our application as such. We were committed to a continuing process of consultation, but there was no need to assemble representatives of all Commonwealth Governments at the same time either before or after our decision was taken or announced. There would be opportunities for consulting some Commonwealth Governments in the course of Ministerial discussions which were due to take place shortly in any event and discussion with other Commonwealth Governments could best be initiated by a telegram at the same time as the proposed telegram was sent to other member Governments of EFTA. This telegram might say that a decision was expected shortly and that in reaching it the Government would wish to take fully into account any general considerations which Commonwealth Governments wished to put forward at this stage on the hypothesis that we were considering applying to enter the Community, subject to safeguards on essential Commonwealth interests. The Government wished to allow adequate time for full consultation with Commonwealth Governments and if their decision were to prove to be in favour of applying to enter the Community there would be full opportunities for such consultations during the coming months. As far as the Irish Republic was concerned, a meeting with the Taoiseach should if possible be held before the Cabinet reached their decision.

In discussion there was general agreement with these proposals. It was recognised that, if in the light of these consultations the other members of EFTA were to press for a meeting of EFTA Ministers to be consulted on a purely hypothetical basis about our approach to Europe, it would be politic to accede to their request. The following points were also made:

(a) It might prove advantageous for the Minister of State for Foreign Affairs (Mr. Mulley) to pay a visit to some or all of the capitals of the other members of EFTA in order to supplement the consultation initiated through diplomatic channels.

(b) In addition to the Ministerial discussion with certain Commonwealth Governments which would in any event take place on the basis of meetings which had already been arranged for other purposes, consideration should be given to the desirability of a Ministerial visit to some other Commonwealth countries, including Trinidad.

(c) It appeared probable that the conclusive stages of the Kennedy Round would now be further delayed and would not be reached until about the end of the second week of May. It would be necessary to consider later the relevance of this to the timing of the Government's decision on whether or not to make an application to join the EEC. It was the general view that there was strong objection to an announcement of the Government's decision before the decisive stage of the tariff negotiations had been concluded, since we might otherwise be blamed, however unfairly, if those negotiations were not successful.
The Cabinet—

(5) Invited the Minister of State for Foreign Affairs (Mr. Mulley) to consider in the light of the discussion the desirability of visiting the capitals of some or all of the other members of EFTA for consultations in respect of the Government's consideration of their approach to Europe.

(6) Invited the Commonwealth Secretary to consider in the light of the discussion the desirability of a Ministerial visit to some members of the Commonwealth other than those whose Ministers would in any event be consulted in the course of the immediately forthcoming meetings.

(7) Subject to Conclusions (5) and (6), approved the proposals put forward in the memorandum by officials attached to C(67) 54 on the manner in which consultations with EFTA, the Commonwealth and the Irish Republic should be carried out.

(iii) Legal and constitutional implications of United Kingdom membership of the European Communities

The Cabinet resumed their discussion of the legal and constitutional implications of our membership of the EEC.

*The Lord Chancellor* said that the report by officials which had been before the Cabinet on the occasion of their previous discussion (E (66) 7) had brought up to date the wide-ranging report which had been carried out under the auspices of the previous Administration in 1962, in which the Government had been advised by eminent lawyers both inside and outside the public service. It had not been open to officials on this occasion to take the opinion of judges, lawyers or organisations outside Government circles and in these circumstances it was particularly desirable that the Law Officers should now themselves undertake a review of the report.

The Cabinet—

(8) Invited the Lord Chancellor to arrange for the Law Officers to consider and report on the report by officials attached to E (66) 7.

(iv) Agriculture and the Common Market

The Cabinet considered a note by the Secretary of the Cabinet (C (67) 44) to which was attached a report by officials on the common agricultural policy (c.a.p.) of the EEC and on the possibilities of easing the difficulties we should encounter if we were to accept it.

*The Minister of Agriculture* said that the memorandum provided in Part I the factual material necessary for a judgment of our attitude to the c.a.p. and in Part II proposals for easement of the difficulties which acceptance of it would cause us. The basis of the c.a.p. was that the farmer sold his produce for what he could get on a market which was regulated at the consumers' expense by means varying from commodity to commodity, including levies on imports, subsidies.
on exports, and intervention by support buying or storage arrangements. The system discriminated in favour of cereals and against livestock products in two ways. The prices for cereals were too high both absolutely and relatively to those of livestock products; and the arrangements for regulation of the markets for livestock products were less comprehensive, e.g., for pigs, eggs and poultry there were no intervention arrangements to provide a minimum market price, so that no real security of return was afforded to the producer. The c.a.p. was therefore radically different from our own system, in which the farmer sold his produce for the best price he could get on a relatively free market and in addition received deficiency payments and direct grants at the expense of the taxpayer. Our system of import restraints also gave overseas suppliers a greater degree of assurance of a market in the United Kingdom than did the Community system of variable levies on imports. Consequently, if we were to accept the c.a.p., our own system and the 1947 and 1957 Agriculture Acts, under which it had been developed, would have to be abandoned. The results for British agriculture would be to distort the pattern of production and to reduce farmers’ security, so that the industry would be less soundly based and less well-balanced. There would also be important consequences for Commonwealth trade, which were set out in the memorandum.

It would not be right to assume, as had been suggested, that the consequences for us of accepting the c.a.p. might be mitigated because world prices over the coming years might be expected to rise to the level of those of the EEC. There was no sound basis for such an assumption, and no guarantee if it were in fact realised that the Six would not in consequence raise their prices. Moreover a 10 per cent increase in world prices would save the United Kingdom only £50 million of the much greater additional cost to our balance of payments involved in accepting the c.a.p. Further, the forecasts which had been made of the effect of the c.a.p. on our cost of living did not take account of likely increases in margins of profit in manufacturing and sales, and to that extent were under-estimates; nor was it safe to assume that there would be any significant savings in total to the Exchequer as a result of the abandonment of our own system and reliance could not therefore be placed on suggestions that these might be used to mitigate the effects on our cost of living.

It would therefore be against our interest to accept the c.a.p. at all, unless in other fields compelling reasons for doing so were established. Even so, serious damage to our agricultural industry and heavy burdens for our balance of payments would be involved. The second part of the memorandum therefore, whilst recognising that it was not possible radically to alter the c.a.p., set out certain easements—in his view the minimum of easements—which would have to be secured before we could accept the c.a.p. First, it would be essential to secure a long transitional period. The Six had effectively had some seven years to make ready for the full impact of the c.a.p. and we should accept no less: we should therefore start by asking for 10 years as the term necessary for us to complete the...
adjustment of our agricultural industry, of the cost of living and of the balance of payments to the new circumstances set by the C.A.P. It would not be sufficient to link the transitional period for agriculture with similar transitional periods in respect of industrial tariffs or other Community regulations: agriculture should be treated as a special case. Second, it would be necessary to secure special arrangements in respect of certain major commodities. The whole EEC system for milk was quite different from our own, being based upon the sale of manufacturing milk for milk products, instead of sales of liquid milk as our system was. Adoption of their system would alter the seasonal balance of our production and lead to shortages of liquid milk during the winter. Both for that reason and because of the higher costs of food resulting from Community cereal prices, the profitability of our whole industry over the year as a whole would be reduced. Moreover it was doubtful whether under Community regulations regarding monopolies the Milk Marketing Board would be able to carry on its activities and, since dairying was so large a part of our agricultural industry, this would accentuate the regional imbalance implicit in the Community’s excessively high cereals prices. Similarly if we were to accept the Community régime for sugar it would be necessary to re-negotiate our own arrangements for both Commonwealth and United Kingdom producers, taking account inter alia of the effect of the higher Community prices on production in our own sugar beet industry. For pigs, our minimum requirements, but no more, might be met if the Community were to introduce the market intervention arrangements they were now discussing. For these and other reasons it would be necessary for us to use any transitional period to replan and refinance agricultural enterprises in the areas most affected by our acceptance of the C.A.P. In certain areas, particularly in Scotland and Wales, and parts of England, where small milk producers would be adversely affected, these adjustments would present great difficulty; and it was essential that the cost of projects for achieving them should be met from the Community’s Guidance and Guarantee Fund or, if not, from the Exchequer. Similarly the burden which the C.A.P. would impose on our balance of payments would make it imperative that we should negotiate some relief, whether in the form of smaller levy contributions, finance for adjustment and production grants from central agricultural funds, or by some other means. Finally, it would be essential for us to negotiate arrangements for the Community to hold a full Annual Review of agricultural policy as we did. Their present procedure provided for little more than an annual collection of information and did not provide for the planned development of the industry. The C.A.P. must therefore be regarded as inferior to our own system and acceptance of it as preventing the full achievement of the agricultural objectives of our National Plan.

The Prime Minister said that the memorandum seemed to envisage that our acceptance of the C.A.P. might be conditional upon transitional arrangements only. He recalled that, when the Cabinet had discussed the basis for the recent visits to the Heads of Government of the EEC, the Foreign Secretary had specifically provided that we should reserve our freedom to seek adjustments in
the field of agriculture going beyond transitional arrangements, particularly with respect to the payment of import levies across the exchanges. During these visits there had been support from members of the EEC for our view that the impact of their present levy arrangements on the United Kingdom would be inequitable. In discussions on this point it had been brought out that, if we entered the EEC under their present agricultural arrangements, our levy contributions might double the income of their agricultural funds, even if we made no budgetary contribution; and this opened up the possibility that the contributions of all countries should be scaled down and the burden on our balance of payments reduced accordingly. It had also been accepted that it would be wrong for us to pay into the funds as much as the Six countries put together; and there was a precedent, in the form of the ceiling fixed for German contributions, for us to argue either for reduction in some payments or for a ceiling to be set to them. A further alternative suggestion was made in the memorandum that the Community agricultural fund might in suitable cases provide finance for our production grants and so reduce the burden on our balance of payments. We should therefore ask for a reduction in the burden which the c.a.p. would impose on our balance of payments by some combination of these methods: and we should not accept suggestions from the Six that we should await the outcome of the review of their agricultural financing arrangements in 1969-70, unless it were clear that in that review we should be in a position effectively to defend our interests. The memorandum comparing the position of the United Kingdom with that of the countries of the EEC as importers of cereals (C (67) 49) lent force to the arguments for some easement of the present c.a.p. arrangements in this respect. The comparison showed that the Community were, proportionately speaking, importers of cereals from third countries to almost the same extent as we were and as such it should be to their interest to modify their policy on cereals, which was also bound to have adverse effects on livestock producers in all countries it might affect.

In discussion the following main points were made:

(d) It would be unrealistic to think that the French would agree that we should enter the Community without prior agreement on the arrangements for financing the common agricultural policy after 1970. Indeed the French were likely to use the difficulties these arrangements caused us as a means for delaying and extending any negotiations for entry of the United Kingdom.

e) If the Milk Marketing Board and its operations were declared by the Community to be inconsistent with their policies, the result would be a serious disruption of British agriculture. The distributive operations of the Milk Marketing Board, and its importance to British agriculture as the only provider of a regular monthly income to many farmers were such that the structure of much of our agriculture outside East Anglia was dependent on the continued functioning of the Board. It was further urged that any suspension of the Board’s operation would have serious consequences for the
consumer in leading to shortages of winter milk in the United Kingdom. On the other hand it was urged that it would hardly be to the interest of the Six to insist upon a reversal of our milk marketing system which would lead it to concentrate upon milk for manufacture instead of milk for liquid consumption. It was to their advantage to sell us as much as possible of the milk products upon which their own production was concentrated; and they would clearly be better able to do this if we continued to produce for liquid consumption and so leave the bulk of our manufacturing market open to them and to New Zealand under the special arrangements they seem willing to negotiate for that country. Similar considerations applied in the case of mutton and lamb, which did not constitute a significant item in the continental diet.

It was important to see the agricultural issues in their proper perspective as only one part, albeit an important one, of the question of United Kingdom membership of the common market, bearing in mind the number employed in agriculture relative to other industries and occupations. The most serious of the difficulties with which the c.a.p. presented us was its impact on the balance of payments and the assumptions of constant world prices which had been made on this head were not justified on a long-term view. Recent years had seen a formidable increase in Russian and Chinese demands for grain and in addition the demand of a rapidly rising world population had to be taken into account. Moreover from recent trends it seemed likely that in the long run Commonwealth countries other than New Zealand would so far as necessary be readily able to find other markets for their products. If world food prices were to rise and if this in turn led to a rise in Community prices, the effect of this would be to bring into production additional land which under present circumstances was only marginally economic and so to increase supplies and also to improve the relative profitability and competitiveness of British and European agriculture.

It would be wrong to overlook the fact that the c.a.p. was still in its infancy, and that adjustments in it were inevitable. It was inconceivable that it would not be modified if new members were admitted of the agricultural importance of the United Kingdom and Denmark. During the European visits the Six had not sought to defend the whole of the present c.a.p., though all of them had said that, now that it had been agreed, it would be impossible to change it fundamentally. Some countries had said that we could only hope to secure transitional arrangements but others had appeared responsive to our suggestions that more far-reaching adjustments, particularly in respect of the size of our levy contributions, might be negotiable. Even so, it would be realistic to assume that the French would wish to settle the agricultural financing arrangements for 1969-70 before agreeing to British entry: the other members of the Six knew this and would be influenced by it.

The Cabinet—

(9) Agreed that in any negotiations for entry to the EEC it would be necessary for us to seek adjustments to the c.a.p. other than transitional periods, notably with a view to lightening.
the burden of the C.A.P. on our balance of payments on the lines indicated by the Prime Minister during their discussion.

(10) Agreed to resume their discussion at a subsequent meeting.

SECRET

4. The Cabinet considered a note by the President of the Board of Trade (C (67) 53) to which was attached a report on the progress of negotiations in the Kennedy Round by Sir Richard Powell, the Permanent Secretary, Board of Trade, and the senior United Kingdom representative in the negotiations.

The President of the Board of Trade said that the report annexed to his Note set out the probable timing of the final phase of the negotiations and the position in the main sectors. It was now expected that negotiations would be concluded in substance during the following two weeks. The Cabinet had already considered the implications of this for the timing of decisions on possible entry into the European Economic Community (EEC) in their discussion of the previous item. In the concluding stages of the negotiations, our object should be to safeguard our national interests to the maximum extent possible, without carrying this to the point where we could reasonably be accused of wrecking the negotiations as a whole.

In discussion the following points were made:

(a) The report indicated that we were likely to maintain our offer of reductions in tariffs on man-made fibres even though the United States and the EEC would probably reduce their offers on those products. A small reduction in our present high tariffs would probably be justified if it ensured reductions by the United States and the EEC in their tariffs on cotton. It would, however, be important to ensure that the interests of the United Kingdom textile industry were adequately safeguarded.

(b) In the negotiations for a cereals agreement, we were likely to have to accept a self-sufficiency ratio below the 75 per cent which we had originally proposed. It would, however, be important to secure as high a ratio as possible, even if this meant accepting that the agreement would run for a longer period of years than we would otherwise wish.

(c) Ministers would shortly be considering a proposal that we should offer to liberalise our quotas for imports of some citrus fruits from the dollar area in order to strengthen our position in negotiations for the removal of certain United States non-tariff barriers. It would be necessary to consider carefully the effects of such an offer on the economy of the West Indies.

(d) Australia and Canada had made offers to the United States and Japan which involved the reduction of our trade preferences in their markets. In some cases we had contractual rights to these preferences, but it would be difficult for us to raise objection on that
particular ground (though we should seek to secure adequate compensation for them) since we ourselves were proposing to make offers which would similarly infringe contractual rights, subject to obtaining the consent of the countries concerned.

The Prime Minister, summing up the discussion, said that Sir Richard Powell was to be congratulated on the clarity of the report on these complex negotiations. Our initial offers in the Kennedy Round had been generous in comparison with those of our major negotiating partners and we were therefore entitled to take a firm line in defence of our national interests in the remaining stages of the negotiations.

The Cabinet—

Took note, with approval, of C (67) 53.

Cabinet Office, S.W.1,
18th April, 1967.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 20th April, 1967, 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. 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. R. J. GUNTER, M.P., Minister of Power

The following were also present:
The Right Hon. MARGARET HERRISON, M.P., Minister of Social Security (Item 1)
The Right Hon. FREDERICK MULLEY, M.P., Minister of State for Foreign Affairs (Item 2)

The following were also present:
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Item 1)
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury (Item 2)

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
Miss J. J. Nunn
Mr. L. Errington

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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 said that he had discussed with the Minister of Social Security what approach they should adopt when speaking in the debate on family poverty that afternoon in the House of Commons. They were agreed that the right course in present circumstances was to outline the alternative approaches to family endowment with which the Cabinet were familiar, explaining the advantages and disadvantages of each, but without committing the Government to any particular type of scheme. They would say that the Government were urgently considering all aspects of the problem, that no decision had yet been taken, but that the Government policy would be announced in the course of the summer.

In discussion there was general agreement that the debate on family poverty should be conducted on the lines proposed by the Minister without Portfolio and the Minister of Social Security. It was important, however, that attention should be directed at the record of the Opposition in this matter. It was also important that the House and the public should be made fully aware of the issues involved in the various alternatives and, in particular, in any scheme involving a means test; and arrangements should be made for Government supporters to challenge Opposition policy in this respect.

The Cabinet—

Took note, with approval, of the statement by the Minister without Portfolio and invited him, in consultation with the Minister of Social Security and the Chief Whip, to arrange for the debate on family poverty to be conducted in accordance with the points made in their discussion.

2. (i) Procedure

The Prime Minister said that he had now received the views of a number of Ministers on the proposal he had made for a discussion of the approach to Europe to take place over the week-end 29th-30th April. It appeared that the most acceptable arrangement would be to have a meeting at No. 10 Downing Street on the morning only of Saturday, 29th April, and for discussions to be resumed the following day, Sunday, 30th April, at Chequers, with meetings in the morning and afternoon and if necessary in the evening. The Cabinet had agreed at their meeting on Thursday, 13th April, that it might be convenient if Ministers whose departmental responsibilities were particularly involved in the approach to Europe could be accompanied for the first part of the week-end discussions by an adviser who could be consulted by his Minister as necessary. He now proposed that this arrangement
should apply to the first of the week-end meetings, on Saturday morning at No. 10 Downing Street, and that the Foreign Secretary, the First Secretary of State, the Chancellor of the Exchequer, the Lord Chancellor, the Commonwealth Secretary, the President of the Board of Trade, the Minister of Labour and the Minister of Agriculture might each bring an adviser; the Economic Advisers of the Cabinet Office, the Department of Economic Affairs and the Treasury should also attend. It was not the intention that the Cabinet should reach a decision during their week-end meetings, whose purpose would be to complete the Cabinet's exploratory discussions and to make progress with the definitive consideration of their decision, which should be taken at a regular meeting of the Cabinet at No. 10 Downing Street. With that in mind it would be right for the Cabinet to have available in time for their next discussion on the approach to Europe on Thursday, 27th April, all the memoranda which they would wish to have studied before reaching a decision; these comprised, in accordance with the procedural arrangements agreed at earlier meetings of the Cabinet, a paper or papers by the Commonwealth Secretary on the value of the Commonwealth and on essential Commonwealth interests; a report on the impact of entry into the European Economic Community (EEC) on our balance of payments; the memorandum which he and the Foreign Secretary had undertaken to submit on the alternative methods by which the approach to Europe might be pursued; and a further report on the implications for entry on the mobility of labour and immigration policy. It would also be appropriate for any papers by individual Ministers to be available in time for consideration at the meeting of the Cabinet on 27th April, so that the documentation would be complete for that meeting and for the meetings over the week-end 29th-30th April.

In discussion it was suggested that it might not be advisable to hold special discussions over the week-end of 29th-30th April, in view of recent information that the conclusion of the definitive stage of the Kennedy Round of tariff negotiations might not now be reached until later in May than had previously been thought, since week-end discussions were likely to arouse strong public interest and so create pressure for a decision at an earlier date than the Cabinet would think suitable. On the other hand it was urged that even if the completion of the definitive stage of the Kennedy Round were so delayed and if the Cabinet were to decide that it would be desirable to await its completion before reaching a decision on the approach to Europe, no embarrassment need arise out of the discussions over the week-end of 29th-30th April, since an explanatory statement could be made to the effect that it was right for the Cabinet to examine such a historic decision in great depth and to make clear that the Government felt it important not to prejudice the completion of the critical Kennedy Round negotiations. In the discussions the previous day the Canadian Ministers had shown no concern on this question; and the Foreign Secretary would shortly be reporting his talks with the United States Administration on the same point. Whilst there was some substance in the argument that the presence of the entire Cabinet at the
week-end discussions might give rise to suggestions that decisions were being reached, the convention that meetings at Chequers were for purpose of discussion and that decisions were taken at regular meetings of the Cabinet at No. 10 Downing Street was generally understood and accepted by the Press. But the most important point was that if the week-end discussions were postponed it would not be practicable for the Cabinet to reach a decision before the Parliamentary Recess, with undesirable consequences which the Cabinet had discussed at previous meetings.

In further discussion it was suggested that there were a number of points on which the Cabinet might need further information beyond that contained in the memoranda already discussed or in preparation. In particular, if the general view were to favour a further development of the approach to Europe, the questions of methods and tactics by which this course might most advantageously be pursued would be particularly important; and a considered statement would be necessary of the alternative methods of doing so open to us. It was pointed out that the paper which the Prime Minister and the Foreign Secretary had undertaken to submit, and which would be available in time for consideration by the Cabinet on 27th April, would cover this ground fully. It was also suggested that the Cabinet should have available to them the latest advice from our Embassies in the more important member countries of the Community as to the likely reactions of those countries to an early decision to proceed at once with a further development of the approach to Europe. The best course might be to arrange for the circulation to Cabinet of the most recent reports from our Posts in the capitals of the EEC and of EFTA and from the more important Commonwealth capitals, together with the records of the discussions earlier in the week with the Canadian Ministers and with the Foreign Minister of the Federal German Republic.

_The Prime Minister_, summing up the discussion, said that the general view was that the programme of the Cabinet for further consideration of the approach to Europe should comprise the regular meeting of the Cabinet on 27th April and that all the documentation (including any further Ministerial papers) necessary for a definitive discussion of the approach to Europe, as indicated in discussion, should be available in time for that meeting. He would consult the Foreign Secretary on the way in which all relevant information from our oversea Posts on the attitude of the countries primarily concerned could best be made available to members of the Cabinet. The Commonwealth Secretary should consider how similar relevant information in respect of the other members of the Commonwealth who were most directly concerned, including the West Indies, should be made available. The Cabinet should continue their discussions, with advisers present, as indicated in his opening statement, on the morning of Saturday, 29th April, at No. 10 Downing Street. These discussions should then be continued at meetings of the Cabinet during the morning, afternoon and, if necessary, the evening of Sunday, 30th April, at Chequers; thereafter the Cabinet should aim
to reach a decision, in the light of their discussions and of any other relevant factors such as the progress of the Kennedy Round negotiations, at a regular meeting of the Cabinet to be held in time for the decision to be announced to Parliament and a Debate held on it before the Recess.

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 consult the Foreign Secretary regarding the circulation to the Cabinet of information from overseas Posts on the attitude of the foreign countries most concerned.

(3) Invited the Commonwealth Secretary to circulate similar information in respect of the attitude of the Commonwealth countries primarily concerned.

(ii) Material for Parliamentary and Public Discussion

The Cabinet considered a note by the Secretary of the Cabinet (C (67) 57) to which were attached two memoranda prepared by the Ministry of Agriculture for submission to the Select Committee on Agriculture, dealing respectively with the effect of accepting the common agricultural policy (C.A.P.) on the volume of United Kingdom cereals production, and with possible effects of United Kingdom accession on the financing of the C.A.P. of the European Economic Community (EEC).

The Minister of Agriculture said that a factual memorandum on the C.A.P. of the EEC and the implications of accepting that policy as it now stood had been prepared by his Department in consultation with the other Departments concerned and submitted to the Select Committee. It was now available in the records of the Committee's proceedings, though it could not be made available for publication save with the consent of the Committee. The information it contained was however no more than he had himself made available in public speeches on this subject. The Committee's examination of his officials on the first memorandum had led to a request from the Committee for further factual information and the two memoranda before the Cabinet had been prepared accordingly and agreed by the Departments concerned for submission on a confidential basis, subject to the views of the Cabinet, to the Select Committee.

The Prime Minister said that the Cabinet might consider the two memoranda as suitable for submission to the Select Committee provided that a proper saving clause was added, pointing out that the estimates in the memoranda, which were necessarily somewhat uncertain, set out the full impact of the C.A.P. on the United Kingdom after any transitional period which might be negotiated, but on the basis that no other changes had been negotiated or had taken place in the Community's arrangements; and that the Government had
repeatedly made clear that if a decision were made to seek to enter the EEC they would also seek measures to alleviate the difficulties with which the United Kingdom would otherwise be faced. Such a saving clause would indeed be a necessary part of any further documents of a similar character which the Cabinet might think it right to make available for Parliamentary or public discussion, if misunderstanding or misrepresentation of the basis on which the documents had been prepared were to be avoided. For such discussion of the many important issues involved if the United Kingdom were to seek membership of the EEC, it would be necessary to make available a number of documents of the type now before the Cabinet. In particular, if the Cabinet's conclusion were to seek entry to the EEC it would be right for Parliament to be informed of so considerable a decision by means of a full statement, which would need to be accompanied by a White Paper of say some five or six pages, setting out the decision and giving a summary account of the reasons for the decision and its implications. This White Paper could then be supplemented by the issue of a series of documents of a factual character, similar to those now before the Cabinet, dealing with subjects of particular importance which would be affected by the decision. These might be based on, for example, the memoranda on agriculture submitted to the Select Committee and the reports considered by the Cabinet on such subjects as the legal and constitutional implications of membership of the EEC and its implications for mobility of labour and immigration policy. It would clearly not be possible to issue such documents immediately after the Cabinet decision had been taken and announced, nor indeed would there be time to do this; but it would be right if officials, under the guidance of the Cabinet Office, were to put in hand the necessary preparations, to avoid undue delay in the event of the Cabinet's decision requiring their issue.

In discussion it was generally recognised that in the circumstances envisaged by the Prime Minister it would be proper to issue a series of factual and explanatory documents by which Parliamentary and public discussion could be more fully informed; and to make preparations accordingly.

The Cabinet—

(4) Agreed that the two memoranda annexed to C (67) 57, with the inclusion of a saving clause on the lines indicated in discussion, to be agreed between the Foreign Secretary and the Minister of Agriculture, should be presented to the Select Committee on Agriculture.

(5) Took note, with approval, of the Prime Minister's statement on the measures which would be necessary to inform Parliament and the public in the event of a decision by the Government to seek entry to the EEC.
(iii) Alternatives to membership of the European Economic Community

The Cabinet had before them a note by the Secretary of the Cabinet (C (67) 52), to which was attached a report by officials, dealing with possible courses of future policy alternative to United Kingdom membership of the European Economic Community (EEC).

The First Secretary of State said that the reports by officials showed that of the two possible alternatives to membership of the EEC the membership of an Atlantic Free Trade Area (AFTA) was not in fact an alternative which was available to us in present circumstances. It seemed improbable that conditions would arise in which it became so and even if it did, those circumstances would be damaging to general political and economic world stability. The reports also showed that our economy could sustain a reasonable level of performance if we were to adopt the other alternative of abstaining from any other association with a wider group of countries, but that this course would present considerable economic difficulties. It was in any event necessary for us to increase the competitive strength of our economy. This was a difficult task, and if we were to abstain from membership of a wider grouping it seemed likely that the task would be even more difficult. Among other difficulties, such abstention would remove the incentive to further industrial investment which membership of the EEC seemed likely to provide. In short, the alternative of abstention was viable but unattractive.

In discussion of the advantages and disadvantages of an AFTA, there was general recognition that such an alternative was not at present open to us. It was however urged that if circumstances so altered that it became a practicable possibility, it would be advantageous to us to seek to join in such a grouping. It would provide us with a wider industrial market for our exports, while not imposing upon us any central controlling body which might impair our freedom of economic action: in particular, we should not thereby have to abandon our freedom to impose exchange and other economic controls in accordance with our own judgment of our best economic interests. On the other hand, it was argued that it was at best dubious if, particularly in the circumstances in which alone an AFTA would become a practicable possibility, it would be open to us to achieve these advantages without paying a substantial economic price, whether through restrictions on our economic freedom of action or otherwise. In particular it was argued that in an AFTA we should be subject to the overwhelming political and economic power of the United States, with all the disadvantages that would accrue for our own national freedom of action in both spheres; and it was unrealistic to assume that the United States would agree wholly to disband their tariffs against us. They would certainly not agree to do so if we nevertheless proposed to retain our freedom to impose controls on foreign exchange and trade. In present circumstances the sole value of the concept of an AFTA might lie in the possibility that we might use it to influence negotiations in the event of our seeking to join the EEC.
In considering the advantages and disadvantages of our abstaining from any new association with a wider grouping of countries the comment was made that to describe this policy by the word "abstention" was open to objection, since that word bore a purely negative connotation. There was indeed no single short description of this policy which was wholly appropriate but its essence would in any event be self-reliance. A policy of self-reliance was however essential in any event, since we could not look to the act of joining any wider grouping, of whatever nature, to solve our economic difficulties for us; economic and social readjustments, which would involve a number of disagreeable decisions, were necessary whatever policy we adopted. The question for consideration was whether we should be better placed to carry out such measures on our own or as a member of a wider grouping; and also what policy we should follow if we were to seek to join the EEC but were rebuffed.

In considering the political issues arising from abstention it had been argued that if we were not a member of a wider grouping we should be better placed to influence other countries in accordance with our own interests; but membership of the EEC would diminish our political freedom of action, and would in particular entail the risk that our present close association with the United States would be progressively diminished. On the other hand, it was pointed out that our ability to exert political influence depended in any event upon our own economic strength; and much of the political argument turned therefore on the economic aspects of association. Furthermore, it was strongly argued that it was vital to our political interests to maintain the alliance between Western Europe and the United States, and that the risk of estrangement between them would be considerably greater if we were not to become a member of the EEC, since we should then be well placed to influence the political policies of its member countries.

In considering the economic advantages and disadvantages of abstention it was pointed out that these should not be argued on the basis that we would thus be restricted to a home market of some 50 million: our membership of the European Free Trade Association (EFTA) meant that we had an effective home market approaching 100 million. Furthermore, in considering the advantages of abstention in relation to the advantages of joining the EEC, we must also have regard to the damage which the latter might entail to our markets elsewhere. It was further suggested that in any event the advantages of a large home market had been over-emphasised: examples of such countries as Sweden and Switzerland suggested that the larger market was not essential to a high rate of economic growth and competitiveness. Nor would the fiercer competition to which our industries would be exposed within the EEC necessarily lead to their greater strength; the effect of competition in cotton textiles through free world trade had for example led to the sharp contraction and depression of the United Kingdom cotton textile industry. It was also suggested that the
economic dynamism of the EEC had been exaggerated; in a number of fields, such as EURATOM, there had been a failure to develop competitive economic strength by comparison with the United Kingdom. It was further argued that in any event a decision not to join the EEC would not damage our trade. Our exports to the countries of the EEC had increased since its establishment at least as fast as those to any other part of the world and we could therefore look forward to a continuation of a growth of our trade with the EEC as well as to the maintenance of our position in EFTA, which we could reasonably expect to continue in its present form if we were not to join the EEC. Admittedly Austria was seeking to join the EEC, but four years of negotiation had not resulted in success; the position was unchanged that the Soviet Union would impose a veto on Austria joining the Community on political grounds, having regard to the treaty obligations of Austria to maintain neutrality. Nor would Denmark be willing to leave EFTA and join the EEC if the United Kingdom were not also to join, in view of her dependence on the United Kingdom market. In more general terms it was argued that our economic prosperity depended both on the continuation of sound internal economic policies which we should in any event have to pursue and upon the general climate of world trade and continued world economic expansion, to the continuation of which our own contribution in helping to maintain political stability through appropriate defence expenditure in oversea theatres should not be ignored. It was further urged that whatever the longer-term effects of joining the EEC as compared with abstention might be, it would be the initial impact of joining on our balance of payments, with all the further deterioration which would ensue if that impact were strongly adverse, which should be decisive.

On the other hand, it was urged that there was good reason to accept that joining the Community as compared with abstention would impart a strong stimulus to the United Kingdom economy. Whatever particular instances to the contrary might be urged, it could hardly be denied that over a broader field competition would exercise a salutary effect upon the efficiency of United Kingdom industry. The prospect of access to a larger market, with all the encouragement to industrial investment which would result, could reasonably be expected to have a dynamic economic effect and make it much easier to carry out, and gain acceptance for, the social and industrial changes which were essential to our economic strength in the future. Where the view of economists on the impact of joining the EEC differed so widely it was reasonable to pay particular regard to the strongly expressed view of United Kingdom industry; in the recent report by the Confederation of British Industry, that joining the Community would be strongly to our economic advantage as compared with the maintenance of our present position; in particular, the prospect of securing increased investment and exports by our industrialists, on which our economic progress depended, would be gravely prejudiced if their expectations of a larger market in the EEC were disappointed. It was also urged that it would be imprudent to rely upon our ability
to maintain EFTA in being if we were not to seek to join the EEC, in view of the pressure on some of its members to join the latter grouping. Nor was it irrelevant to our own economic judgment of the advantages and disadvantages of that course that nearly all our partners in EFTA not only wished us to join but themselves wished to join or to associate with the EEC. In considering the advantages of Commonwealth preferences we must also accept that however much we might seek to maintain these preferences they were being steadily eroded and the attitude of the old Commonwealth countries in the Kennedy Round of tariff negotiations showed that they were ready to cancel these preferences wherever they considered it to be to their economic advantage to do so. Furthermore, even if we were deliberately and openly to adopt a long-term policy of not joining any new wider economic grouping it seemed improbable that the other members of the Commonwealth would either believe that we should not at some later date wish to join the EEC, or would be willing on either political or economic grounds to maintain the current level of preferences which they gave us. In general it was argued that while the papers before the Cabinet and their discussion showed that it was open to us to abstain from any new-association, this course was not on balance an attractive one.

In further discussion it was pointed out that a policy of abstention must be considered not only in absolute terms, i.e., as an alternative desirable in itself to joining the EEC, but also as the course of action which we should be forced to pursue if we made an application to join the Community but were rebuffed and if circumstances continued to be such that AFTA was still not an option open to us. There was widespread support for the view that in that event we should not seek to pursue the policy suggested in paragraph 13 of C (67) 52, by which we would make no overt or declared change of policy but would continue much as we were in the hope that at a later stage a more favourable opportunity to join the Community would occur. If our application to join the Community were rebuffed it would be of the utmost importance that we should not give the impression, as had been given by the previous Administration in such circumstances in 1963, that this rebuff would be gravely and perhaps even irretrievably damaging to our interests. Such a posture would lead to the worst of all situations and in the event of our being rebuffed the Government should make it clear that they were no longer interested in seeking to join the Community but would pursue a deliberate policy of self-reliance and should seek to encourage a national spirit which would lead to dynamic economic activity in this country. On the other hand, it was pointed out that while in such circumstances an aggressively self-reliant policy would be appropriate, and indeed essential, the present attitude of industry was such that a rebuff would seem likely in the event to lead to industrial depression. Indeed, it could well be argued that industrial expectations had now reached the point where even a deliberate decision not to seek to join the Community would have an economically depressing effect.
because of its influence on industrial expectations and the level of investment.

It was further argued that in any event the Government's course of action in the event of our being rebuffed in our application to join could only be judged in the event and according to the circumstances and terms in which that rebuff was made. Nor should we ignore in the course of the negotiations, if these seemed likely to result in a refusal to accept our minimum conditions of entry, the possibility which had been held out by the President of France, General de Gaulle, during the visit of the Prime Minister and Foreign Secretary to Paris, that "something new and different" might be devised as an alternative to the EEC with British membership.

The Prime Minister, summing up this part of the discussion, said that while the papers before the Cabinet and some part of the discussion might have underrated the influence which the United Kingdom could maintain if we were not to become a member of a wider grouping, regard must also be had to the important and perhaps decisive role which we might play as a member of the EEC. The tour which he and the Foreign Secretary had made of the capitals of the Six suggested that in the event of our becoming a member we should be in a very strong position to influence the policies of the Community as a whole. If we were to seek to join the Community but were rebuffed, there was general agreement that the Government should make it clear that we could nevertheless maintain political influence and a strong economy and should seek to create a national spirit which would enable us to do so with success. We should not therefore in that event adopt the policy of waiting upon events and upon a favourable opportunity to join the EEC at a later date. Equally, however, we should not turn our backs on Europe: developments there, and the probable relative economic strengths of the United States on the one hand and on the other of the EEC with its present membership, could, after the end of the conflict in Vietnam, be such as to lead the EEC in these circumstances, and provided we were successfully following self-reliant policies, to invite us to join; and it might then prove to be in our interests to do so. In the event of our being rebuffed we should, while not planning to join Europe at some later date, therefore not rule out that possibility, while concentrating upon the development of our own economy. In considering future action we should also bear in mind the risk that without our membership the EEC might in both political and economic terms become too inward looking, with consequent damage both to themselves and the rest of the world. We should also bear in mind that a decision on the part of the Government not to seek membership at present would encourage such inward looking policies. If we were to decide to apply for membership, we should seek to make that application successful.

It was arguable whether if we were to join the Community we should automatically acquire the economic dynamism which had characterised the European economy in recent years: it could
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It was arguable whether if we were to join the Community we should automatically acquire the economic dynamism which had characterised the European economy in recent years; it could
indeed be argued that that period of dynamic growth was now coming to a conclusion. But there was good reason to think that if we were to join this act would of itself create a new economic dynamism, to the mutual benefit of Europe and ourselves, the more especially if some of our partners in EFTA were to join the EEC at the same time.

The Cabinet were agreed that AFTA was not a political possibility in present circumstances. It might become so if, for example, General de Gaulle were to be held responsible for the failure of the Kennedy Round, the current negotiations in the International Monetary Fund relating to increased world liquidity and, most important of all, for the failure of any application we might make to enter the EEC. In those circumstances, admittedly unlikely in combination, there might be a dramatic change in the policy of the United States and it might then be possible to obtain some of the economic advantages, particularly in the monetary field, which an AFTA might be argued to present. It was however doubtful if the United States Congress would ever be likely to agree to the full free trade area envisaged by the concept of AFTA.

In considering the political aspects of our joining the EEC we must bear in mind that the United States held it to be in our interests and in world interests that we should join the Community, and there was reason to believe that the Soviet Union took the same view, even though they were not at present politically in a position to declare it. The Soviet Union in particular feared a revival of German nationalism and after the death of General de Gaulle there was a grave danger that if we were not to join the Community, we should find ourselves confronted with a situation in which a resurgent Germany might dominate Western Europe.

In considering the question of our tactics, we should bear in mind that recent events had created the expectation that we would apply to join the Community. The implications of a decision not to apply in such circumstances constituted a factor to be borne in mind in reaching a decision, but neither this nor other considerations should, in the event of a decision to apply, lead us to accept conditions of entry which we judged to be contrary to our interests.

The Cabinet—
(6) Took note of C (67) 52 and of the points made in discussion.

(iv) Implications of entry for United Kingdom Planning Policies

The Cabinet considered a note by the Secretary of the Cabinet (C (67) 56) covering a report by the Official Committee on Environmental Planning on “The implications of entry for United Kingdom Planning Policies”.

The Minister of Housing and Local Government said the report was inconclusive in the sense that the implications of entry for our planning policies depended on what the main economic effects of entry were assumed to be. The assumptions made in the
report, i.e., that Ministers were satisfied that our regional policies were compatible with membership of the EEC, that on entry our industry would be fully competitive with that of Europe and that membership would in general be to our economic advantage, were the major factors. On that basis, the general conclusion of the report was that while there seemed no reason to expect that entry would create serious difficulties in the operation of controls over the distribution of industry or of office development, the increased demand for office accommodation in London and the South East resulting from the pull of the Common Market would require us to pursue more vigorous dispersal policies. In his view the report somewhat underestimated the likely volume of inward immigration which might result if we were to enter the Common Market; if there were in consequence a strong demand for labour and substantial inward immigration this would of course have considerable implications for planning and housing policies.

In discussion, it was urged that whereas the objective in asking for the report had been to secure an analysis of the effect of the economic pressures which would result from our entry into the Community on our physical planning policies, the nature and scope of the assumptions made in the report were such as to pre-determine its conclusions and so to frustrate its purpose. It was suggested on the other hand that if, for example, the assumption that we should not open negotiations unless we were satisfied that our industry was competitive with that of Europe were taken, as it should be, in its broad sense, the report was reasonably based. Moreover the Cabinet had discussed previously a number of the economic questions to which the assumptions related, including, as well as the relative competitiveness of our industry with that of Europe, the economic effects of entry on the flow of investment to and from the United Kingdom and its effects on the regional distribution and it would hardly have been practicable or appropriate for a report of this nature to seek to review all those issues afresh. In this context it was suggested that the essential point was that free movement of capital would undermine our control of the location of industry by the industrial development certificate (i.d.c.) system. However, it would be wrong to compare our circumstances if we were to enter the Community with our present economic condition rather than with our future condition if we did not enter; as members of the EEC we could expect a higher level of investment which would benefit the development areas. Moreover, if our industry was not competitive with that of Europe and other parts of the world the outlook for the development areas would be bleak whether we were in the Community or not, since their welfare depended upon the strength of the economy generally. In these circumstances it was argued that the conclusions of the report were consistent and useful.

In further discussion it was urged that our regional policies had not so far been successful in evening the economic disparities between different regions and in reducing the attractions of the economically stronger regions, which indeed would be increased if
we were to enter the Community, especially if the Channel Tunnel were built, and if gaps in our policy on the location of industry such as those referred to in paragraph 11 were exploited or widened. There would, therefore, be a need for stronger regional policies if we were to enter the Community and we ought in any event to consider the need to shape our regional policies over the next few years, and also to develop our transport facilities which greatly influenced regional development, to take account of the economic attraction of the EEC, by such means as building up container transport ports in Scotland. It was too easily assumed that trade with the EEC would need to flow via ports in the South-East of England. It was however also necessary to take account of the consideration that the Government’s regional policies had not yet had sufficient time to make their full effect felt. They had only been in force for up to two years and were still being developed and there were also industries in the development areas which would benefit from membership of the EEC.

The Prime Minister, summing up this part of the discussion, said that the Cabinet’s discussion had underlined the need to strengthen our regional policies, especially if it were decided to join the EEC. There would be a renewed opportunity to discuss this subject at the further meetings of the Cabinet on the approach to Europe.

The Cabinet—

(7) Agreed to resume their discussion on the approach to Europe at a subsequent meeting.

Cabinet Office, S.W.1.
21st April, 1967.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 27th April, 1967, 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. Roy Jenkins, M.P., Secretary of State for the Home Department
The Right Hon. Patrick Gordon Walker, 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. Frederick Mulley, M.P., Minister of State for Foreign Affairs (Item 4)
The Right Hon. Sir Elwyn Jones, Q.C., M.P., Attorney-General (Items 2-4)

The Right Hon. John Silkin, M.P., Parliamentary Secretary, Treasury

Secretariat:

Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
Mr. H. L. Lawrence-Wilson
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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, 12th May, until Wednesday, 31st May.

2. The Prime Minister informed the Cabinet of an unprecedented situation which had arisen in connection with a book about the Suez episode which Mr. Anthony Nutting proposed to publish and to serialise in The Times, in the near future. Mr. Nutting, who was a Privy Counsellor, had been a junior Minister in the Conservative Government of 1956 but had resigned as a result of the circumstances in which that Government had intervened in the dispute between Israel and the United Arab Republic. His forthcoming book would purport to disclose the discussions of policy within the Government of the time and various exchanges between its members.

It was customary to grant reasonable latitude to Ministers wishing to publish their memoirs; but their right of access to documents which they had seen while in office was dependent on their submitting their texts for clearance before publication, a stipulation which was normally observed. Mr. Nutting had not sought access to documents and claimed to have based his book solely on his recollections and on the notes which he had made during the period in question. But he had been warned in ample time that he would still be expected to submit his manuscript for clearance before signing a contract for publication. Nevertheless, he had disregarded this warning and had already entered into a contractual commitment when he submitted a proof copy of the book. It had shown a complete disregard of the normal conventions of collective Ministerial responsibility; and although, in response to representations, he had made certain amendments in the text, there was little doubt that, when published, it would still constitute a serious breach of the established principles. He had now been informed that, in these circumstances, both the Government and the Opposition would reserve their right to make it clear that they did not accept the reasons by which he had sought to justify the publication of the book at this time.

Publication would undoubtedly renew the long-standing controversy about the Suez episode; and it might well be necessary to provide some Parliamentary occasion for pursuing this matter on party lines. But the breach of principle was a separate issue which any Government, whatever its party complexion, must be bound to regard very seriously, since the necessary trust and confidence between colleagues would be gravely undermined if it came to be accepted that a Minister could disclose, after resigning, what had passed between other Ministers and himself and to disregard for this purpose the principles of the Fifty-year Rule (soon to be replaced by the Thirty-year Rule). It must be accepted that the sanctions which could be invoked against an offence of this kind were limited unless the
circumstances were so extreme as to make it clearly appropriate to institute proceedings under the Official Secrets Acts. It must also be accepted that Ministers should not be prevented from continuing to enjoy the privilege of publishing, within reasonable limits, accounts of their periods of office. On the other hand, it was clearly necessary to make a fresh effort to re-establish the conventions which should govern disclosures of this kind; and the Committee on Ministerial Publications should give urgent attention to this matter.

The Cabinet—

Agreed that the issue of principle which would be raised by the forthcoming publication of a book by Mr. Anthony Nutting on the Suez episode should be further considered by the Committee on Ministerial Publications.

3. The Foreign Secretary said that although the consultations he had initiated, during the recent meeting of the Council of the South-East Asia Treaty Organisation (SEATO) in Washington, with the United States, Australia and New Zealand about the proposed changes in our policy in the Far East had proved somewhat less difficult than he had expected, there had been strong opposition on the part of all concerned to our plan to announce that we intended to withdraw from the mainland of Asia (apart from Hong Kong) by the middle 1970s. Opposition to our plans for the area generally had stiffened following consultations between our three allies, particularly because of the attitude of the Australians. Although there had been general acceptance of our plans to reduce our forces in Malaysia and Singapore by half by 1970-71, the Americans had stressed the problems which they would face in the Senate over their foreign policy if we were to announce now our intention to withdraw altogether from Singapore/Malaysia. They had made it plain that there could be no question of their being willing to take over any responsibilities in the area that we might give up. In discussion with the Americans he had been able to point to their intention not to maintain forces or bases on the mainland of Asia after the Vietnam war was over. He had spoken throughout strictly within the bounds of the Cabinet's decision on these issues: but this task had been made much more difficult by the fact that he had thus been unable to say that we would maintain small maritime and air forces using facilities in Australia after we had withdrawn from Singapore and Malaysia.

The Commonwealth Secretary said that the Australian and New Zealand Governments were now taking a calmer view of our intentions in the Far East than at the time of the SEATO Council meeting. Initially they had formed the impression that we had already taken final decisions but it had been made plain to them that, although the plans already put forward were likely to be carried through, there would be opportunity for real consultations with them before decisions were taken in June/July.
The Foreign Secretary said that the SEATO Council meeting in Washington during the previous week had been dominated by representatives of the countries providing troops for the Vietnam war and these had attacked ourselves and other signatories of the SEATO Treaty for not doing so. There was no obligation on us under the Treaty to provide troops for Vietnam and he had strongly maintained the view that the most valuable contribution that we could make lay in continuing our diplomatic efforts to stop the fighting. The first draft of the communiqué of the conference had been belligerent in tone but he had succeeded in obtaining agreement to substantial amendments which made it acceptable to us.

The Foreign Secretary said that he had discussed the situation in Vietnam at length with several members of the United States Administration, including the President, during his visit to Washington the previous week. It had been suggested that we might consider a fresh initiative in seeking a settlement as co-Chairmen with the Soviet Union of the Geneva Conference; if such diplomatic activity were taking place it would be easier for the United States Administration to resist internal pressures to increase the intensity of the fighting in Vietnam. A further direct approach to the Soviet Government on Vietnam at this stage would raise difficulties for them in view of the recent failure in Vietnam to extend the Tet truce, but it might be possible to approach the problem indirectly through a meeting of the Geneva Conference on the associated problem of Laos. There was as yet no firm information about the alleged damage through American bombing to the British cargo ship Dartford in Haiphong Harbour, and our Consul-General had so far been unable to obtain permission from the North Vietnamese Government to investigate the incident. Although the ship was technically British, it had a Chinese crew, apart possibly from two officers, was under charter to the Government of the People’s Republic of China and was part of the fleet which they were using to supply Vietnam.

The Foreign Secretary said that it was now clear that the group of middle-ranking Service officers who had succeeded in taking over power in Greece had done so with the support of the Greek Armed Forces as a whole. King Constantine had not been a party to the revolt and had shown great courage in his dealings with its leaders; he had succeeded in imposing a civilian Prime Minister on them and had expressed the hope that there would soon be a return to parliamentary government. We had co-ordinated our action during the crisis with that of the Governments of the United States and Turkey and were continuing to do so. A letter had been received from the Foreign Minister of the new Greek Government: we must decide whether or not to reply to this. To refuse to have dealings with the new Greek Government would mean breaking off diplomatic relations with Greece and we could avoid any question of recognition of the new régime, or of approval for it, if we took the line that we were merely continuing relations with a Government whose Head of State was unchanged. He proposed therefore to authorise an acknowledgment of the letter from the Greek Foreign Minister.
In discussion it was argued that a distinction must be drawn between our having continuing relations with the new Greek Government, which had overthrown parliamentary government, and any action which could be construed as signifying approval; the fact that King Constantine had indicated his acceptance of the new Government by presiding over a meeting was not relevant to this point. On the other hand it was our normal practice to have diplomatic relations with Governments which were effectively in power whether or not we approved of them. The fact that in this instance King Constantine, to whom our Ambassador was accredited, remained on the throne meant that no new act of recognition was involved but merely a continuance of existing relations. The situation in Sierra Leone was in many respects a parallel, in that a military coup had overthrown the previous parliamentary government but the Queen continued to be recognised as Head of State.

It was not yet clear whether recent events in Greece would have repercussions in Cyprus. It was not thought that General Grivas was in any way involved, but the existence in the island of large quantities of Czech arms which might be issued to Greek Cypriot troops and police posed a problem. The Foreign Secretary was in touch with the Secretary-General of the United Nations with a view to ensuring the closest possible control of these arms by the United Nations troops in Cyprus in the period immediately ahead.

The Foreign Secretary said that he had had a very lengthy and difficult meeting on 16th April with members of the United Nations Mission to South Arabia. He had eventually succeeded in agreeing with them a joint statement covering the situation in South Arabia and the part which the United Nations might play in finding a solution there. It had been essential to do this as a basis on which we could reply to any report which the Mission might make to the United Nations, since this was likely to be hostile to us. The situation in Aden had been relatively quiet since the Mission had left and the Minister without Portfolio (Lord Shackleton) would be returning that day for discussions with him. He would report further to the Cabinet in the following week on our plans for South Arabia.

The Prime Minister said that during his visit to Bonn earlier that week for the funeral of the former Federal German Chancellor, Dr. Adenauer, he had met a large number of Heads of Government, including those of the United States and members of the European Economic Community and the European Free Trade Association. He had also met the South African Foreign Minister, Dr. Muller, and had discussed the Rhodesian situation with him. The hope of the South African Government appeared to be that a peaceful settlement of the Rhodesian problem would be reached and they did not appear to be willing to sustain the illegal régime. The Cabinet should consider a report on the current situation in Rhodesia in the near future.

The Commonwealth Secretary said that, as a result of actions by the Government of the Eastern Region of Nigeria the situation in the country was extremely tense and hostilities might break out there in the near future.
The Cabinet—

Took note of the statements by the Prime Minister, Foreign Secretary and Commonwealth Secretary

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4. (i) The Prime Minister said that the most convenient procedure might be for the Cabinet to take the items of their agenda concerning the approach to Europe in the following order: first, the memorandum by the Law Officers on the Legal and Constitutional Implications of United Kingdom Membership of the European Economic Community (EEC) (C(67) 62); then the note by the Secretary of the Cabinet covering a further report by officials on the Implications of Membership of the EEC for Mobility of Labour and Immigration Policy (C(67) 58); the two memoranda by the Secretary of State for Commonwealth Affairs, i.e., the Value of the Commonwealth (C(67) 59) and Commonwealth Interests in our Approach to Europe (C(67) 63), and the note by the Secretary of the Cabinet on the Effect of Entry into the EEC on the United Kingdom Balance of Payments (C(67) 61). Before doing so, however, the Cabinet would wish to be informed of the developments which had taken place in the last few days in regard to consultations with the European Free Trade Association (EFTA) and also to consider further the arrangements which might be made for the issue of information for Parliament and public discussion concerning the approach to Europe.

As regards consultation with EFTA, at their meeting on 18th April (CC(67) 21st Conclusions, Minute 3, Conclusions (5), (6) and (7)) the Cabinet had approved the proposals put forward in a memorandum by officials attached to C(67) 54, subject to consideration of supplementary proposals for Ministerial visits to EFTA and Commonwealth capitals, whereby we should first seek to persuade our EFTA partners that the consultations to which we were committed could best be carried out by means of bilateral contacts through the diplomatic channel; but if this course were unacceptable to them we should agree to hold an early meeting with them, on a purely hypothetical basis, before a decision on the approach to Europe had been taken by the Cabinet, at which EFTA Governments should be asked for their reactions to the various possible courses before us. In the event, Sweden and Switzerland had insisted on an early meeting and other EFTA members had been unwilling to oppose them, so that it had been necessary to agree to the second course, as had been envisaged by the Cabinet, and to arrange urgently a meeting of the EFTA Ministerial Council. Only two dates had been available before the Recess—the EFTA countries themselves would not be content with a date after the Recess—and a meeting of the EFTA Ministerial Council had accordingly been arranged on the first of these, i.e., Friday, 28th April in London. During his visit to Bonn he had had the opportunity to speak to the heads of all the EFTA Governments except those of Portugal and
Finland, and in particular with the Prime Minister of Sweden, and we could hope that the meeting would not present too many difficulties. But at the present stage of the Cabinet's discussion of the approach to Europe, it would be preferable that individual Ministerial contacts with EFTA representatives should be avoided and that the conduct of the discussions should be left to the Foreign Secretary in the light of the Cabinet's views.

In discussion it was questioned whether it had been necessary to call an EFTA Ministerial meeting at such short notice. The announcement of the EFTA meeting, together with that of the Cabinet's forthcoming discussions at Chequers, had stimulated Press speculation, which it would have been desirable to avoid, as to the nature and timing of the Cabinet's decision on the approach to Europe. On the other hand, it was pointed out that it was important from the point of view of our EFTA partners to hold the meeting before the discussions which the Cabinet had agreed to hold at Chequers on the week-end of 29th/30th April and that our summoning of the meeting had been welcomed by our EFTA partners. The course of events had in fact left little alternative.

The Cabinet—

(i) Took note of the Prime Minister's statement on the arrangements made for consultation with EFTA on the approach to Europe.

(ii) The Prime Minister said that the Cabinet would wish to consider the measures in hand for providing material for Parliamentary and public discussion of the approach to Europe. In accordance with the conclusions of their meeting on 20th April (CC (67) 22nd Conclusions, Minute 2 (ii)) a White Paper of some five or six pages was being prepared. If the Government were to decide to make an early application for entry to the EEC the White Paper would have to inform the public of the reasons for the decision and of its main effects. Whilst setting out the difficulties which such a decision would involve, it would be essential to avoid weakening our position in any subsequent negotiations or giving any impression that the Government were half-hearted in their decision. Enquiries had shown that there would not be time to prepare and print a comprehensive White Paper of considerable size containing all the information which should be given to Parliament and the public; and it would therefore be desirable to supplement the shorter White Paper by a series of documents which might include the booklet prepared by the Department of Economic Affairs, setting out the essential information about the EEC together with parallel information about the United Kingdom. A revised text of this document had now been circulated to Departments. This could be followed by more specialised documents based on the material which the Cabinet had had before them, notably the material which had been submitted to the Select Committee on the agricultural implications of entry and the report by officials which the Lord Chancellor had presented to the Cabinet on the legal and constitutional implications (E (66) 7).
In discussion it was urged that it was essential for Parliament to have full information about the implications of a decision to apply for early negotiations for entry before they debated that decision. Much factual information had been before the Cabinet and it would be unfortunate if the impression were created that such information could not be made available to Parliament and the public. On the other hand it was pointed out that, while the announcement to Parliament of the decision of the previous Administration in 1961 to apply for entry to the EEC had been followed by a two-day debate, no White Paper had been issued on the occasion of the announcement or of the debate, but only some considerable time afterwards. It would not be practicable to prepare and print comprehensive accounts of the implications of entry in a number of specialised fields in time for a decision and debate before the Recess, though certain documents, notably those on agricultural and legal and constitutional effects of entry, might be produced reasonably soon thereafter. It might be best to consider the subjects which might be treated in this way during the course of the Cabinet discussions on those subjects, since difficulties of presentation would arise in particularly sensitive areas, e.g., reference to the possibilities of secession from the Community, political and social problems of immigration policy and the wide powers of Community institutions.

The Prime Minister, summing up this part of the discussion, said that the material on which effective Parliament debates might be based need not be provided only through the medium of a White Paper or Papers. It was customary that much of the material should be set out in the opening speeches; and with a decision of the importance of that under consideration, it would be proper for him in opening such a debate to make a comprehensive statement of considerable length. Nevertheless it might prove to be desirable to attach to the short White Paper to which he had referred in his statement brief annexes dealing with those subjects for which sufficient material could be assembled and presented in the time available. It would be for consideration in the light of the relevant papers now before the Cabinet whether these should include, as well as a brief annex on the legal and constitutional aspects of entry based on the memorandum by the Law Officers, pending consideration of the Lord Chancellor’s fuller report for publication later, the information on agricultural problems based on that submitted to the Select Committee on Agriculture and the material before the Cabinet on the effects of entry in the field of mobility of labour. It would be necessary to exercise particular care in dealing with sensitive items such as those referred to in discussion.

The Cabinet—

(2) Took note of the Prime Minister’s summing up of their discussion.

(3) Invited the First Secretary of State to circulate for their consideration the draft booklet on the functioning of the EEC which had been prepared by his Department.
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The Cabinet—
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(3) Invited the First Secretary of State to circulate for their consideration the draft booklet on the functioning of the EEC which had been prepared by his Department.
(iii) The Cabinet considered a memorandum by the Law Officers (C (67) 62) on the legal and constitutional implications of United Kingdom membership of the EEC.

*The Attorney General* said that the Law Officers had been invited by the Cabinet to consider the report by officials attached to E (66) 7. The preparation and passing of the Acts implementing the Treaties in respect of joining the Community would be a major legislative operation and there would be need to amend a considerable body of our existing Acts and to incorporate in the law of the United Kingdom categories of Community law which had direct internal effect. But these problems could be overcome.

British constitutional doctrine was that Parliament was sovereign and that no Parliament could preclude its successors from changing the law. Acceptance of the Treaties implied not only the acceptance of existing Community law, but also that we would refrain from enacting future legislation inconsistent with Community law. While this requirement detracted from Parliamentary sovereignty, such a restraint would not in principle be unprecedented in that our legislation often took account of treaty obligations. The continuing incidence of future Community legislation would however be without precedent and would present us with continuing legislative and constitutional problems in that future Community law would have to be accepted as binding on us. There was, however, in theory no constitutional means by which we could be certain that no future Parliament would enact legislation in conflict with Community law. If it did so, it was the opinion of the Law Officers that the courts would apply that legislation despite its repugnance to Community law. However, they took the view that this theoretical possibility could in practice arise on a matter of importance affecting the Community only in political conditions in which the United Kingdom, after becoming a member, had decided to break with the Community. The risk of inadvertent contradiction between future United Kingdom and Community law was not great: if we joined the Community we should be taking part in the preparation and enactment of all future Community law.

Community law had little direct effect on the ordinary life of private citizens, their rights and obligations and by far the greater part of our domestic law would remain unchanged. The main impact of Community law would be in the realm of trade, customs, restrictive practices and immigration. It was important that there should be a right of appeal to the European Court from Community decisions affecting individuals and corporate bodies. The Law Officers considered that the various powers of the Commission to authorise its inspectors to enter premises, inspect books and interrogate persons, were acceptable provided that such powers were not normally exercised in this country without an order made by a United Kingdom court.

As regards our international relations, the requirements under the Treaties would restrict our independence of action in future international dealings, but this was an inevitable and acceptable consequence of accession. As a matter of international law we would
have no right to withdraw from the Treaties unless there were a fundamental change in circumstances. However, the Law Officers regarded this as somewhat academic: if for any reason the United Kingdom decided to withdraw and an Act of Parliament were passed for this purpose, they found it difficult to imagine that United Kingdom courts would not give effect to it.

In discussion it was noted that the views of the Law Officers confirmed those expressed in the report by officials on these issues which had previously been considered by the Cabinet. It was suggested that, if the Government were later to decide to apply to join the Community, it would be desirable that the documents which should then be published should include one on the legal and constitutional implications. The paper by the Law Officers should form the basis of a brief annex to the short White Paper. The fuller legal report circulated under cover of E (66) 7 should also be reviewed as a matter of urgency to consider the extent to which it would require amendment for later publication. It was suggested that since the report had been written the previous year it might be necessary to make enquiries of the EEC on Community legislation which had been passed meanwhile, in order to enable the report to be brought up to date. The Cabinet were, however, informed that the requisite information was already available in Whitehall. The point was also made that if an amended report were published it would be necessary to make plain that some of the theoretical legal consequences would, as a matter of political reality, be substantially modified in practice. Furthermore, it was questionable whether it would be appropriate to refer in a published document to the legal considerations arising if, theoretically, we should later wish to withdraw from the Community.

The Cabinet—

(4) Invited the Lord Chancellor, in consultation with the Attorney-General, to arrange for officials

(i) to prepare the draft of a brief annex to a White Paper, based on C (67) 62 and

(ii) to revise the report by officials attached to E (66) 7, in the light of C (67) 62 and of the points made in discussion, with a view to its later publication.

(iv) The Cabinet had before them a note by the Secretary of the Cabinet (C (67) 58) to which was attached a report by officials in supplementation of C (67) 48, on the implications of United Kingdom entry into Europe for the mobility of labour and for United Kingdom immigration policy.

The Home Secretary said that officials had taken the view that, given the differing considerations which arose in respect of each of the member countries of the EEC, it would be most useful to examine the experience of Belgium under the provisions of the Treaty of Rome covering free movement of labour. The Belgian Government were more liberal than other members of the EEC in permitting free movement of labour and their experience suggested, even taking into account the likelihood that the Community as a whole would move
towards the abolition of restrictions on labour movements, that the implications for the United Kingdom did not give cause for real concern. Nor did it appear that we should be faced with particularly difficult problems in respect of the machinery for the control of immigration or of our right of deportation, while it should also be possible to make adequate arrangements to deal with the more extended right which the United Kingdom legislation gave to supplementary benefit as compared with the right to similar benefits in the countries of the EEC. The major difficulty would be the political problems arising from our policy on Commonwealth immigration. On the assumption that we maintained present restrictions, we should, if we were to enter the Community, then be differentiating against Commonwealth citizens and in favour of EEC nationals, who would then be allowed to come here freely for employment. There would be strong objection to any amendment of our Commonwealth restrictions which would impose a differentiation between immigrants from the Old Commonwealth and those from the New Commonwealth. There was good reason to expect that it would not be necessary for us to introduce a system of national registration, but this aspect could if necessary be further pursued at the subsequent meeting of the Cabinet on the following Saturday.

The Minister of Labour said that the EEC was moving towards the abolition of restrictions on the movement of workers, but it was difficult to assess the implications of regulations which were at present only in draft and might subsequently be amended. They were also moving towards the establishment of equality of treatment of all EEC nationals in respect of housing benefits and social insurance, as well as in relation to work councils. It appeared that the member countries of the Community hoped to develop a system by which there would be a link between all national employment exchanges in respect of information on offers of employment.

In discussion there was general agreement that the major difficulty in this sphere, if we were to enter the Community, would arise in respect of the implications for the Government's policy on Commonwealth immigration. There was also general agreement that there would be grave objection of principle to amending that policy through the introduction of differentiation on grounds of colour between immigrants from different Commonwealth countries. It was, however, pointed out that our entry into the Community would not, in practice as opposed to theory, make any substantial change in the control which we now imposed on immigrants from the Commonwealth on the one hand and from Europe on the other. Substantial numbers of workers from Europe came to this country annually, but for the most part they did not settle here as did immigrants from the Commonwealth. It seemed improbable that our entry into the Community would effect any basic change in this pattern nor did it seem likely that the immigration of European workers in future would be on a scale which would cause any serious political or industrial difficulty. Indeed, to the extent that our economy was suffering from a shortage of labour in the longer term, as the National Economic Plan had shown, the immigration of further workers from Europe was to be welcomed on economic grounds.
In further discussion there was general agreement that there would be advantage if, in the event of the Government deciding to apply to join the Community, the proposed White Paper, or White Papers, were to include a section on the implications of entry for the mobility of labour and for our immigration policy, based on the document before the Cabinet and on the previous study which they had considered at an earlier meeting.

The Cabinet—

(5) Took note of C (67) 58.

(6) Invited the Home Secretary and the Minister of Labour, in consultation with the Commonwealth Secretary, to arrange for officials to prepare, in the light of the discussion, a draft annex to a White Paper, based on C (67) 48 and C (67) 58, on the implications of entry into the EEC for the mobility of labour and for the United Kingdom immigration policy.

(6v) The Cabinet considered memoranda by the Commonwealth Secretary on the value of the Commonwealth (C (67) 59) and on Commonwealth interests if we were to enter the EEC (C (67) 63).

The Commonwealth Secretary said that his paper on the value of the Commonwealth was not for substantive discussion in the present context, but rather to provide a general background for the Cabinet’s assessment of the importance to be attached to Commonwealth interests if we were to seek to enter the EEC. There had been major changes in the Commonwealth in recent years, and we should make it clear that we were not prepared to sustain the Commonwealth whatever the cost to us might be. But the Commonwealth connection still had substantial material and political value for us and, if we were to join the Community, we should seek to minimise so far as possible the damage to Commonwealth interests, and so to our own interests in the Commonwealth, which might otherwise ensue. His second memorandum (C (67) 73) first set out the probable effect on the Commonwealth if we were to enter the EEC without safeguards. While there was no intention of doing so, this enabled us to see what measures must be taken to safeguard the Commonwealth interests. The memorandum then set out what other Commonwealth Governments were likely to ask us to secure on their behalf. It would not, in practice, be possible to obtain all their desiderata, but certain issues were of major importance both to the Commonwealth and to ourselves.

New Zealand presented a series of problems which in total were the most formidable arising from our Commonwealth connections. The effect of the common agricultural policy (c.a.p.) on their agricultural exports and in particular on their exports of butter would be catastrophic for New Zealand unless we were to secure major derogations: transitional provisions would not suffice. We should also bear in mind the importance of sustaining as far as possible the interests of Australia and Canada and in particular the importance
which these countries attached to getting a satisfactory agreement on cereals in the Kennedy Round of tariff negotiations. Such an agreement would substantially mitigate their opposition to our joining the EEC. It was relevant to the consideration of the course which we should follow to bear in mind the estimate of Mr. McEwen, the Deputy Prime Minister of Australia, that, if we were to enter the EEC, this course would eventually lead not only to the loss of Australian exports to the United Kingdom of some £80 million a year, but also a loss of United Kingdom exports to Australia of as much as £160 million a year; this estimate, though not entirely disinterested, was of a significant order.

The interests of the independent and dependent Asian and African Commonwealth countries varied widely and could best be considered in relation to specific commodities, in particular sugar, bananas, citrus, tobacco and coffee. It was important that we should protect their interests in any negotiations with the EEC and we must bear in mind that meanwhile our trade with them would inevitably be damaged, in that they would naturally seek to diversify their own trade in order to safeguard themselves against the impact on it of our entry into the Community.

The major commodity which would be affected in both developed and developing Commonwealth countries was sugar. The Commonwealth Sugar Agreement was due to terminate in 1974. We at present imported some 1,900,000 tons of sugar a year under the Agreement and, if we were to enter the EEC, there would no doubt be pressure upon us to substitute for this some part of the present exportable surplus of sugar in the EEC and their associated countries of some 400,000 tons a year. Quite apart from the effect of raising substantially the price of sugar in the United Kingdom, we must bear in mind the crucial importance of the employment of labour on sugar production in the developing Commonwealth countries, not only for their economy, but also for their political and social stability. Finally, Commonwealth countries might seek to diversify their present holdings of sterling, which in total amounted to some £2,000 million.

In discussion it was urged that our entry into the Community would inevitably weaken our links with other members of the Commonwealth, both economically and politically. Yet in major respects our interests were the same as those of other Commonwealth members: in particular it was to our interest to buy food from them as the cheapest world producers (so keeping down our cost of living) and in their interest to sell it to us. To take a step which would reduce our imports of Commonwealth foodstuffs and consequently lead other Commonwealth countries to intensify their industrialisation, and hence the competition facing our own exports of manufactures, would be in the interest neither of the rest of the Commonwealth nor in our own. Moreover, entry into the Community would inevitably lead to the disappearance of the preferences which we at present enjoyed in Commonwealth markets. These covered some 50 per cent of our present exports to Commonwealth markets, amounting to £1,000 million a year, and in addition we must also bear in mind that our preferences in South Africa would also be at risk. Admittedly, a
steady erosion was taking place of Commonwealth preferences, but this had only affected a relatively small part of them and the abolition of the Commonwealth preference system would have the most damaging effect on the total level of our exports. Particular importance must also be attached to the value of the Commonwealth Sugar Agreement to the Commonwealth countries concerned. Moreover our present sugar system reconciled the interests of domestic as well as of Commonwealth producers and its disruption might have serious consequences for the United Kingdom production of sugar also.

On the other hand, it was argued that, while entry into the Community would admittedly cause some damage to our Commonwealth preferences and the level of Commonwealth trade, other members of the Commonwealth were already diversifying their exports and increasing their industrialisation, with all its consequences for our own exports, as fast as possible; and our entry into the Community would therefore do no more than accelerate existing trends. Nor was there cause for concern at the possibility that their reserves would no longer be kept in sterling: some diversification had already taken place, but as long as we maintained the strength of the United Kingdom economy, in accordance with the Government’s policy, it would remain in the interest of Commonwealth countries to keep substantial reserves in sterling, in view of the rate of interest which they earned thereby. In considering the interests of Commonwealth countries we should bear in mind that, while New Zealand constituted a special case and certain problems arose in respect of the developing countries, notably sugar, it would be broadly in the interests of the developing members of the Commonwealth that we should join the Community. This would enable us to encourage the pursuit of liberal Community policies in respect of trade and aid with developing countries and freer access to the much larger European market would be of great benefit to the economies of the developing countries of the Commonwealth. In considering the interests of Australia and Canada, it was pertinent to bear in mind that not only had they a higher level of income per head than the United Kingdom, or any member of the EEC, but also that in recent years they had been guided solely by their own interests in reducing or eliminating preferences which they accorded us, in pursuing a policy of rapid industrialisation and, e.g., in buying foreign aircraft when we might reasonably have looked to them to pay more regard to United Kingdom interests. We should therefore not undertake in negotiations with the EEC obligations to those countries which we could not hope to carry out: while we had considerable bargaining strength in negotiation, this would only enable us to achieve a limited range of objectives and in pursuing these we should have regard primarily to our own interests and to the interests of the poorer Commonwealth countries and of New Zealand.

The Prime Minister, summing up this part of the discussion, said that the Cabinet were under no illusion about the fact that entry into the Community would cause some damage to Commonwealth
interests and to our Commonwealth trade. The extent of this damage would be for further consideration when the Cabinet considered the balance of advantage if we should seek to join the Community: in particular these aspects could be further examined when they came to discuss the paper (C (67) 61) on the effect of entry on the United Kingdom balance of payments.

The Cabinet—

(7) Took note of C (67) 59, C (67) 63 and of the points made in discussion.

(8) Agreed to resume their discussion at a subsequent meeting.

Cabinet Office, S.W.1.
27th April, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Saturday, 29th April, 1967, 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. 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. PATRICK GORDON WALKER, M.P., Minister without Portfolio
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
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

CABINET
The following were also present:
The Right Hon. Frederick Mulley, The Right Hon. Sir Elwyn Jones, Q.C., M.P., Minister of State for Foreign Affairs
The Right Hon. John Silk, M.P., Parliamentary Secretary, Treasury

Secretary:
Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
Mr. B. M. Thimont
Mr. M. J. Moriarty

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1. The Cabinet resumed their discussion on the approach to Europe. They had before them a note by the Secretary of the Cabinet (C (67) 65) covering answers prepared by officials to factual questions which had been raised by Ministers.

The Prime Minister said that the purpose of the first part of this meeting of the Cabinet, at which exceptionally some Departmental officials were present, was to enable any further factual information which Ministers wished to obtain to be provided, either by the other Ministers concerned or by their officials. The questions might either seek amplification of the answers provided in the paper before them, or relate to other issues of fact relating to the approach to Europe.

(i) Effect on retail prices of individual foodstuffs

The request was made for a full list of the actual rises in retail prices of individual foodstuffs in the United Kingdom likely to follow on adoption of the common agricultural policy (C.A.P.).

In answer it was stated that it was not possible to give precise estimates of changes in the levels of retail prices for various foodstuffs here if the United Kingdom were to accept the C.A.P. as it stood. There were no common retail prices in the European Economic Community (EEC), allowance had to be made for a substantial range in processors', distributors' and retailers' mark-up and the price levels quoted in the EEC countries related to standards and qualities of products which were not necessarily the same as those generally marketed in this country. Estimates had however been made of ranges of possible retail price levels for the most important food items broadly comparable to the range of price increases for food generally of 10 to 14 per cent. These, with current retail prices in the United Kingdom for purposes of comparison, were detailed in C (67) 65.

In discussion the question was raised of the position of value-added tax (TVA) in the Community as it affected foodstuffs. It was stated that the farming community in the EEC were liable to TVA on their production and that in general at the retail stage TVA was levied at the rate of 5 per cent on foodstuffs. The Netherlands however was an exception in that TVA was not levied on food in that country. She had not been granted a specific exemption since it was open to any member of the Community to exempt food from TVA. The information about retail food prices provided for the Cabinet took no account of the effect of TVA.

(ii) Value-added tax

In further discussion about the TVA, the Cabinet were reminded that Community policy was directed towards the removal of fiscal differences and by implication the taxation carried by finished commodities would have to be uniform as between members of the EEC. At the present time there was no uniformity of rates;
and although the Six had agreed on the system to be introduced by member countries by 1st January, 1970, they had not yet agreed whether, or when, the rates of taxation should be harmonised and at what level, nor on the question of coverage. There was little difference between the economic effects of purchase tax and TVA although the latter had one advantage in that it could be spread over a wide range of goods and hence offered a wider base of taxation. TVA was however considerably more expensive to administer than was purchase tax. The whole question of TVA was currently being considered by a Working Party under the chairmanship of the Chief Secretary, Treasury.

The Prime Minister, summing up this part of the discussion, said that a TVA would be likely to produce more revenue than did purchase tax, and hence afford the opportunity for tax relief elsewhere or for higher governmental expenditure on social benefits. If the United Kingdom were to enter the Community, we should have a voice in the settlement of the question of TVA. In view of its importance for the United Kingdom it would be desirable for the Cabinet to be supplied with further information on the subject.

The Cabinet—

Invited the Chancellor of the Exchequer to arrange for a note on value-added tax in the EEC to be circulated for discussion at their meeting on the following day.

(iii) Effects of entry on the Exchequer

Could any assessment be made of the net effect on the Exchequer of joining the EEC, e.g., taking account of such items as tariff revenue, Community taxation measures and all other relevant factors?

The answer was that it was impossible to give any overall estimate. There would be savings in respect of agricultural support but there would probably be a net loss of tariff revenue overall and there would be expenditure, some of it additional, on subscriptions to Community institutions and funds. But a major factor in the total revenue would be the effects of our discontinuing purchase tax and adopting the EEC system of TVA. This represented an area of the greatest uncertainty. It was impossible to quantify the various elements of cost to the Exchequer or to assess the yield of TVA without knowing the rates and the coverage. All that could be done to answer the question was to identify the various elements within the total Exchequer picture and these were set out in C (67) 65.

In discussion the question was asked to what extent any net Exchequer surplus resulting from a reduction of Exchequer support for agriculture would be available for other purposes related particularly to mitigating the effect of higher food prices. The reply was that since it was the aim of the Community to introduce uniform food prices as an element in their policy of securing equality in the terms of industrial competition, the direct
subsidisation of food prices would clearly not be permissible. On the other hand, there was complete freedom within the Six regarding social security policy and the general current level of social security benefits was higher in the EEC than in the United Kingdom. We would be free to provide assistance by such means as family endowment, increased retirement pensions and housing subsidies.

The Prime Minister, summing up this part of the discussion, said that it would be our objective, if we were to seek entry to the EEC, to secure a reduction in our liability for agricultural levies under the present financial regulations of the c.a.p. which, it should be remembered, were due for renegotiation before the beginning of 1970.

(iv) Statistical work

What progress had been made with statistical work (including details and methods) undertaken by Departments on EEC problems?

The answer given was that, in relation to the effect of entry into Europe on our balance of payments, particulars were given in the report on balance of payments which had been circulated to the Cabinet under cover of C (67) 61. Statistical material on some other aspects of entry into the EEC was contained in answers to other factual questions put by Ministers. In general, the Central Statistical Office had maintained regular contact with Commission statisticians on publicly available statistics and statistical techniques, but had not been asked to undertake any work specifically in connection with possible United Kingdom entry into the EEC.

(v) Effects on Commonwealth immigrants

Would accession to the Community involve any alterations in the present position by which Commonwealth immigrants could, after five years' residence in the United Kingdom, apply as of right for United Kingdom citizenship by registration?

The answer given was that, under the basic EEC regulations as they stood at present, accession would not require any alteration in our policy in this respect, though it was impossible to say whether the EEC would wish to call our present arrangements into question if we joined.

In discussion the following points were made—

(a) As noted in earlier Cabinet discussions, the main problem for our immigration policies presented by EEC membership would be that we should be required to treat immigrant workers from EEC countries more favourably than immigrants from the rest of the Commonwealth under our present policy. In practice this would affect New Commonwealth countries more than the Old Commonwealth but we should not on this account need to reduce the present quota of Commonwealth immigrants.

(b) As indicated in paragraph 27 of C (67) 58, it was not clear how far the nationals of the overseas dependencies of EEC member countries had any right of free movement within the EEC; this
might eventually have to be determined by the Commission or by the European Court of Justice. It appeared, for example, that Algerians who had settled in France did not have a right to free movement, at least unless they had obtained full French nationality. It was confirmed that a country did not obtain any privilege in respect of free movement by virtue of association with the Community, since this status gave privileges in respect of trade; thus, for example, Nigerian citizens had no advantage over other non-EEC nationals in respect of freedom of movement. It was true that many nationals of associated States such as Greece and Turkey had entered the EEC as immigrant workers; but this was not under the provisions of the EEC for free movement of labour.

(c) It was not known how many Commonwealth immigrants of five years' standing had taken advantage of their right to obtain United Kingdom citizenship, but it was thought that most of the immigrants of the past 15 years had not done so, since United Kingdom citizenship had up to the present conferred no practical advantage. The existence of this large number of potential United Kingdom citizens could, however, be a bargaining counter in negotiations with the EEC countries, even taking into account the countervailing possibility that Algerian immigrants possessing full French nationality might have a corresponding right to enter this country for employment. Moreover, the children born in this country of Commonwealth immigrants possessed United Kingdom citizenship by birth; thus, from the early 1970s there would be an increasing number of United Kingdom citizens of New Commonwealth origin with full rights of free movement within the EEC if we joined.

(vi) Total of balance of payments cost

What was the extreme range of total United Kingdom balance of payments costs consequent upon entry into the EEC and was it, even at the lowest estimate, consistent in the short term with the recovery and strengthening of the economy?

In answer it was stated that C (67) 61, which the Cabinet were to consider as the next item of their agenda, set out the considerations involved. The following supplementary points were made—

(d) The economic case for our entry into the EEC rested on the increase in the productivity of British industry which it was said would result. But the supporting arguments, which appeared to be primarily the increase in productive investment which might follow from the general attitude of British industrialists, the opportunities presented by a larger market and the spur of competition were all factors which it was impossible to quantify.

(e) The recent report by British motor manufacturers estimated that they would sustain initial losses (some £17 million) consequent upon United Kingdom entry into the Community. They believed, however, that these short-term effects would be more than offset by the gain in the longer term. Moreover their assessment had reached the conclusion that the long-term prospects for the motor industry in a situation of United Kingdom economic isolation would
be disastrous. They had sufficient confidence in the effects of entry to be undertaking investment now in anticipation of securing a substantial share of the increased market.

(f) It was impossible to assume entry to the Community in the absence of any possibility of securing relief from the present effects on us of the c.a.p., and quantifications of the effect of entry on the balance of payments made on that assumption must be excessive in that respect.

(g) Since taking office the Government had effected a major improvement in our balance of payments from a deficit of some £800 million to a modest surplus this year. Whilst this improvement was due in part to certain temporary measures, e.g., restrictions on capital movements, it must involve some switch of resources and certainly reflected an underlying continued improvement in our export position.

The Prime Minister said that it would be best for the Cabinet’s substantive discussion of the effects of entry into the EEC on our economy and balance of payments to be based on their consideration of the memorandum on this subject (C (67) 61) which was the next item on their agenda.

(vii) The Community’s pragmatic methods of working

Could factual examples be given, relating to fields of particular interest to the United Kingdom, of ways in which the Community’s methods of operation were in practice more pragmatic and empirical than the Treaty of Rome would suggest?

The answer pointed to the large extent to which the EEC and Euratom Treaties (by comparison with the earlier Treaty on the European Coal and Steel Community (ECSC)) left power in the hands of the Council of Ministers, and to the present proposal to amalgamate the executives of the three Communities, as examples of the Communities’ readiness to modify their institutions empirically in line with changing needs. The Treaties themselves, and the regulations and directives made under them, included many special provisions making exceptions in favour of one or more member countries (examples were given in Annex C to C (67) 65). It was not in the interests of the Community as a whole to override the special interests of any member country and at no time had a majority vote been taken against the important interests of any member State; instead, agreement had been reached unanimously and the necessary concessions made either in regulations or by derogation from them. Furthermore, in a number of cases there was tacit acceptance of breaches of the Treaty and Regulations by some or all member countries.

In discussion, the following points were made—

(h) It was likely that many of the concessions and derogations at present allowed would prove to be temporary to cover an interim period until a single market for particular commodities had been established or a common EEC policy worked out. An example
was the “duty quotas” which enabled members to import at lower rates of duty items where Community production fell short of consumption.

(i) It was questioned whether we should be able to maintain our policy of aid to particular regions of the country, e.g., by the regional differentiation in the selective employment tax (SET) recently proposed, and if so, whether the continuation of these policies would be by right under the Treaty and subordinate regulations or on sufferance only. In reply, attention was drawn to the success of Belgium in securing the concurrence of the other EEC countries in a scheme of regional state aids which went beyond aid for economic reasons by including, on political grounds, regions that were economically prosperous (Annex C, paragraphs 16 and 17). We had to accept that our regional aid policies might come under question by the Commission; we should counter vigorously any suggestions that we should radically change our present and possible future schemes; and we should not assume that, on its merits, the proposed regional SET was incompatible with the Treaty or subordinate instruments. Even if it were thought to be so, the many comparable breaches by other EEC member countries would supply us with a strong countervailing argument to justify its continuation (should we decide to adopt it).

(j) There would undoubtedly be difficulty in securing amendments of the Treaty itself. However, the Treaty was in very broad terms and most of the specific requirements which might give us difficulty were contained in regulations and directives, which could be more easily called into question and amended. We could, moreover, draw comfort from the trend in the Community to take progressively greater account of national interests, particularly since the 1965-66 crisis in the Community precipitated by France which had led to the so-called Luxembourg Agreement.

(k) Too much should not be made in practice of the activities of the Commission in scrutinising and pronouncing on the validity of actions of member countries. The Commission staff was small in relation to its theoretical range of activity and in practice much of the administration of the Common Market was in the hands of national Governments. The “unofficial derogations” mentioned in the memorandum were in effect breaches of EEC requirements committed by and in member countries but not reported to, or pronounced on by, the Commission. Some of these were on a large scale and went further than we should expect to wish to go. Examples were the French Government’s grant of interest-free loans to the French steel industry and the Dutch practice of using the threat of higher gas prices to compel electricity undertakings to hold down charges to firms in development areas.

(l) In the field of textiles, the aids granted by individual member countries were under examination and proposals for harmonisation might be made in due course (Annex C, paragraph 23). However, we gave no aid to the United Kingdom textile industry except through the quota system: in this country, as in the EEC countries, the long-term quota system approved by the General
Agreement on Tariffs and Trade (GATT) operated and it was the quota rather than the EEC common external tariff which gave protection against low-cost producers. EEC countries had lower quotas for imports from low-cost countries than we had, and we should seek to persuade them to raise their quotas nearer to the level of our own.

In further general discussion, a distinction was drawn between the c.a.p. and other aspects of EEC policy. The c.a.p. had been developed to a stage where it was difficult to obtain substantial changes in the policy or derogations (whether official or unofficial) from it. Our best hope lay in negotiating some modifications of the application of the c.a.p. to the United Kingdom in advance of entry and thereafter in seeking to influence, as an EEC member, the future direction of the policy. Hence the advantage to us in entering the EEC before the 1969 negotiations on new agricultural financing arrangements; and hence the French desire to finalise these arrangements before our membership took effect. Other fields of EEC policy were less developed and our best course might be to keep the negotiations before entry on these aspects to a minimum and to seek for ourselves after entry the same flexibility in interpreting the policies as present EEC members allowed themselves. In these fields the indications were that, particularly in recent years, a member country could secure its own interests if it defended them vigorously and, if necessary, stubbornly. All member countries were in some degree in breach of the Treaty and its instruments.

(viii) Production grants and farm improvement grants

The question was asked, with particular reference to hill farms in Wales, how far, if our present system of production grants had to be dismantled, we could continue with our present range of farm improvement grants.

The answer given was that, subject to any mitigations of the c.a.p. that we might obtain, we should be obliged to discontinue grants which in effect subsidised the cost of production of particular commodities. Grants for farm improvements such as agricultural roads, or to bring about improvements in farm structure, would probably be compatible with the c.a.p. The position of grants for winter keep was doubtful. It was possible that some grants, in particular those to bring about the amalgamation of farms, would attract payments from the EEC Guidance and Guarantee Fund.

(ix) Government procurement

How far would our present policies of favouring United Kingdom industry in respect of Government contracts need modification? It was assumed, for example, that the policy of grants to industry through the Industrial Reorganisation Corporation would be compatible with EEC regulations; but should we be able to continue the present discrimination amounting to 25 per cent in favour of native United Kingdom computer firms?
In reply, it was pointed out that there was no EEC policy in respect of Government procurement. It was widely recognised that restrictions on tariff discrimination (e.g., the GATT) did not apply in this field and we could assume from the practice of the EEC countries that we should remain free to place governmental contracts where we chose. In any event, our present 25 per cent discrimination in respect of computers operated against some foreign firms manufacturing in the United Kingdom as well as against imported computers and so could not be represented as straightforward discrimination against foreign firms.

The Cabinet having concluded their enquiries relating to further factual information, Departmental officials then withdrew.

2. The Cabinet had before them a note by the Secretary of the Cabinet (C (67) 61), to which was attached a report by officials and economic advisers on the effect of entry into the European Economic Community (EEC) on the United Kingdom balance of payments, together with a covering note by a group of Permanent Secretaries.

*The Chancellor of the Exchequer* said that the studies which had been carried out by officials showed that it was impossible to quantify with any degree of accuracy the total effect on our balance of payments if we were to enter the Community. It was, however, clear that the immediate effect would be disadvantageous and serious. The conclusion of officials, with which he agreed, was however that the effect would be manageable and therefore that the course of joining the Community was one which it would be reasonable for the Government to take if it were considered that the advantages in other respects made this course desirable. If we were to join the Community, we should have to maintain the Government's current economic objectives and policies, but it might be that certain structural weaknesses in our economy would initially prevent us from taking full advantage of entry. Our need to maintain exchange control was not a source of strength, but stemmed from our economic weakness; and such control would have to be maintained for some time. It was, however, impossible to calculate whether we should be enabled to abandon our exchange control more quickly if we were to join the Community than if we were not to do so. If we were to join the Community we should need to make an additional economic effort in order to meet the impact over a short period of some 5 to 6 years, but the impetus which joining might be expected to give to industrial investment and economic growth should enable us to offset these initial effects, at least in part, even in this initial period.

In discussion it was argued that, while it must be accepted that it was impossible to quantify exactly the consequences for our balance of payments if we were to join the Community, it was essential to seek to do so as far as possible in order to provide...
a basis for the Government's decision. At the least, these calculations were an essential guide to the minimum terms which we could accept in negotiation. The report by officials should be taken as showing the order of magnitude of the adverse consequences which would be involved if we were to join the Community, particularly through higher food prices, the rise in the cost of living and therefore in wages and industrial costs, through the imposition of levies under the common agricultural policy (C.A.P.) and through a net outflow of capital. It should also be borne in mind that these consequences were additional to our present burdens and would be permanent; a transitional period would not result in their disappearance, but would only mask their effects in the short run. World food prices would not necessarily rise to such an extent that the prices which we would have to pay if we did not join the Community would be no less than those we should pay as members. It was uncertain whether such a rise would take place and, even if it were to do so, there was no good reason to expect that the price of food products in the EEC would not rise comparably from their present level.

Admittedly, we should, if we were to join, expect to increase our exports to the EEC, but this increase would be offset, and perhaps more than offset, by the fall in our exports to other countries which would inevitably be involved through the disappearance of our preferences in the Commonwealth and the European Free Trade Association (EFTA). It had been argued that we should obtain economic advantages on joining the Community through being part of a much larger home market, but this argument had been overstressed and it could well be maintained that those comparatively few industries which benefited from a larger home market could equally benefit from existing arrangements, e.g., in respect of collaboration in development of aircraft, such as we had already undertaken with France. Moreover, even if there were to be an initial impetus to industrial investment if we joined the Community, as the recent report of the Confederation of British Industry suggested, additional investment did not necessarily lead to an increase in exports and the balance of economic advantage to be expected did not suggest that the increase in investment would be sustained over a long period. Even if it were accepted in the light of these facts that the adverse consequences to our balance of payments, if we joined the Community, would be manageable, it nevertheless remained that there would be no economic advantage in doing so if we were to accept the c.a.p. It was questionable whether it was necessary for us to accept that policy, but should we be forced to do so as a result of joining there would be an additional burden on our balance of payments which would involve continuing economic stagnation. If it were argued that there were political advantages in joining, it should be borne in mind that the additional cost to our balance of payments was far greater than the small savings which we had achieved in our oversea expenditure by measures such as
the withdrawal of troops from Germany, which had caused great political damage to our foreign relations. In short, joining the Community would be a bad economic bargain and would involve constraint on our economic and social policies which we should seek to avoid.

It was argued on the other hand that it was dangerous in considering the Government’s decision to treat the necessarily speculative estimates of the effects on the balance of payments as if these were ascertained facts. Moreover, the estimates in the paper prepared by officials were all based on the most pessimistic assumptions in the various fields concerned and also assumed that we should accept in full the existing Community regulations, if we were to enter. Furthermore, the estimates must be compared with the possible consequences for our balance of payments if we were to abstain from joining any larger economic group. In considering these consequences, it was important to bear in mind that there was a steady erosion, which must be expected to continue, of our Commonwealth preferences and that we could not expect that EFTA would remain in being indefinitely if we were to abandon the prospect of joining the Community. If we were to refrain from seeking to join the Community now, that decision would in practice prove to be permanent and the disadvantages of our isolation would increase with time. Whether we were to join the Community or not, we needed to strengthen our present economic policies and to increase the rate of growth of our industrial efficiency. The attitude of industry gave good reason to expect that the expected impetus to investment would begin shortly after the Government’s announcement that we were seeking to join the Community and this impetus should increase throughout the transitional period. Increased investment could reasonably be expected to lead to increased productivity and therefore to increased competitiveness in exports. The initial burden on our balance of payments which must be assumed, even if it could not be quantified, did not, even on the more pessimistic assumptions, amount to more than a transfer of resources of the order of £100 million a year for five years. Our economy was not at present stagnant, as had been alleged, and the rate of growth of the gross national product (g.n.p.) in the following year was estimated to be 3 per cent. Consequently over the five year period this burden amounted in total only to a half of the estimated increase in the g.n.p. over one year and the whole effect could be offset if our rate of growth could be increased from 3 per cent to 3.5 per cent a year. The immediate disadvantages of joining the Community must be seen in proportion and in relation to the long-term economic advantages.

In further discussion differing views were expressed on the timing of any decision to join the Community if this proved to be the course the Government decided to adopt. While there was general agreement that it would be unacceptable that the initial impact on our economy of joining the Community should begin to take effect in the course of the next eighteen months to two years, it was argued that the necessary course of negotiations and
ratification of the agreement in any event ruled out this course. It was further argued, however, that it would be advantageous if we were to delay joining the Community until the early 1970s. In that period we could reasonably expect that the Government’s present policies would result in the strengthening of the economy, so enabling it better to take the initial strain of joining the Community. Furthermore, the fact that the structure of the Community now appeared to be more favourable to our interests than it had been at the time of the earlier negotiations in 1961-63 suggested that delay might lead to further favourable developments. At the later date, other changes in Europe might improve our prospect of negotiating more favourable terms than it now seemed likely that we should be able to obtain.

On the other hand, it was urged that delay would be to our disadvantage in that Community arrangements which were at present flexible must be expected to become more rigid. If we were members of the Community we should be enabled to influence the course of development, whereas if we were not members it seemed probable that Community policies would harden in a form which might make our entry later less acceptable and harder to negotiate.

_The Prime Minister_ said that the Cabinet would resume their discussion at the meetings at Chequers the following day. It might be convenient if they were to begin by considering the paper circulated by the Secretary of State for Scotland on Scottish Agriculture and the Common Market (C (67) 64) before resuming their discussion on the balance of payments. The Cabinet might thereafter turn to consideration of the papers circulated by the Foreign Secretary (C (67) 68) and the Commonwealth Secretary (C (67) 66) on the attitude of foreign countries and Commonwealth countries respectively towards our seeking to join the Community. At this stage the Foreign Secretary might also report to the Cabinet the outcome of the meeting the previous day of the Ministerial Council of EFTA. The Cabinet might then turn to discuss the paper which had been circulated by himself and the Foreign Secretary (C (67) 60) on the alternative courses which could be followed in respect of the approach to Europe. Thereafter, or in the course of their discussion of this paper, the Cabinet would wish to range over the whole field of the issues arising on the approach to Europe in assessing the balance of advantages and disadvantages.

_The Cabinet—_

Took note of the Prime Minister’s statement in respect of the procedure for their meeting on the following day and agreed to resume their discussion accordingly.

_Cabinet Office, S.W.1_

29th April, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at Chequers, on
Sunday, 30th April, 1967, 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. 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 following were also present:
The Right Hon. Frederick Mulley, M.P., Minister of State for Foreign Affairs

The Right Hon. John Silkin, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. W. A. Nield
Mr. H. L. Lawrence-Wilson
Mr. K. Barnes

SECRET
SUBJECT

APPROACH TO EUROPE

(i) Scottish Agriculture and the Common Market
(ii) Effect of Entry on United Kingdom Balance of Payments
(iii) Value Added Tax
(iv) European Free Trade Association
(v) Information from Overseas Posts on the Attitude of Foreign Countries most concerned
(vi) Likely Reactions of Commonwealth Countries
(vii) Programme of Work
The Cabinet considered a memorandum by the Secretary of State for Scotland (C (67) 64) on Scottish agriculture and the Common Market.

The Secretary of State for Scotland said that his memorandum summarised the possible implications for Scottish agriculture of accepting the common agricultural policy (c.a.p.) of the European Economic Community (EEC) as it stood. The effects would be particularly damaging for hill and upland farms which constituted 40 per cent of the full-time farming units in Scotland. These farms were entirely dependent for their net income on the relevant production grants—the hill sheep, hill cattle and winter keep grants—which could not be expected in their present form to be compatible with the c.a.p. There were few alternative types of production which were open to the hill and upland farms. Any decline in their present production would have a pronounced impact on farming systems in the lowlands since these latter areas would then increasingly have to breed and rear their own store cattle and store sheep. The effects of acceptance of the c.a.p. would be less drastic on dairy farms and some 60 per cent of these would probably be able to survive, though with reduced profitability. The smaller dairy farms however would be in considerable difficulty and many might be forced out of business. There might well be difficulties under the conditions of the c.a.p. in maintaining an adequate milk supply, particularly to the Western Isles, bearing in mind that it was impossible to assess what price levels for milk might result and that the future of the Milk Marketing Board must be in doubt. The arable farms should on balance gain and their main problem would be one of adjustment to the new conditions, for which a reasonable transition period would be necessary. The intensive farming units specialising in pigs, poultry and horticulture would meet increasingly severe competition, but given the necessary scale of production and efficiency of management they should mostly be able to meet the challenge.

The vital safeguards which would need to be negotiated for Scottish agriculture were the retention of the hill production grants, whether in their present form or in some other form of equivalent worth; replanning grants to assist with problems of adjustment; maintenance of existing arrangements for liquid milk; and a transitional period of at least seven years.

The Secretary of State for Wales said that he supported the recommendations of the Secretary of State for Scotland. Hill and upland farms constituted a substantial proportion of farms in Wales. If substitutes for the present production grants, such as grants for structural improvements, mechanisation, and farm roads, could be secured, this would help the position; but a substantial transitional period would in any case be essential.

In discussion, there was general recognition of the importance of securing assistance for the hill and upland farms which would
compensate for the discontinuance of the existing production grants, if that had to be accepted. The expansion of forestry in these areas might help the position, if assistance analogous to production grants could be secured. It was argued however that under the rules governing the Agricultural Guidance and Guarantee Fund grants for forestry would not be possible since they would represent assistance to a particular commodity and would therefore be held to distort the conditions of competition. On the other hand, it was suggested that the talks with the Six had shown that the overriding consideration with the Community would be the net contribution which the United Kingdom would make to the Agricultural Fund. If this were substantial, it should be possible to secure a comparable level of assistance in various forms from the Fund which would help in meeting the difficulties likely to arise for farmers in Scotland and elsewhere.

The Prime Minister, summing up this part of the discussion, said that the Cabinet recognised that acceptance of the c.a.p. as it stood would entail even more dislocation of the present pattern of agricultural production in Scotland than in England, though many of the factors affecting hill and upland farming in Scotland would apply also to the North of England. The Cabinet would wish to bear these issues in mind in their later discussion.

The Cabinet—

(1) Took note of C (67) 64.

(ii) The Cabinet resumed their consideration of the note by the Secretary of the Cabinet (C (67) 61) to which was attached a note by a group of Permanent Secretaries covering a report by officials and Economic Advisers on the effect of entry into the EEC on the United Kingdom balance of payments.

In discussion, it was argued that the estimates of the effects of entry on the balance of payments presented in the report attached to C (67) 61 made it clear that there would be an extremely serious additional burden amounting to some £600 million. The switch of resources necessary to cope with this situation would inevitably mean a period of considerable austerity and restraint of personal consumption. Further, the introduction of a value-added tax, to which we should be committed, would mean a considerable increase in the cost of living above that which would result from acceptance of the c.a.p. and these factors together would involve a serious deterioration in the standard of living. The calculations in the report implied that the necessary shift of resources into exports and import substitution might be secured by a relatively slight increase in the annual rate of growth of the gross national product (GNP). Put in this way, the requirement might seem modest. But an additional burden of £600 million on the balance of payments was a major additional commitment; and to accept it on the basis proposed would be out of all proportion to the efforts which we were currently making to achieve relatively small savings on the other side of the account by, for example, economies in overseas expenditure on defence which might entail very significant changes in our foreign policy.
Against these quantifiable adverse effects, there could only be set the argument that access to a larger market and the stimulus of competition which entry into the Community would bring might lead to increased productivity in the long term and enhance our competitive ability. It could not, however, be assumed that the mere fact of lodging an application for entry would in itself act as a stimulus to industrial investment. Negotiations following such an application might well encounter delays and difficulties which would rapidly erode any initial increase in confidence on the part of industry. Nor was there any real evidence that entry into a larger market would of itself stimulate industrial investment. The present decline in investment had resulted not from the limited size of the market open to our industry, but from the deflationary measures taken by the Government. The additional burden on the balance of payments which would result from entry into the EEC was likely to require even more far-reaching deflationary measures which were likely to depress industrial investment even further.

It was also unjustifiable to discount the estimates in C (67) 61 of the adverse effects of entry on the balance of payments on the grounds that they were based on assumptions which were uniformly unfavourable. On the contrary, several of the assumptions could be argued to be unduly optimistic. It was, for instance, assumed that the United Kingdom economy would be fully competitive prior to entry, with an adequate surplus in the balance of payments and labour costs maintained at a level adequate to preserve this surplus after entry; in fact, however, we were far from having reached this position and there was no guarantee that we should reach it before entry if application were made at an early date. Similarly, the report by officials and Economic Advisers made due allowance for an increase in the level of our exports to the EEC while ignoring the adverse effects on the cost of living of the introduction of a value-added tax and the effects on industrial costs of the increased social security contributions by employers which were likely to be necessary. Finally, the estimate of losses to our exports through the abolition of Commonwealth preferences was considerably lower than recent estimates which had been put forward by the Australians.

We had been able on the basis of existing policies to make progress towards solving our balance of payments problems only at the cost of a high level of unemployment, cuts in desirable programmes of social expenditure and acceptance of a growth rate which was unsatisfactorily low. In order to sustain the extra burden on our balance of payments which entry would entail, all these policies would have to be intensified. If this prospect were not acceptable it might be necessary to contemplate more far-reaching changes in existing policies if we were to decide to apply for entry.

On the other hand it was argued that, quite apart from other obvious objections to any fundamental modifications of the Government's economic policies at the present time, there was no need to assume that entry into the Community would necessarily
entail the consequences suggested in the report by officials and Economic Advisers. It was essential in assessing its estimates to bear in mind that we should not feel the full effects of membership until 1970 at the earliest and that, given a reasonable transitional period, we could expect that the full impact of EEC conditions would not be felt until about 1975. The report assumed that we should have to accept the c.a.p. as it stood; but if we succeeded in joining the Community by 1969 we should be able to influence the future development of the c.a.p. and it was inconceivable that we should fail to secure some amelioration of its effects on our economy. We should also be able to influence decisions on taxation: there had as yet been no agreement as to the rates or the coverage of a value-added tax and complete harmonisation was still a distant objective. A further factor of which the report took insufficient account was that by pursuing our present policies we should have secured a major reduction in Government overseas expenditure by 1975, with a consequent easement of our balance of payments problem. But even if the pessimistic assumptions on which the report was based were accepted, the resulting estimate that the adverse effects of entry could be overcome if the annual rate of growth of the economy could be accelerated by about one-half of 1 per cent showed that the task, while difficult, was by no means unmanageable. The basic need was to increase the efficiency and competitive ability of industry; this task would remain whether or not we entered the Community.

The Cabinet—

(2) Took note of C (67) 61.

(iii) The Cabinet considered a memorandum by the Chancellor of the Exchequer (C (67) 71) covering a report by officials on the arrangements for a value-added tax (TVA) in the EEC and their implications for the United Kingdom in the event of our entering the Community.

In discussion of the agreement of the EEC Council of Ministers to two directives providing for the adoption by members of the Community by 1st January, 1970, of a TVA in replacement of existing turn-over taxes, it was argued that the adoption of such a system by this country, which was inevitable if we joined the Community, would bear heavily on the poorer families. The report by officials stated that although existing directives on a TVA did not relate to agriculture or the retail trade, it was inevitable, once the system was introduced, that it would sooner or later be extended to all commodities and all traders. Unless this were done traders, including the agricultural community, would not be able to recoup the taxes paid on their own purchases from other industries for the purposes of their business. On the most favourable assumptions, including a lower basic rate for the tax on necessities and also compensating reductions in excise taxes, there would be an increase of 2½ per cent in the cost of living in this country if we were to adopt TVA and a considerable shift in the incidence of taxation to the disadvantage of larger and poorer households.
On the other hand it was pointed out that although the principle of TVA would have to be accepted if we were to join the Community, the precise manner in which it would apply and in particular the rates of tax would be for negotiation after our entry. We should then be able to exert our influence on all decisions taken in this respect and these had to be unanimous. It was moreover likely to be a number of years before the system came fully into effect, allowing particularly for a transitional period. It also had to be borne in mind that large changes would have to be made elsewhere in our taxation system and in our arrangements for social benefits if we were to adopt TVA and that the tax itself would produce large revenues which could be used to offset its social impact.

The Cabinet—

(3) Took note of C (67) 71.

(iv) The Cabinet had before them a note by the Secretary of the Cabinet (C (67) 70) covering the text of the communique issued at the conclusion of the meeting of the Ministerial Council of the European Free Trade Association (EFTA) in London on 28th April, 1967.

The Foreign Secretary said that the consultations with our partners at the meeting of the EFTA Council on 28th April had taken place on a hypothetical basis in respect of our entry to the EEC. Our partners had shown understanding of our position and a willingness to help both in and after the Ministerial meeting. All EFTA members, apart from Portugal, favoured an application for entry on our part and considered that we should not delay that application, though there were varying degrees of optimism among them about our prospects of success. A salient feature of the communique which had been issued at the end of the meeting was that the London Declaration, which effectively gave a veto to our EFTA partners in respect of our entry into the EEC unless all other members of EFTA also entered, or concurred in the terms of our entry, was recognised as no longer valid. It had been replaced by a statement that it would be the purpose of EFTA Governments that, should it be necessary in order to give reasonable opportunity to other partners in the Association to conclude negotiations, sufficient transitional periods should be provided for with a view to avoiding disruption in European trade patterns.

In discussion the importance was stressed of maintaining the existence of EFTA as a working organisation which we could maintain should we attempt without success to join the EEC: this was in the interests of all EFTA members, whose attitude to joining the Community themselves would largely be governed by the success or failure of any attempt that we might make. It seemed on balance probable that no other member would succeed in obtaining entry into the Community if we were to fail in an application, even should
any of them then decide to apply, though it would be imprudent on
our part to regard such an outcome as certain. It was important also
to do all that we could not to lose the benefits to ourselves and to
European trade as a whole of the tariff reductions which had been
made in EFTA. So far as individual countries were concerned, it
was likely that Denmark and Norway would quickly follow us in
applying to join the EEC should we decide to do so and that
applications to join, either fully or as associated members, would be
made in due course by Sweden and Switzerland; Austria had
already applied to join and Soviet objections to her doing so might
well be removed if we ourselves had become a member. The general
view of our EFTA partners was that if we were able to join the EEC
our best course would be to do so quickly and in as clear and simple
terms as possible.

The Cabinet—

(4) Took note of C (67) 70 and of the Foreign Secretary’s
statement.

(v) The Cabinet had before them a memorandum by the Foreign
Secretary (C (67) 68) covering reports from Overseas Posts on the
attitude of the foreign countries most concerned to an application
by the United Kingdom to join the EEC.

The Minister of State for Foreign Affairs said that, following
discussion in Cabinet on 20th April, our Ambassadors to EEC
countries and to the United States had been asked to report on the
likely reactions of these countries to various alternative courses on
our part: a decision to apply immediately for entry to the EEC, a
decision not to do so and a decision to delay while seeking further
information in bilateral consultations. The memorandum before
the Cabinet set out the results of these enquiries, together with the
view of the Head of our Delegation to the Communities in Brussels
on the likely attitude of the EEC Commission. The advice was that
apart from France, whose policy had yet to be decided, all concerned
would be opposed to further bilateral discussions and in favour of
an application on our part to join the EEC. Most of the replies
explicitly favoured an early application, though the United States
and the EEC Commission had expressed no view on timing.

In discussion the Cabinet were informed that the attitude of all
the leading members concerned in the United States Administration,
in contrast to that of their Heads of Delegation in the Kennedy Round
negotiations, was that the timing of an application on our part to
join the EEC should not be influenced by that of the concluding
stages of the Kennedy Round. The Cabinet were also informed
that the interests of the Irish Republic would be covered by a meeting
between the Prime Minister and the Taoiseach on the following day.

The Cabinet—

(5) Took note of C (67) 68.
(vi) The Cabinet considered a memorandum by the Commonwealth Secretary (C (67) 66) describing the likely reactions of Commonwealth countries to an application by the United Kingdom to join the EEC.

The Commonwealth Secretary said that in general Commonwealth countries regarded our possible entry to the EEC as inevitable, at least eventually, but looked to us to safeguard their essential interests and to consult them on the terms of any application that we might make to join. They were aware that no question of veto on our entry arose so far as they were concerned, but they could be expected to press their individual cases very hard in the course of detailed consultation. This would apply particularly to New Zealand and Australia, the more especially in view of the breakdown which now seemed probable in the cereals negotiations in the Kennedy Round.

The Cabinet—

(6) Took note of C (67) 66.

(vii) The Prime Minister said that the Cabinet might agree that in the afternoon session the best course would be to have a general debate following an opening statement by the Foreign Secretary. It would be open at that stage for any member of the Cabinet to raise any matter including, for example, the timing of a possible application to join the EEC and the conditions on which we might do so. At the end of the session he would sum up the sense of their discussions as a whole, but no decision whether or not to make an application to enter the EEC should be made until the Cabinet met at Downing Street in the following week.

Cabinet Office, S.W.1,
30th April, 1967.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at Chequers on Sunday 30th April, 1967, at 2.45 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. 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. BARRIE CASTLE, M.P., Minister of Transport
The Right Hon. RICHARD MARSH, M.P., Minister of Power
The Right Hon. FRED PEARCE, 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 Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

The following were also present:

The Right Hon. FREDERICK MULLEY, M.P., Minister of State for Foreign Affairs
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal

Secretary:

SIR BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. H. L. LAWRENCE-WILSON
Mr. K. BARNES
Mr. M. J. MORTAFTY
Mr. W. K. REID
Mr. C. W. ROBERTS

SECRET
The Cabinet resumed their discussion of the approach to Europe. They considered a memorandum by the Prime Minister and the Secretary of State for Foreign Affairs (C (67) 60) outlining a number of alternative courses relating to a decision whether or not to apply for membership of the European Economic Community (EEC) and when to do so.

The Foreign Secretary said that the Prime Minister and he had sought to describe in their paper the alternative courses before the Cabinet in regard to membership of the EEC and their respective advantages and disadvantages. The attitude of the French Government was crucial to the progress of any application: but the choice of the right tactics should help us to neutralise French opposition. The French would prefer that we did not apply at all, thus saving from the need to express a view on British membership. It was for this reason that they had suggested the alternatives of associate membership and of "something new and different". But associate membership would impose on us most of the obligations of membership with few of the rights, while "something new" was in reality no more than a delaying device on the part of President de Gaulle.

There were five broad courses before the Government. First, we could decide that we should not apply for membership of the Community. Any assessment of this course required a comparison of the likely course of events if we joined the Community and if we remained outside; and many of the elements in such a comparison could not be quantified. If we decided not to join the EEC it was most unlikely that we should succeed in joining any alternative economic grouping: in such circumstances we could expect little support from the United States for the formation of an Atlantic Free Trade Area, even though their view might be different if we applied to join the EEC and were then rebuffed. If we failed to seek membership of the EEC and remained outside any economic grouping, it was likely that public opinion and industry would be critical and that private investment would fail to revive.

The second course of action was to postpone a decision while we sought further information on the terms which might be available for British entry; but it was unlikely that we should learn much more from further discussions. Those EEC countries which were willing to discuss the prospects for British membership in a constructive spirit had already done so, while the French would use the opportunity to cast doubts on our sincerity and determination. Conversely, those EEC countries which most keenly supported our entry would be discouraged and the momentum generated by the tour would be dissipated.

The third possibility was to decide in principle that we would apply for membership but to engage in a further period of investigation before putting in our application. This course would provide us with little more information than we should be able to secure through the second course; and a declaration of intent without an early application
might still be taken as discouraging by our friends in the Community, who were urging us to press ahead quickly. The fourth possibility, which was not described in C (67) 60, was to follow the example of the previous Administration and to apply for entry on a conditional basis “to see if the conditions we required could be met”. The Six might, however, well respond to such an approach by refusing to start negotiations at all on the ground that our approach did not constitute a genuine application: or negotiations might start only to break down later in prolonged arguments over detail. The responsibility for the failure would then be placed on the United Kingdom, and the Government would be accused of having learned nothing from their predecessors’ mistakes.

The fifth course was to apply now for negotiations for early membership of the Community. If this course were followed it would be better to make a new application than to ask for a resumption of the negotiations which had broken down in 1963. The timetable of likely developments both in the United Kingdom and in the Community over the next five years argued that we should make an early application with a view to membership in 1969 or 1970. In 1969 the Community would have to negotiate new arrangements both for agricultural finance and for their associated states. We should so time our entry as to be able to influence the revision of these arrangements in our own interests from within the Community. From the point of view of the strength and stability of our domestic economy we should not be ready to enter the Community until 1969: but if entry were deferred much beyond that time many of the dynamic effects on the British economy would be lost, United States investment would turn away from us towards Europe and industrial confidence here would decline. By 1969–70 we should be in a position to relax the stern policies we had undertaken in order to restore a healthy economy; and that would be the appropriate time at which to undertake new obligations arising from membership of the Community.

If it were decided that we should apply now to negotiate for early membership of the Community, our application should be made before the meeting of Heads of Governments of the Six in late May. If this were not done the French would be able to postpone the start of serious negotiations for the greater part of a year; and if negotiations did not begin until 1968 we should not achieve membership until after the renegotiation of Community arrangements in 1969. It was therefore important that we should apply at a very early stage. The appropriate procedure would be to explain to Parliament, either in a statement or a White Paper, what the major difficulties were, but to avoid attaching conditions specifically to our application for membership. We should be able to secure better terms on many issues of importance to us if we negotiated from inside the Community rather than as applicants for membership. On many of the most difficult points we should find support for our point of view from present members of the Community: but since we should get support on different issues from different countries this backing would be much more readily available to us if we were already members. The accession of other new members as well as ourselves
would further change the present voting pattern within the Community. Although our essential interests would have to be determined and stated to Parliament in advance, the detailed arrangements which we should be willing to accept should only be settled as the negotiations proceeded. The case for joining the Community could be made both on economic and political grounds. Although it was true that there would be disadvantages as well as advantages for the economy, particularly in the short term, it was wrong to exaggerate the disadvantages especially since, by doing so, we risked giving the impression to the Six that we would look to them to assist us in our economic difficulties. Any public presentation of the arguments should state the economic advantages arising, for example, from the reduction of tariffs and the added incentive to investment. On the political side, membership of the Community would give us far greater opportunities in foreign policy in relation to Western Europe, to Europe as a whole, and to the rest of the world: the addition of a European connection to our existing links with the United States and the Commonwealth would give us opportunities for political leadership which would not exist if we remained in isolation. Although the EEC was at present dominated by France, this dominance rested solely on the personality of President de Gaulle, whose eventual departure from the scene would end French dominance of the Community and create a vacuum that could only be filled, if the EEC remained as at present constituted, by Western Germany. There were already signs that the United States was paying increasing regard to Western Germany among her European allies and it seemed probable that, if we failed to pursue our opportunities for leadership in Europe, Western Germany's influence on the United States would more and more replace our own. Both for economic and political reasons, therefore, the Prime Minister and he had recommended in their paper that the United Kingdom should make a clear application now to negotiate for early membership of the Community; that our essential interests should be set out in a statement to Parliament; but that the Government should not stipulate conditions at the time of their application which would commit them, before negotiations had taken place, on the terms which they would be willing to accept at the end of the day.

In discussion there was no support for the course of action which involved postponing a decision while we sought information on the terms which might be available for British entry. Differing views were however expressed on the alternative courses of deciding:

(i) That we should not now apply for membership of the Community.

(ii) That we should decide in principle to apply for membership but engage in a further period of investigation before putting in our application.

(iii) That we should put in an application for membership on a conditional basis.

(iv) That we should apply now for negotiations for early membership of the Community, while making it clear to Parliament...
and the public that we should in negotiation seek amelioration of the Community arrangements which would involve special difficulty for us either in the more important cases before entry or in the less important after entry.

Some Ministers took the view that we should either not now apply for entry or that, if the view were taken that political expectations had been so aroused that this course was no longer practicable, we should nevertheless only decide in principle to apply while undertaking a further period of investigation or alternatively that we should only apply on a conditional basis. In support of these views the following main arguments were advanced:

(a) The economic and industrial advantages of joining the Community, which it had been maintained would in the longer term considerably offset the immediate disadvantages to our balance of payments, were not only unquantifiable, but had not been proven. In view of the admittedly adverse initial effects on our balance of payments, the onus of proof in respect of the longer-term advantages rested with the proponents of this course. The arguments which had been advanced related primarily to the stimulus to industrial investment that would be given by our entry, to the advantages of a larger market and to the further stimulus of competition which United Kingdom industry would have to meet from European industry. The stimulus to additional investment might well, however, prove to be illusory in the event. An early application might well be followed by a year or more of abortive negotiation which would have an immediately depressing effect on our industry. Moreover, if, as the weight of evidence suggested, the initial effects of joining the Community were economically adverse, industrial investment would be still further depressed. We had in any event access to a large market both in the United Kingdom and in EFTA, but the industrial advantage of a large market had been overstressed. Sweden was an outstanding example of a small country which was economically highly successful, e.g., in shipbuilding and steel production, although it did not belong to a large integrated market. In certain fields, however, where a large market was admittedly of importance, it was doubtful whether Europe alone provided a sufficient base. In some joint defence projects and in other fields such as space communications, experience showed that it was essential to extend the sphere of collaboration beyond Europe. The relative failure of some EEC initiatives in the technological field, such as Euratom, demonstrated the inadequacy of the European market by itself for such purposes. Finally, there was no reason to suppose that additional competition would provide the spur that British industry required. The additional competition to which our industry had been subjected in recent years had not resulted in an increase in relative efficiency, e.g., in motor manufacture.

(b) There was particular reason for concern at the restrictions which membership of the EEC might impose on our policies of regional development. The freedom of capital movement would leave it open to manufacturers who were reluctant to establish factories in development areas of the United Kingdom to build factories on the Continent instead. No studies of the probable

SECRET
implications of joining the Community for particular industries or
different regions had been carried out, nor had there been any
adequate study of the structural changes which would be involved for
British industry. Such information as was available in respect of the
weakening of our controls for the direction of industry and also on the
effect on agriculture in Scotland, Wales and Northern England all
implied that entry would be disadvantageous to the interests of the
development areas.

c) Agriculturally there could be no doubt that acceptance of the
c.a.p. would have an adverse effect on our balance of payments,
whatever arguments there might be about the degree of damage which
would be caused. The c.a.p. would mean abandoning our present
system of agricultural support, which provided security for farmers,
and substituting a more competitive system which was less in accord
with the Government's political aims. It was generally admitted that
by any objective standard the c.a.p. was a less satisfactory system
than our own and the deficiencies of the levy system had been widely
emphasised by Ministers in recent public pronouncements. Whatever
view we might take of the relative importance of the agricultural
industry in the United Kingdom, serious damage to the industry could
not be justified on any broad view of the national interest.

d) These doubts relating to the industrial and agricultural
implications of joining the Community, especially in respect of our
regional policies, further emphasised the disadvantages to our balance
of payments which would arise on joining the Community, as had
been argued in earlier Cabinet discussion on this aspect. It was
suggested that the additional strain which accession would impose on
our balance of payments could be as much as 10 times the net cost of
our overseas defence expenditure. After intense effort by the present
Administration over a period of two years since coming to office,
there had still been in 1966 a deficit on the balance of payments of
£200 million and the prospect only of a small surplus in 1967. This
had been achieved at the cost of reducing the rate of growth of the
gross national product (GNP) to only 1 per cent. To achieve a
large enough surplus to offset the disadvantages of entry in terms of
balance of payments we should require an annual rate of growth of the
GNP of 3 per cent and it was by no means certain that we could
achieve that rate, despite the present estimate for the ensuing year.
Even if we did so, the Government would still not be able to offer
the country any hope of relief from this policy of austerity by the
early 1970s. Entry into the Community would on the contrary entail
the need to bring about a shift of resources and to reduce personal
consumption in order to offset the adverse effects on the balance of
payments. This continuing policy of austerity would not be
acceptable to the country. Nor should we assume that even in the
longer term our balance of payments position would be secured by
membership of the Community. It was noteworthy that France and
Germany were now in difficulties over their balance of payments.

e) Nor could we assume that accession would increase our
export earnings, since the loss of preferences in EFTA and
Commonwealth markets would outweigh gains resulting from the removal of EEC tariffs. Entry would also deprive us of many of our present governmental powers for protecting the balance of payments. We should have to abandon our present exchange control and our power to control imports during balance of payments difficulties. Nor, in view of the assurances which had been given during the tour that we would not have recourse to aid from the Six, as such, under Article 108 of the Treaty of Rome in cases where our difficulties on balance of payments resulted from the role of sterling as a reserve currency, could we gain any worthwhile benefit through additional co-operation in the monetary field. In broader terms the economic difficulties which our entry would entail would thus tend to make us politically dependent on the Six in exchange for our present policy of dependence on the United States, whereas experience indicated that the United States would be a more advantageous ally to us than the EEC.

Entry into the Community, or even an application to join, would seriously damage our Commonwealth interests. Admittedly other Commonwealth countries had in recent years diversified their pattern of trade but, while we had failed to increase our Commonwealth trade, its absolute level had not diminished in consequence. If, however, we were to apply for entry the other members of the Commonwealth would naturally intensify the diversification of their trade.

In addition to injury to our own trade with the Commonwealth, our entry would cause serious damage to the interests of other Commonwealth countries. Acceptance of the c.a.p. would mean that our imports from traditional Commonwealth suppliers would be subject to a levy and we should be giving preference to imports from EEC countries. Several of the smaller Commonwealth countries were almost completely dependent on the export of sugar under the Commonwealth Sugar Agreement and unless their interests could be adequately safeguarded the effect on their economies would be disastrous. Transitional arrangements would not suffice for this purpose. We should not seek to negotiate changes on behalf of the Commonwealth only after we had made an application for entry; in that event we should have little bargaining strength and should be forced to concede points on which pledges had been made by the Government. Although the attitude of other Commonwealth countries had in recent years sometimes been politically embarrassing to us, it was still in our interest to maintain as far as possible the unity of the Commonwealth and our influence in it. In addition to the damage which entry into the Community would cause to this political relationship and to mutual Commonwealth trade, acceptance of the freedom of movement of labour within the Community would involve discrimination against Commonwealth citizens in favour of EEC nationals, contrary to the Government's declared policy.

The political advantages of joining the Community had been over-emphasised since we should thereby damage our Commonwealth relationships and we should still not escape the limitations on our freedom of action imposed by our special relationship with the United
States. While it was admittedly arguable that joining a larger group of nations would enhance our political influence, this would only be significant if the members of the Community were to pursue a single European foreign policy on which we could exert influence only as a member. But the Six were in fact wholly divided on major issues of foreign policy and we could exert influence upon them at present as effectively as if we were a member of the Community. Nor was it necessarily the case that the United States would be likely to develop a closer relationship with Western Germany than with ourselves if we were not to join the Community; indeed recent developments had led the United States substantially to change their views on the reliability of the Germans as allies.

The political effects of joining the Community should not be considered wholly or even primarily in terms of our foreign policy. Political and economic considerations could not validly be differentiated. The Government’s political position in the United Kingdom had suffered serious damage through the economic policies which they had been forced to adopt in consequence of the continuation of defence commitments overseas and the restraints imposed by our special relationship with the United States. The continuation of these policies would seriously damage the position of the Government in subsequent years.

In the light of these considerations some Ministers took the view that we should not make any application to join the Community. Others who would in principle have preferred not to apply expressed the view that this was now politically impracticable because the Government’s freedom of action had been circumscribed by the momentum which had been built up and stimulated by Press publicity in favour of entry. In such circumstances, these Ministers suggested that the best course would be to delay the initiation of negotiations. Such delay would avoid the imposition of an additional burden on our balance of payments in the years immediately ahead when we might be unable to sustain its burden. Furthermore, it was clear that President de Gaulle would oppose any concessions to British interest which would make entry easier for us. On the most optimistic interpretation of his attitude his aim was to prolong negotiations for a sufficient time to prevent our membership during his lifetime. Nor would he conceivably agree that major policies like those arising on the c.a.p., where significant concessions were essential to us, could be revised in 1969 with ourselves as full members of the Community; rather he would seek to ensure that we accepted before entry what the c.a.p. should be after 1969. It seemed unlikely that it would be possible for us to obtain satisfactory terms as long as President de Gaulle remained in power and we should therefore engage in a further period of investigation before putting in a formal application. This course would be on balance economically advantageous, despite the depressing effect which it might immediately have on the expectations of British industry, since, if we entered the EEC before we had achieved a strong balance of payments, the depressing consequences for our economy would result in both United States and United
Kingdom further investment taking place in Europe rather than in the United Kingdom. We should not ignore the advice from certain quarters that an application for membership at the present time would be likely to fail. The tour by the Prime Minister and Foreign Secretary had shown that the Federal German Government were far less willing to put pressure on the French in respect of our entry than we had previously hoped and it had been the view of the Federal German Ministers that we should confine ourselves at present to a declaration of intent and defer an application. It was only under subsequent pressure from us that they had modified this view. Our partners in EFTA also doubted whether an application in the immediate future would be successful.

It was further suggested that if, despite these considerations, we were to put in an early application for entry, it was essential that our application should itself be accompanied by a clear statement of the minimum conditions which we would require. This might be in terms similar to those used in the Labour Party's last Election Manifesto to the effect that essential British and Commonwealth interests would have to be safeguarded. If these essential conditions were not made clear in our application we might later find ourselves in the position that it would be too late to withdraw from the negotiations but that we could not achieve satisfactory conditions. In particular this course was necessary to safeguard the pledges which we had given in respect of Commonwealth interests. It was an illusion to believe that we should be in a better position to negotiate acceptable terms on the main issues as a member of the Community rather than as a candidate for membership. Once we had entered the Community we should lose much of our bargaining power since we should no longer be able to profit from the fact that the Five at least wished us to become members. A further factor which would strengthen our hands in negotiations if these took place before entry was that industry in Western Germany was anxious to gain access to the EFTA market and this would no longer be a factor we could influence after we had joined. In negotiations in the Community we must bear in mind that the basic aim of the Six was to maintain a protective régime for agriculture and we should thus find a majority of the Commission opposed to us on agricultural issues. If we were to state our conditions for entry as part of our application, it would be easier for us to withdraw and to justify our position subsequently if we failed to obtain satisfactory terms. The point was also made that, whatever course might be adopted, we should defer any application over the following two weeks during which time negotiations in the Kennedy Round would be at their crucial stage since their success might be jeopardised by the effect of an early application from us.

The balance of opinion in the Cabinet proved however to be substantially in favour of making an immediate application for entry unaccompanied by conditions. This course in no way implied that we should seek to enter the Community unconditionally. On the contrary the Government would at the time of their statement that such an application would be made also inform Parliament of the essential interests which we should have to safeguard in the
negotiation. These interests would therefore be made clearly known not only to the country, but also to members of the Community. But to state conditions publicly in Parliament was substantially different from attaching specific conditions to an application for entry.

In support of these views the following arguments were advanced—

(i) Even in the short term there were economic advantages to be derived from an application to join the EEC, primarily through the impetus which it would give to industrial investment in view of the expectations of British industry; and we should begin to reap these advantages at the time of our declaration and before the initial impact of the disadvantages, which would only begin at the outset of the transitional period in, say, 1970.

(k) In considering the balance of economic advantage and disadvantage, such disadvantages as would be entailed by entry must be balanced not only against the advantages, but also against the disadvantages that would be entailed by our abstaining from joining any larger economic grouping. These disadvantages must be expected to increase with time. Recent events had shown that our capacity to plan our economy independently was less than had hitherto been supposed. Pressures upon us had prevented the policy on prices and incomes from being as effective as we would have wished. We had also been unable to control the course of investment by foreign companies as fully as would have been desirable in principle, because of the pressure of economic forces. The continental countries were in process of evolving a political organisation which would be more suited to modern economic needs and it would be contrary to our interests to stand aside while their decisions were being taken. We must not assume that, if we did not secure entry at an early date, our situation would remain unchanged. The importance of a larger home market for industrial development would increase. Industry in the Community, because it was based on such a larger market, would increase its competitive advantage over British industry. It was misleading to adduce Sweden in support of a policy of abstention from any such larger group, since both Government and industry in Sweden were in favour of entering the EEC and their main concern was that we might become a member and Sweden might fail to do so. Only by becoming part of a larger market could we escape the dilemma that, if industrial firms were to grow to the size required by modern technology, they would through their size acquire a monopolistic position in any one country. Furthermore, in the coming years the EEC would be developing standards in such aspects of industry as commercial law and insurance and our exclusion from these and other developments would restrict our economic opportunities.

(l) The requirements imposed by the development of modern technology for the minimum size of firms able to compete in world markets meant that we ourselves could not compete against the United States domination in this field, particularly if we also bore in mind the outflow of scientists and technologists from this country.
to the United States and the large resources which their firms were able to deploy. Only in co-operation with Europe could not only we ourselves but also European firms acquire the industrial base which would enable Europe as a whole to compete with the United States. It would be important to bear in mind in negotiations that we should bring to the European Community a large and advanced technological capacity which would be a source of strength to Europe if we joined, but equally a grave disadvantage to them if we were excluded and in consequence came increasingly under the technological domination of United States industry.

\( m \) In considering the advantages and disadvantages for our balance of payments in the short term of joining the Community we could expect that there would be some adverse effect in the short term but this should not be over-emphasised for the reasons which had been fully developed in earlier discussion by the Cabinet on this issue and need not be repeated in detail. In any event and even on the more adverse calculations, which took no account of mitigations which we might secure in negotiation, we should bear in mind that the adverse consequences would be recouped over a five-year period by an increase of about one-half of 1 per cent in the rate of growth of industrial productivity. The papers before the Cabinet showed that the economic policy which the Government were pursuing was not only necessary but was also the policy best calculated to meet the requirements imposed by joining the Community. Far from entry making it more difficult to pursue this policy, it would ease the strain imposed by it because of the stimulus which entry would give to industrial investment. The comparison which had been made between the cost to the balance of payments of entering the EEC and our overseas defence expenditure was invalid. Inter alia, it rested on the higher of two widely spaced estimates of the total cost of entry. Furthermore, our present national difficulties resulted from two main causes: a level of defence expenditure overseas disproportionate to our resources and our international isolation from large national groupings which increasingly dominated the world economy. On this analysis it would be right to save foreign exchange by reducing our overseas defence expenditure and if necessary to incur short-term additional foreign exchange expenditure in order to remedy these deficiencies. We could not however quantify even the adverse effects on our balance of payments until we were aware of the conditions which we could negotiate for entry. These could only be ascertained by entering into negotiations. The papers which had been studied by the Cabinet had shown that many of the regulations made under the Treaty of Rome allowed for derogations in the interests of individual countries and it was reasonable to expect that similar derogations would be made to meet our own particular national interests. If we were to become a member we should then be enabled substantially to mitigate the adverse effects on our balance of payments. Even in the agricultural field the adverse effects of the c.a.p. should not be over-estimated. Producers of cereals would benefit substantially while there was good reason to expect that means could be devised of obtaining assistance from the Agricultural Guidance and Guarantee Fund for the small
farmers in Scotland, Wales and the North of England whose interests might suffer from other aspects of the C.A.P. If we could negotiate such assistance we should not only help the farmers concerned but reduce pro tanto the burden of levy contributions on our balance of payments.

(m) Even if, despite these considerations, the economic consequences of joining the Community proved to be no more than evenly balanced, the political advantages of joining were decisive. If we continued in our present position we must recognise that in international politics our influence had markedly declined. For example, we had been obliged to adopt United States policies in a number of fields and even in relation to a former dependency, Guyana; the Soviet Union had been the effective mediator between India and Pakistan during the recent conflict in Kashmir; and we had been unable to discharge fully our obligations in respect of Rhodesia. In other spheres we had to a substantial extent felt bound to follow the policies of the United States; and it would be contrary to the views of a large number of the Government’s supporters to be forced to continue in this position. We must not in any event allow ourselves to become totally dependent on the United States nor on the other hand could we contemplate aligning our policies with the Soviet bloc: joining the Community was essential if we were to avoid finding ourselves increasingly isolated and powerless in world affairs. We must also have regard to the dangers which would arise in Europe if we were not to become a member of the Community. In that event, and particularly after the death of President de Gaulle, the Community would become increasingly dominated by Western Germany and there were ample indications of the fears of other European countries of the consequences of such domination, whether or not it was accompanied (to our further disadvantage) by a closer relationship between Western Germany and the United States. In fact if we failed to enter the EEC there was a serious danger that the Community would become increasingly estranged from the United States. Since the United States was the only major Power which was committed to the maintenance of the democratic freedoms in which we believed, it was fundamental to our interests to prevent such a development.

The EEC had, despite its diversity, become a group with substantial power and influence. This had recently been exemplified in the discussions on international monetary reform and in the Kennedy Round. If we were to join the Community we could expect to be influential in persuading the other members to adopt more liberal and less inward-looking policies. We could hope to gain a new role of political leadership which would provide the political stimulus formerly given by our imperial role. Moreover, United Kingdom membership of the EEC would not represent so much a change of policy as an extension, albeit a significant one, of our present involvement in Europe which was expressed in our membership of such bodies as the Council of Europe, the Western European Union, the Organisation for Economic Co-operation and Development and the North Atlantic Treaty Organisation. We had recently made one
minor but significant extension of our commitment to Europe through a decision to accept the right of individual petitions to the European Human Rights Commission and Court. In the field of human rights and in other legal fields we had contributed much to European development and our experience here suggested that so far from having difficulty in acquiring influence we could easily assume a leading, and even dominant, role.

(c) It was also suggested that entry into Europe should be regarded as a first step towards ultimate ideal world government.

It was further argued that there were strong reasons for making an early application for entry, deriving both from the advantages of doing so and from the disadvantages of delay. Further bilateral discussions and the accumulation of further factual information could not be expected to give the Cabinet any clearer picture of the situation than they had now. Requests to the Six for such further information would either give an impression of vacillation on our part or would lead to substantive negotiations. But to ask for further assurances before beginning negotiations would strengthen the hands of those who opposed our entry. Indeed, in considering the extent to which the momentum which our approach to Europe had acquired and the consequences of this for the Government's freedom of action, it should not be forgotten that the extent of public support and particularly the extent of opinion in favour of application on the part of the Government's supporters in Parliament had itself contributed to the momentum which had led to the earlier decision that the Prime Minister and the Foreign Secretary should visit the capitals of the Six on their tour of investigation. If we were to enter the EEC the present was a particularly favourable time. There had been a check in the last few years to the Community's evolution towards a supranational form of organisation. It was important that we should become members of the Community in order to influence its policy before any advance towards political union was resumed. The recent improvement in relations between the Council of Ministers and the Commission also made the present time opportune for us to seek entry. The same considerations applied with particular force to the need to obtain the opportunity of influencing the renegotiation of the c.a.p. when this fell due for review in 1969. There was no case for postponement on economic grounds since it was impossible to forecast with any accuracy whether our relative economic strength would be greater in the early 1970s. Failure to apply now would dismay the Five and our partners in EFTA and would damage our relations with the United States. It would be impossible to revive the momentum for entry some years hence after receiving such a check. Moreover, while admittedly no one could forecast what attitude President de Gaulle might adopt, it was relevant not only that influential figures in France opposed to him were in favour of our entry but that the Gaullist leaders, who might be expected to prefer that we should make an application during the lifetime of President de Gaulle, because he would be in the best position to rebuff us or to impose stringent conditions, showed on the contrary anxiety lest we should make an early application for entry. This suggested that they took the view
that the longer we delayed the harder it would be for us to secure entry on acceptable terms. In short, delay would play into the hands of General de Gaulle and his closest supporters.

An early application was moreover desirable for negative as well as for positive reasons. The worst possible outcome for the United Kingdom would be for the present uncertainty over our relationship with the EEC to continue. Public opinion was now largely in favour of application for entry and the Government would only be able to apply the economic policies which would be required if we were to make a success of a policy of abstaining from any economic grouping if we had first applied for membership of the EEC and had been rejected. Moreover, once we had made our application we should not be able to force the pace of negotiations and it was possible that the French would seek to prolong them to the point where we found it necessary to discontinue them. If we reached this point it would be important that we should do so in time to make effective our alternative policies before the end of the present decade.

Nor would it be desirable to make an application accompanied by conditions. It was clear from Article 237 of the Treaty of Rome that to make an application without qualification did not imply unconditional accession to the Treaty. The Treaty itself envisaged that conditions of entry would emerge in the course of discussion of the application. Moreover, to make an application accompanied by conditions would inter alia provide the French Government with a ready opportunity for vetoing our application on the ground that it was not seriously intended and our tactics must be to make a veto by the French difficult, if not impossible. The best way to do so would be to make our application in the simplest possible form. It would be contrary to normal tactics in any negotiation to demand at the outset as a condition of entering into negotiations the precise conditions which a negotiator sought to obtain on their conclusion. If in such circumstances our application were to fail, blame for the failure of such a major governmental initiative would be ascribed by opinion both at home and abroad to the Government; and failure in such circumstances would leave behind no sense of concerted national purpose which would enable us to carry through effectively the policies which the situation would then require. An application without conditions attached did not of course imply that there were not certain minimum conditions which we must negotiate before we could accept entry nor that there were not other changes which we should seek to negotiate after entry.

Our position in these respects could properly be set out in Parliament in the Government’s statements in respect of their application. But such a course would be substantially different from our attaching such conditions to our application itself. If this course were followed it would be important to distinguish in the announcement to Parliament between the interests which we should wish to establish before entry and the objectives for which we should strive in negotiations thereafter. The aim should be to keep the former to a minimum since we would be better placed to secure certain
concessions as a member rather than a candidate. The interests which we should have to stipulate before entry might be confined to safeguarding the position of New Zealand, to suitable arrangements for the sugar exports of the smaller Commonwealth countries, whether dependent or independent, and to suitable transitional periods on other matters. We should so far as possible refrain from giving specific commitments about the course we would follow in negotiations after entry on other aspects such as the renegotiation of the C.A.P. in 1969. An application in these terms would have the further advantage that if offered the best choice of avoiding protracted negotiations which would be gravely disadvantageous to us.

The Prime Minister said that at this stage he would not seek to sum up the discussion. In considering some of the points which had been made we should recognise that so far as our foreign policy was concerned we were not considering the possibility of a Europe organised on federal lines; what was involved was the degree of influence that we might be able to exert on major decisions of foreign policy in the future. Major difficulties and perhaps a period of disorder might occur in France after the death of President de Gaulle and disquieting tendencies were discernible in Germany. If we were inside the EEC we would be able to exert our influence in the formative stages of policy, whereas outside it we should not be able to do so and might be forced into closer association with United States policy in the Far East. Similarly, if we were a member of the EEC we could influence developments of Community policy on world liquidity. So far as the economic aspects were concerned, he had said in public speeches that the case for our entry was not proven, but this statement related explicitly only to the basis of quantifiable information available to us at present; this did not take account of changes that we might secure in the course of negotiations. Relations with the Commonwealth in recent years in economic matters had been disappointing. There had been little attempt on the part of other Commonwealth countries to look other than to their narrow national interests. In spite of the initiatives we had taken at the Meeting of Commonwealth Prime Ministers in 1965 there had been a complete failure to take concerted Commonwealth action, even in respect of Government purchases. New Zealand and Australia preferred to purchase American aircraft of types not superior to our own. Canada had done nothing to redress our adverse trade balance with her and although she was giving economic aid, especially in the Caribbean, she was doing less in proportion to her GNP than we were. In the Far East the policies of Australia and New Zealand were increasingly diverging from our own, with a very strong emphasis on their narrow area of interest in South-East Asia.

As to future procedure, the Cabinet had already agreed that their formal decision whether or not to apply for membership should be taken at their next meeting in Downing Street. In the light of the discussion he would prepare a short draft statement to Parliament which the Cabinet could consider on Tuesday, 3rd May, and which, if the Cabinet agreed, he would make shortly thereafter. Consideration of this statement would give the Cabinet the
opportunity to decide to what extent and in what sense any application should deal with the question of safeguards for our essential interests. It might be convenient to hold a debate in Parliament over three days in the following week. Before the debate a White Paper should be published giving an account of recent events, including the tour by himself and the Foreign Secretary, leading up to the Cabinet's decision. This White Paper would describe the major issues likely to arise in the course of negotiations and the safeguards which we should seek to obtain: it would include the text of his statement to the House of Commons and a series of annexes which might cover such subjects as agriculture and the legal and constitutional implications of entry into the Community. The draft White Paper should be available during the course of the current week; and the basis of the debate the following week might be a Motion inviting the House to approve the terms of the White Paper. During the Whitsun Recess preparations should be made for the publication of a series of more detailed White Papers, possibly including a further paper on agriculture. The draft booklet on Britain and the EEC prepared by the Department of Economic Affairs (attached to C (67) 67) should be further considered but it was possible that it might not be ready for publication before the Recess.

The Cabinet—

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

Cabinet Office, S.W.1.
1st May, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Tuesday, 2nd May, 1967,
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. PATRICK GORDON WALKER, 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. CLEDYNE 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. FREDERICK MULLEY, M.P., Minister of State for Foreign Affairs
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. W. A. NIELD

SECRET
Subject
APPROACH TO EUROPE
The Cabinet considered a Note by the Prime Minister (C (67) 72), to which was attached the draft of a Parliamentary Statement on the Approach to Europe.

The Prime Minister recalled that at the conclusion of the Cabinet meetings held at Chequers on the preceding Sunday he had undertaken to prepare a statement for consideration by the Cabinet. The discussion of the statement could perhaps constitute the context within which the Cabinet should come to a decision on whether or not application should be made for entry into the European Communities.

In discussion of the draft it was suggested that it would be imprudent for the statement to commit the Government to an unconditional application in the form proposed, since if the application were to fail, the damage to our position would be all the greater. It was the general view, however, that if an application were to be made, the right course would be to make it whole-heartedly and to put all the force of the Government behind the attempt to make it succeed, provided that the initial statement made it sufficiently clear that suitable arrangements in respect of the major issues involved would have to be negotiated before we actually joined the Communities. It would also be important to make it clear in the course of subsequent debate in Parliament that this application was not being made from a position of weakness: there were alternative courses before the Government, but they believed this course to be the best.

Certain textual amendments to the draft were agreed; and the following main points were made—

(a) It would be important to retain the suggestion that many of the lesser issues involved could suitably be settled after our entry into the Community.

(b) It was suggested that the reference to the need to provide safeguards in relation to the far-reaching changes in the structure of British agriculture which would be entailed by the common agricultural policy of the European Economic Community (EEC) might imply that we expected to negotiate major changes in that policy which we had little expectation of achieving in fact. It was generally agreed, however, that it was important not to understate the effects of the policy on British agriculture, while equally avoiding any implication that we expected to be able to negotiate major changes in its essential features (although we might reasonably hope that adjustments extending beyond transitional provisions might be made in certain cases).

(c) It was suggested that a reference to tropical foodstuffs should be made in the paragraph dealing with essential Commonwealth interests. It was the general view, however, that this was unnecessary since the major problem in this area related to the Commonwealth Sugar Agreement, which was specifically mentioned in the statement.
It was agreed that the paragraphs which referred to our wider political reasons for seeking to join the Community should be recast.

The final paragraph of the statement should be amended in the light of the Cabinet's discussion on Parliamentary Procedure.

In further discussion the Cabinet considered the appropriate form for a White Paper on the approach to Europe. It was generally agreed that the best course would be for the Prime Minister's statement to be reproduced as a White Paper and that the need to present fuller information on the issues involved could best be met by the subsequent publication of a further paper or papers dealing factually with such questions as the impact of the common agricultural policy on British agriculture. Arrangements for such papers should be agreed between the Ministers primarily concerned; and the drafts need not be submitted to the Cabinet.

At the conclusion of the discussion the Cabinet agreed that, subject to the approval of Parliament, the Government should make an application to join the European Communities on the basis indicated in the draft Parliamentary statement appended to C (67) 72, as amended in their discussion, and that this statement should be made by the Prime Minister in the House of Commons that afternoon.

The Prime Minister suggested that it would not be appropriate for other Ministerial statements or broadcasts to be made in the course of the next two days, save to overseas Governments and in respect of our foreign and Commonwealth affairs. This need not, however, inhibit appropriate briefing of the specialist Press; and from the end of the week onwards Ministers might feel free to speak in public within the ambit of the Cabinet's decision. Cabinet Ministers should draw the attention of their junior Ministers and Parliamentary Private Secretaries to the implications of this decision for their own positions, as indicated in the memorandum on Questions of Procedure for Ministers (C (P) (66) 5). The booklet on the European Economic Communities which had been prepared by the Department of Economic Affairs (attached to C (67) 67) might now be published as a document issued by the Central Office of Information; and arrangements should be made to make it available to Members of Parliament.

The Cabinet—

(1) Agreed that, subject to the approval of Parliament, an application should be made for the United Kingdom to join the European Economic Communities on the basis indicated in the draft statement appended to C (67) 72, as amended in their discussion.

(2) Took note, with approval, that this statement would be made by the Prime Minister in the House of Commons that afternoon and would subsequently be issued as a White Paper.

(3) Took note that the Prime Minister, in consultation with the Lord President of the Council and the Ministers departmentally concerned, would arrange for a further publication, or series of publications, to be laid before the
Parliament providing factual information about the impact of joining the European Communities on such issues as British agriculture.

(4) Invited the First Secretary of State, in consultation with the Lord President of the Council, to arrange for the booklet by the Department of Economic Affairs on the European Economic Communities, attached to C (67) 67, to be published by the Central Office of Information and to be made available to Members of Parliament.

Cabinet Office, S.W.1,
2nd May, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 4th May, 1967, 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. PATRICK GORDON WALKER, 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 Right Hon. BARBARA CASTLE, M P, Minister of Social Security
The Right Hon. JOHN DIAMOND, M P, Chief Secretary, Treasury

The following were also present:
The Right Hon. KENNETH ROBINSON, M P, Minister of Health (Item 4)
The Right Hon. MARGARET HERBISON, M P, Minister of Social Security (Item 4)
The Right Hon. JOHN DIAMOND, M P, Chief Secretary, Treasury (Items 4–6)
The Right Hon. JOHN SILKIN, M P, Parliamentary Secretary, Treasury

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

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1. The Prime Minister said that he wished to thank all his colleagues for the time and patience which they had devoted in recent weeks to the Cabinet's discussion of the vital implications of our decision to apply for membership of the European Economic Community (EEC). It was the more important that, now that the decision had been taken, the Cabinet should adhere firmly to the principle of collective responsibility in any public discussion of the case for entry into the Community and should not provide any grounds for allegations that they were in any way divided in purpose.

In discussion some disquiet was expressed about accounts which were appearing in the Press purporting to indicate, on the basis of information supplied from confidential sources, the attitude which individual members of the Cabinet had adopted during the recent discussions on the approach to Europe. These accounts, which were often wholly misleading, were damaging to the Government's position both generally and in relation to the negotiations with the Community which we should shortly have to undertake. It was essential that all Cabinet Ministers should draw the attention of junior Ministers and Parliamentary Private Secretaries to the implications of the Cabinet decision for their own positions on the lines which the Prime Minister had indicated at their previous meeting. The Chief Whip should give further consideration to any action which might be required in this respect.

CONFIDENTIAL

2. The Cabinet were informed of the business to be taken in the House of Commons the following week and also of the business to be taken in the first week after the Adjournment for the Whitsun Recess.

The Lord President recalled that at their meeting on Thursday, 27th April, the Cabinet had been informed of the situation which would arise in connection with a book about the Suez episode which Mr. Anthony Nutting, formerly a junior Minister in the Conservative Government in 1956, proposed to publish and to serialise in The Times. Now that the first extracts of the book had appeared in The Times, it might be necessary for him to make a statement in the House of Commons about certain of the issues to which it gave rise; but a decision on any action by the Government should not be taken until after the book itself had been published.

In discussion there was general agreement with this suggestion. The view was also expressed that it would not necessarily be expedient to acquiesce in any proposal which might be made for the appointment of a Select Committee, or other form of inquiry, to investigate the Suez episode.
The Cabinet—

Took note of the statement by the Lord President of the Council.

3. The Foreign Secretary said that the Tripartite Agreement between the United States Government, the Federal German Government and ourselves on offset payments in respect of the cost in foreign exchange of our forces in Germany had now been concluded.

The Foreign Secretary said that a British trawler had recently been arrested by the Icelandic Police for allegedly fishing in Icelandic territorial waters. The trawler had subsequently escaped, with two policemen on board, but had later been rearrested by an Icelandic naval vessel on the high seas and taken back to Reykjavik. The Law Officers had advised that the arrest of the trawler on the high seas was contrary to international law, the provisions of which it was particularly important to our interests to maintain in this respect. Despite the uncertainty about the incidents which had preceded the arrest on the high seas and further incidents which had later taken place in Reykjavik, we had accordingly protested to the Icelandic Government and had urged that the trawler should be released.

The Foreign Secretary said that he had given further consideration, in the light of the Cabinet's previous discussion of the recent military coup in Greece, to the attitude which the Government should adopt towards the new Greek Government. Our Ambassador had been called back to the United Kingdom for consultations and we were in close touch with the United States and Federal German Governments, whose views were in accord with our own. It appeared that the prime movers in the coup were disreputable and our actions must not be such as to imply that we approved the outcome of the coup. We should, however, achieve the most favourable result possible in the circumstances if we continued to do business with the new Government and encouraged moves towards an appointment of a constituent assembly to consider a new Greek Constitution; and we must express the hope that there should be a return to Parliamentary democracy at the earliest possible moment. There had been no execution of political opponents, although large numbers had been placed in detention. If we were called upon to make a statement of our attitude, we should make it clear that we disapproved of the coup that had taken place and that we stood by the International Convention of Human Rights. For the time being Ministerial and other high level visits to Greece had been cancelled and we should for a time, maintain a somewhat aloof attitude towards the new Government.
The Cabinet—

Took note of the statement by the Lord President of the Council.

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In discussion there was agreement that if arms were currently being exported to Greece, such exports should be stopped for the time being.

The Cabinet—

(1) Invited the Foreign Secretary, in consultation with the Defence Secretary and the President of the Board of Trade, to consider in the light of the discussion stopping any further export of arms to Greece.

The Commonwealth Secretary said that although the situation in Cyprus was still tense in consequence of the military coup in Greece, there had been no further outbreaks of violence and calm was being maintained.

The Commonwealth Secretary said that our relations with the Zambian Government had deteriorated somewhat in view of the recent anti-British statements made in Zambia by representatives of the Zimbabwe African National Union, one of the Rhodesian Nationalist parties. It was for consideration whether we should ask the Zambian Government to refuse to harbour representatives of the party in such circumstances. Enquiry was also being made about the accuracy of the Press reports of anti-British statements made by the Zambian High Commissioner Designate and it might prove necessary to withdraw the agreement to his appointment.

The Cabinet—

(2) Took note of the statements by the Foreign and Commonwealth Secretaries.

4. The Cabinet considered memoranda by the Chancellor of the Exchequer (C (67) 69) and the Minister of Social Security (C (67) 73) on the uprating of Social Security benefits.

The Chancellor of the Exchequer recalled that the Cabinet, in the context of their measures to restrict public expenditure and in the light of the best forecasts then available of the movement of prices and earnings, had earlier taken the view that the next uprating of Social Security benefits should be 10s. for a single person's pension, and should take effect at the end of October 1967. In fact, owing to the success of the Government's policy on prices and incomes, prices and earnings had increased less than had been forecast at that time and he now sought the agreement of the Cabinet that the increase in the leading rate of national insurance benefits should be limited to 8s. or 8s. 6d., which would give...
benefits the same purchasing power as the Cabinet had by their previous decision intended. The level of public expenditure in 1968-69 was likely to present a severe problem and any increase of Social Security benefits beyond what could be justified in terms of purchasing power would limit the Cabinet's freedom of decision in their subsequent general review of public expenditure. Limitation of the increase in the leading national insurance benefit rate to 8s would save £50 million a year in public expenditure as compared with a 10s increase, and over £10 million for the Exchequer. Further, a substantial increase in contributions would in any event be required to take account of increased unemployment, sickness and retirement. It was important to limit the further cost of increased benefits falling not only on the working population whose incomes might have fallen, but also on employers, since this led to an increase in industrial costs and prices generally.

An increase in benefits of 8s. or 8s. 6d. would still give pensioners an improved standard of living as compared with March 1965 after the last increase of benefits. There would therefore be a margin to meet any further increase in prices and on present forecasts the increase in benefits he proposed would cover increases of prices for the following 18 months or so. Taking account of the large increase of 12s. 6d. given in 1965, the Government's record during their first three years of office, would still compare favourably with the increases of 37s. 6d. given by the previous Administration over 13 years.

The Minister of Social Security said that, in so far as the choice lay between 8s. and 8s. 6d., the additional 6d. would not cause any severe administrative difficulty. However, there were strong reasons for adhering to the previous decision of the Cabinet in favour of an increase of 10s. The Labour Party's 1964 Election manifesto had promised that national insurance benefits would be raised and thereafter linked to average earnings, so that as earnings rose so too would benefits. An increase of 8s. 6d. in the leading national insurance rate would be 2s 11d. less than would be required by the rise in earnings since 1965. Further, such an increase would provide insufficient margin—1s. 7d.—to maintain the purchasing power of benefits until they were next increased. It was likely that on the basis of an increase of 8s. 6d. the purchasing power of benefits would, after the middle of 1968, fall below that of March 1965 and the standard of living of pensioners would then progressively worsen until benefits were next increased, which was unlikely to be before 1970. This would be the first decline in the value of pensions which had been allowed to occur for over 10 years. Pensioners were the poorest section of the community and if, under the policy on incomes, preference were to be given to the lowest paid wage earner, the pensioner should not be allowed to fall too far behind. The record of the Government would not compare favourably with that of the previous Administration in terms of proportionate increases in benefit rates, since that Administration had given increases of 125 per cent over 13 years compared with the 30 per cent by which the present Government
would, on the basis of an increase of 8s. 6d., have raised benefits between 1964 and 1970. While an increase in contribution of between 4s. 4d. and 5s. would be needed for an increase of 10s. in benefits, an increase of 8s. 6d. in benefits would reduce this extra contribution by only 6d. She still had under consideration how the contribution should be divided between employer and employee.

In discussion it was suggested that an increase of 8s. 6d. in the leading rate of national insurance benefits might be generally acceptable if associated with improved provision to relieve child poverty; but, because of the time required for legislation and administrative preparations, a decision on the amount of the national insurance increase to take effect at the end of October must be reached in advance of the Cabinet’s forthcoming review of public expenditure. It was suggested that in order to avoid prejudicing decisions on social service expenditure generally, and on family endowment in particular, it was important to limit the increase of national insurance benefits to the amount required to maintain their real value. Too large an increase of benefits at this stage would risk premature stimulation of consumer expenditure. If prices rose more quickly than expected, it might be possible to bring forward the next increase in benefits to 1968 or 1969.

On the other hand, it was pointed out that the Cabinet’s earlier decision in favour of an increase of 10s. had itself been a compromise. Since the economic outlook was now more favourable than it had been when that decision was taken, there was no reason to depart from it now. An increase as low as 8s. 6d. would intensify the criticism that the Government were giving inadequate help to the poorest members of the community and it could not be assumed that it would, in fact, be possible to bring forward the next increase of benefits if prices rose so as to reduce the purchasing power of benefits below the 1965 standard. An increase of 10s. given now would provide greater flexibility in the timing of the next increase.

In further discussion there was general agreement that it was essential as a minimum to maintain the purchasing power of Social Security benefits, and it was suggested that 9s. was the smallest increase which could ensure this over a reasonable period.

The Prime Minister, summing up the discussion, said that on balance the Cabinet agreed that the increase in the weekly rate of national insurance benefit for a single person to be given at the end of October should be 9s. The other rates should be increased on a proportionate basis. It was desirable as a matter of presentation that the improvements for pensioners should be published a little in advance of any general improvement in family endowment, and accordingly, on the assumption that an announcement on family endowment would be possible in July, the national insurance increases should be announced soon after the middle of June, when legislation would in any event be required.
The Cabinet—

(1) Agreed that the standard rate of national insurance benefit for a single person should be increased by 9s. a week at the end of October 1967.

(2) Invited the Minister of Social Security, in consultation with the Chancellor of the Exchequer, to settle the increases to be given in the rates of war pension and subsidiary national insurance benefit rates, which should be proportionate to the increases in the standard rate, and the appropriate increases in the rates of contribution.

(3) Invited the Minister of Social Security, in consultation with the Lord President of the Council, to arrange for the publication of the proposed increases in benefits and in contributions in accordance with the summing up of their discussion by the Prime Minister.

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5. The Chancellor of the Exchequer informed the Cabinet that Bank Rate would be reduced that day from 6 per cent to 5½ per cent.

The Cabinet—

Took note, with approval, of the statement by the Chancellor of the Exchequer.

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6. The Cabinet considered a memorandum by the Minister without Portfolio (C (67) 74) on concessionary fares.

The Minister without Portfolio said that the Home Affairs Committee had been unable to agree at a recent meeting to a proposal that the Minister of Transport should make an early statement indicating the Government's intention to introduce legislation enabling local authorities outside London to extend to non-municipal bus undertakings the arrangements which they were empowered to make for concessionary fares for local journeys on their own buses and to lay a statutory obligation on both the municipal and non-municipal operators to give concessions to children up to school-leaving age. The legislation was proposed as a means of removing fresh anomalies resulting from the Travel Concessions Act, 1964, which empowered local authorities to give concessions on their own buses but gave rise to difficulty where those buses were organised in conjunction with non-municipal operators or served areas also served by such operators. The Minister of Transport had informed the House of Commons on 4th May, 1966, that the Government intended to review the anomalies to see what amending legislation, if any, was necessary and there was considerable pressure for a statement.

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Mr. Bob Brown, M.P., had introduced a Private Member's Bill with similar purposes but in an unsatisfactory form. This had received a Second Reading but the Minister of Transport hoped to be able to persuade Mr. Brown to withdraw the Bill before the Committee Stage if she could make a statement of the Government's intention to legislate themselves. It was estimated that the proposals would raise the cost of the concessions from about £2½ million a year at present to a maximum of £9 million, of which £5 million would fall on the Exchequer; and if the concessions were extended to London, which would be considered after the re-organisation of London Transport, the potential cost, assuming that all authorities exercised the new powers, would be £14 million.

In the Home Affairs Committee there had been some criticism of the principle of helping the elderly and disabled by the extension of concessions in kind and of a proposal which would lay additional burdens on both the Exchequer and the rates. Apart from the merits, on which no decision had been taken, however, the Committee thought that it would be premature to commit the Government to this further expenditure in advance of consideration of the public expenditure review and of a number of other forms of social security payment which would fall to be considered at the same time. They thought that the normal procedure should be followed of declining to provide a Financial Resolution for a Bill which would involve increased public expenditure and that the Minister should, if necessary, say that the question of extending the travel concessions would be considered in the context of the review of public expenditure.

The Minister of Transport said that she had asked for the matter to come to the Cabinet because of the political difficulties of the situation. The Travel Concessions Act, 1964, had been a highly popular measure and the continuing existence of anomalies was correspondingly irritating to the public. The Prime Minister had suggested before the election of 1966 that some statement should be made that the Government would review the Act and she had so informed the House of Commons on 4th May, 1966. She had been under continuing pressure to announce the outcome but the immediate cause of her embarrassment was the fact that the Private Member's Bill had been allowed to receive a Second Reading, the Legislation Committee taking the view that it would be illogical to oppose a Bill with the purposes of which the Government were in sympathy. It would be unusual to refuse a Financial Resolution where a Second Reading had not been opposed and if she could not state the Government's intention to legislate, even without a commitment as to the date, she was not clear how Mr. Bob Brown could be persuaded to withdraw his Bill or how he could justify its withdrawal to his constituents.

The Prime Minister said that in the normal course the Home Affairs Committee's decision not to authorise an early statement would have been final but he had agreed to the matter coming
before the Cabinet because the situation described by the Minister of Transport raised political considerations which he thought needed further examination. The question of concessionary fares had been prominent during the election of 1964 and the remaining anomalies undoubtedly caused resentment.

In discussion it was pointed out that the Home Affairs Committee had taken no decision on the merits of the proposals but only on the suggestion that the Government should commit themselves to legislation in advance of the public expenditure review. They ought not to allow the existence of the Private Member's Bill to deflect them from the orderly process of considering claims on public expenditure and it would in any event be unwise to depart from the normal practice of refusing a Financial Resolution to a Bill imposing expenditure on the Exchequer. The problem of travel concessions was a complicated matter which would need careful consideration if the creation of further anomalies were to be avoided. It was suggested that there might be a case for a more limited scheme than that proposed by the Minister of Transport, designed to remove the anomalies which arose, for example, where elderly people had been moved to some distance from the city, in which they still wished to visit friends and relatives and in areas where the local authority refused to give concessionary fares to people living more than half a mile from the municipal bus route. There was not necessarily a case for extending the power to give concessions for members of local authorities or students or creating a statutory obligation to give a concession to children under school leaving age, but local authorities might be empowered to give concessionary fares to the elderly and the disabled on municipal buses without regard to the existence of a private franchise and to make arrangements with private operators for similar concessions in areas where there were housing estates owned by the local authorities but not served by their buses. If local authorities chose to use those permissive powers, it would be reasonable for the cost to be borne entirely on the rates. It was argued, on the other hand, that such a limited scheme would create further problems and that since the Government had recently been compelled to reduce rate support to the detriment of other socially valuable local services it was desirable that the problem should be considered in the light not only of expenditure by the Exchequer but also of the additional burden likely to fall on the rates, particularly in areas such as Liverpool and Newcastle where serious anomalies were known to exist.

The Prime Minister, summing up the discussion, said that the Cabinet were unwilling to agree that the Government should be committed to a substantial amount of public expenditure in advance of the review of public expenditure. In examining further the details of the proposals put forward by the Minister of Transport, however, the Home Affairs Committee should consider whether a more limited scheme on the lines suggested in discussion, which would remove the major anomalies in respect of old age pensioners and the disabled without putting any further burden on the
Exchequer, would be practicable. In the meantime no Financial Resolution should be provided to enable the Private Member's Bill to make progress.

The Cabinet—

(1) Invited the Minister without Portfolio to arrange for the Home Affairs Committee, in giving further consideration to the proposals put forward by the Minister of Transport, to consider the practicability and cost of a limited scheme on the lines proposed in discussion.

(2) Invited the Minister of Transport in the meantime to refrain from commitment to specific action on the part of the Government.

Cabinet Office, S.W.1,
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 9th May, 1967, at 9.45 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. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. PATRICK GORDON WALKER, 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. CLEDWIN HUGHES, M.P., Secretary of State for Wales
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. 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

Also present:

The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:

Sir BURKE TREND
Mr. P. ROGERS
Mr. K. BARNES
Mr. P. E. THORNTON

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1. The Cabinet considered memoranda by the President of the Board of Trade and the Minister of Housing and Local Government (C (67) 75) on the third London airport and by the President of the Board of Trade (C (67) 76) on the possibility of constructing a super airport at Sheppey to replace the Heathrow airport and obviate the need for further London airports. The Cabinet also had before them a note by the President of the Board of Trade and the Minister of Housing and Local Government (C (67) 50) to which was annexed a draft White Paper on the third London airport.

The President of the Board of Trade recalled that, in earlier Cabinet discussion, doubts had been expressed on the need for a new major airport for London in relation to the possibility of developing the existing airports at Heathrow and Gatwick and on the suitability of Stansted as the site for the new airport, in comparison particularly with a site on the Thames estuary. There was a long history of inquiries into this problem going back to 1962. A public inquiry into the Stansted site had reported in May 1966. Following this, an interdepartmental working group of officials had conducted a thorough examination of possible alternatives to Stansted and their report of November 1966 was appended to C (67) 75. The working group had concluded that the Stansted site was preferable to any of the other possibilities. With the Minister of Housing he had subsequently examined these further and they had concluded that there was no practicable alternative to Stansted. While it would have been desirable to site a new major airport away from the South East altogether, this was not possible since 80 per cent of the passengers using the existing London airports were travelling to destinations in this region.

Some 15 million passengers annually now used the existing airports and this figure was increasing by about 1½ million each year. Existing facilities at Gatwick provided spare capacity adequate for about one year’s growth in traffic. Extensions to runway facilities at Heathrow and Gatwick could so increase the combined capacity of both airports as to enable them to handle an additional 5 million passengers, representing 3–4 years’ expected growth in traffic. The existing airports could handle a further increase in traffic if measures were taken to spread peaks of traffic and if larger aircraft were introduced. These measures, combined with the extension of runway facilities, might postpone the time by which a third airport was needed until 1974, or 1976 at the latest. It was accordingly not necessary to decide now to begin construction of a third airport, but it was important to reach a decision on the site without delay in order that negotiations might begin with the airlines on the planning necessary to effect an eventual transfer of traffic and in order that other urgent consequential planning decisions relating to this area might now be taken.

As regards the choice of site, the most attractive alternative to Stansted was a site at Silverstone near Northampton, but this would involve the closure of eight military airfields in the Midlands at a cost
of £50-100 million. If a decision could have been taken on Silverstone in the previous decade, military planning could have been adapted accordingly; but Silverstone was not in present circumstances a practicable alternative.

The next alternative in order of preference would be a site on the Isle of Sheppey. The nature of the terrain would however involve extra construction costs amounting to some £15 million, the closure and re-siting of the firing range at Shoeburyness at a cost of £25 million, and heavy investment totalling some £40 million on the improvement of rail access. The total cost of a third airport at Sheppey would be in the region of £130 million, which was £80-90 million more than the cost of siting it at Stansted. Even with improved access, the journey from Sheppey to London would still take longer than from Stansted to London. It would also mean restricting the use of Southend airport, which was now the fourth largest in the country. It had been urged that the problem of noise would be considerably less at Sheppey than at Stansted, but this could easily be overstated. While noise from aircraft landing at Sheppey would occur over the sea, it was noise from take-off which represented the more acute problem and this would affect populated areas: there was in fact little to choose between Stansted and Sheppey in this respect. Publicity had recently been given to the idea of constructing a super airport at Sheppey which would both replace Heathrow and eliminate the need for a fourth airport. This, however, was unlikely to be practicable and would, if practicable, be extremely expensive; nor could a project of this size be completed in time to deal with the overflow of traffic from Heathrow and Gatwick.

Consideration had also been given to alternative sites on the Thames estuary at Cliffe and Foulness; but at the former there was insufficient room to provide a major airport and there would be difficulties of air traffic control in relation to Heathrow, while a site at Foulness would involve an unacceptably long journey time to London and would be likely to cost about twice as much as an airport at Stansted for much the same reasons as applied in the case of Sheppey. Further possibilities which had been considered were Padworth (south-west of Reading) and Luton, but the first would involve too much interference with traffic at Heathrow and with military flying, while the nature of the terrain ruled out the second.

The Stansted site on the other hand was preferable from the point of view of air traffic control, would be the cheapest and the nearest to London. The noise problem would be no worse than at the alternative sites and in terms of noise level and numbers of people affected would be only one-twenths of the noise problem at Heathrow.

A decision was now needed urgently to enable the local planning authorities, the British Airports Authority, the airlines and transport authorities to proceed with future planning. Moreover, further delay would mean that we should run the risk of losing our lead in civil aviation in Europe to the French. The Government should therefore announce a decision to site the third airport at Stansted and should publish a White Paper in the terms of the draft annexed to C (67) 75.

The Minister of Housing and Local Government said that but for the additional cost arising from the effect on military airfields, a
site at Silverstone would have been preferable to Stansted, since the latter would mean the loss of a considerable acreage of good agricultural land and, as it was likely to involve the creation of a new town with a population of some 100,000 in what was now relatively unspoilt country, it would be bad regional planning. However, there was now no practicable alternative to Stansted. It would be important to ensure that planning for a fourth major airport should be put in hand in good time so that the Government would not be similarly circumscribed in choosing a site.

In discussion, it was urged that the case against siting a third airport anywhere in the South East was very strong and that the situation did not require an immediate decision by the Government. Technological developments in air transport might radically alter airport requirements over the coming years and developments in surface transport might greatly affect the problems of access to the various possible sites. On the other hand, it was argued that all the facts were now available to the Government and there was nothing to be gained by further delay: on the contrary, if a decision were postponed, the local planning authorities and other bodies concerned would be placed in serious difficulty, other urgent developments would be delayed and the Government would incur severe criticism.

In further discussion, there was general recognition that the effective choice lay between Stansted and Sheppey. It was argued that the case for Sheppey merited further consideration. This would be the most desirable site if the Government were prepared to meet the extra cost involved. The Sheppey area was on the whole unattractive country, while the Stansted site was in one of the few relatively unspoilt areas within reach of the metropolis. While take-off noise from an airport at Sheppey would affect populated areas, these would be relatively confined: the noise from aircraft landing was a more serious problem since it affected much wider areas and Sheppey had an important advantage in this respect because it was a coastal site. While the improvement of rail links to Sheppey would be costly, some development of these links would be required in any case and the necessary improvements would be valuable not only in relation to the airport but also in relieving congestion generally in the South East. It was, however, questionable whether a rail link was essential: many major airports abroad had only road links.

On the other hand, there was wide support for a decision in favour of the Stansted site. An airport at Stansted would by no means completely destroy the amenities of the area, provided that the accompanying housing development was properly planned. The fact that the journey time from Stansted to London would be shorter than for any site on the Thames estuary was of major importance: it was pointless to reduce flying times by the introduction of advanced types of aircraft if surface journeys to and from airports were to become longer. If the third airport were sited too far from London, there was a danger that airlines would increasingly use Continental airports. It would not be possible to avoid the heavy costs of improving rail
links to Sheppey since complete reliance on road links would cause unacceptable congestion.

The following main points were also made—

(a) If it were decided to site the third airport at Stansted, the Government should not be committed at this stage to the creation of a new town in the area to accommodate the additional population. The creation of a new town would mean greater inroads into good agricultural land than the expansion of existing towns such as Bishops Stortford and Harlow. On the other hand, it was pointed out that it would be necessary to accommodate some 100,000 additional people as a result of the siting of the airport at Stansted and it would be essential to avoid unplanned and sporadic housing developments. While it would be desirable to accommodate as many as possible of the incoming population by expansion of existing towns, it was unlikely to be possible to absorb the whole number in this way. The creation of a new town might therefore be unavoidable, though it would be desirable to keep it to the minimum size.

(b) Planning for a fourth major airport should be put in hand in good time in order to avoid a recurrence of the difficulties which the Government faced in siting the third airport. It was highly desirable that a fourth airport should be sited away from the South East, and the future growth in the number of incoming air passengers travelling to destinations in other parts of the country should make this possible. In considering possible sites for a fourth airport, full weight should be given to the implications for regional policy: it was possible, for example, that major airport facilities could be developed at Swansea; there was also a need to develop more international air services to and from airports in Scotland. The concept of a single large airport at a central site, with feeder services in different parts of the country, might merit consideration.

The Prime Minister, summing up the discussion, said that in determining the site for a third London airport, the Government faced a choice of evils. While there were considerable reservations about the choice of Stansted, the Cabinet agreed on balance that there was no practicable alternative. The decision to site the third airport at Stansted should be announced in Parliament either before or immediately after the Whitsun Recess and a White Paper in the terms of the draft annexed to C (67) 50 should subsequently be published. The President of the Board of Trade should consult with the Lord President on the timing of the announcement and publication.

The Cabinet—

(1) Agreed that the third London airport should be sited at Stansted.

(2) Approved the draft White Paper annexed to C (67) 50.

(3) Invited the President of the Board of Trade, in consultation with the Lord President of the Council, to arrange for an early announcement of the Government’s decision in Parliament and for the subsequent publication of the White Paper.

SECRET
2. The Cabinet considered a note by the First Secretary of State (C (67) 77) to which was attached a draft White Paper about public purchasing and industrial efficiency.

The First Secretary of State said that the draft White Paper had been considered by the National Economic Development Council, the Confederation of British Industry and the British National Export Council (BNEC). These consultations had not led to any changes of substance in the Government's proposals, but some editorial changes had been made to meet their suggestions. Work to implement the proposals in the draft was already in hand and it was highly desirable that the White Paper should be published before the National Productivity Conference and the BNEC Conference on public purchasing and exports, both of which would take place before the middle of June.

The Cabinet—
(1) Approved the draft White Paper attached to C (67) 77.
(2) Invited the First Secretary of State, in consultation with the Lord President of the Council, to arrange for its early publication.

3. The Prime Minister recalled that the Cabinet had previously considered the difficulties which might arise if the Select Committee of the House of Commons on Agriculture pursued its proposal to seek leave of absence from the House in order to visit the European Economic Commission. It now seemed probable that this proposal could be averted, since M. Mansholt, Vice-President of the Commission concerned with agricultural matters, would shortly be visiting London and arrangements might be made for him to meet the Select Committee as well as Ministers. The Select Committee on Science and Technology had, however, now expressed a wish to pay visits to Euratom and to the United States and the Government had been urged on behalf of the Select Committee to put down a Motion seeking leave for the Committee to be absent from the House to enable them to do so. Such a proposal was open to considerable objection in that the visit to Euratom would imply a wider extension of the activities of Select Committees than had originally been intended and because it would, like the earlier proposal of the Select Committee on Agriculture, risk embarrassing subsequent negotiations in respect of the Government's application to join the European Communities (if the proposal to make such an application were approved by Parliament). The visit to the United States was open to objection because of the considerable cost involved.

The Lord President said that in pursuance of the Cabinet's conclusions at an earlier meeting (CC (67) 19th Conclusions, Minute 2) he would shortly be seeing the Chairmen of the Specialist Committees and of the Select Committee on Nationalised industries to discuss the practice which Ministers proposed to follow in giving evidence before them. It might be appropriate for him to take advantage of this meeting to explain the difficulties which would be
Approach to Europe

(Previous Reference: CC (67) 27th Conclusions)

involved for the Government by the visits which had been proposed, though it would not be desirable that the Government should discourage all overseas visits by Select Committees.

In discussion it was suggested that there would be advantage in having a separate Vote to meet the cost of Select Committees, both in respect of their travel overseas and to meet other expenses such as the appointment of research workers to assist them. This would spare the Government the onerous task of having to oversee the expenditure of Select Committees in detail and avoid the possibility that the Government might do so appear to discriminate between them. It might also impose a rather more effective constraint on total expenditure. On the other hand, it was pointed out that such a procedure would not give the Government an effective right to intervene on individual issues where a proposal by the Committee might involve embarrassment to the Government's position, such as that which would have been caused by the visit of the Select Committee on Agriculture to Brussels for discussions with the European Economic Commission.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that the Government should not put down a Motion seeking leave for the Committee to be absent from the House of Commons to pay the overseas visits in question. The Lord President in his forthcoming discussion with the Chairmen of the Select Committees should explain to them the difficulties which the Government foresaw in respect of the proposed visits to Brussels and the United States and should urge the Chairmen to discuss those difficulties with the Foreign Secretary in respect of the embarrassment which would be caused to the Government's foreign relations and with the Chancellor of the Exchequer in respect of the cost involved.

The Cabinet—

Invited the Lord President of the Council to discuss with the Chairmen of Select Committees the difficulties arising from the visits which had been proposed, on the lines indicated by the Prime Minister in his summing up of their discussion.

4. The Cabinet considered the attitude which the Government should adopt towards the proposal which had been put forward in the Parliamentary Labour Party that there should be a free vote on the Motion to approve the Government's proposal to apply to join the European Communities. There was general agreement that on an issue of policy of such major importance it would be politically and constitutionally inappropriate to allow a free vote.

The Cabinet—

Agreed that a free vote should not be allowed on the vote the following day in the House of Commons on the Motion to approve the Government's proposal to make an application to join the European Communities.

Cabinet Office, S.W.1.
9th May, 1967.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 11th May, 1967,
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. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs
The Right Hon. GEORGE THOMSON, M.P., Parliamentary Secretary, Treasury (Item 3)
The Right Hon. GEORGE CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. LORD GARDINER, M.P., Lord Chancellor
The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. RICHARD CROSSMAN, 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. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. PATRICK GORDON WALKER, 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. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science
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. WILLIAM ROSS, M.P., Secretary of State for Defence
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
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. ANTHONY GREENWOOD, M.P., Minister of Housing and Local Government
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
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The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Miss J. J. NUNN
Mr. H. L. LAWRENCE-WILSON

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The Lord President said that, in pursuance of the Conclusion at an earlier meeting (CC (67) 19th Conclusions, Minute 2) when the Cabinet had discussed the practice which Ministers proposed to follow in giving evidence before the Specialist Committees and the Select Committee on Nationalised Industries, he had seen the Chairmen of the Committees and had taken the opportunity of proposing to them the formation of a steering committee of chairmen, which could be constituted as a sub-committee of the Services Committee, to consider how the expenditure of the Committees could best be managed. The Chairmen had accepted this proposal and intended to have an early discussion with the Chancellor of the Exchequer about their financial arrangements.

The Lord President said that several Private Members' Bills had made progress in one or other House and had a good prospect of being enacted in the current Session if they were given some Government time, but not otherwise. It would be possible to give time without impeding the Government's programme and there would be advantage in doing so since otherwise the Bills would be reintroduced in the next Session and the Government would come under further pressure to provide facilities.

In discussion it was pointed out that it might be somewhat invidious to facilitate the progress of some Private Members' Bills and not others and it was desirable to avoid creating an expectation that, if a Bill made reasonable progress in the House of Commons or were passed in the House of Lords, the Government would give sufficient time to enable it to reach the Statute Book. It must be made clear that Government assistance would depend not on the progress of the particular Bill but on whether it could be helped without prejudice to the Government's own programme. Subject to this, however, time on a Friday, or in a morning sitting or after 10 p.m. could be made available for the Sexual Offences (No. 2) Bill, the purpose of which—to legalise homosexual acts between consenting adults in private—had already been thoroughly considered by both Houses; the Sunday Entertainments Bill, based on the recommendations of the Committee on Sunday Observance under the Chairmanship of Lord Crathorne, which if it did not pass this Session the Government might wish to include in their own programme for the following Session; and the Employment Agencies Bill, a useful measure the progress of which had been blocked only by a small minority of objectors. The Live Hare Coursing (Abolition) Bill had however been inadvertently allowed to drop notwithstanding a Government promise of time for the adjourned debate on Second Reading and the Government should not now provide time for it to be reinstated.
The Committee then considered what action should be taken on the Medical Termination of Pregnancy Bill. The Bill was down for consideration of Report and Third Reading on 2nd June but was unlikely to be completed in the House of Commons unless the Government provided time. This might be found after 7 p.m. on 3rd July, when the 10 o'clock Rule could be suspended to enable the debate to continue until completed. It was pointed out however that to provide Government time for the Bill would imply that the Government were in favour of its principle, on which they had so far taken no view; and, while this would be welcome to some sections of public opinion, it would undoubtedly alarm others. On the other hand it was arguable that on an issue of such social importance the Government ought to give time (unless the Bill as it emerged from Committee was bad in form) notwithstanding that this might be thought to imply Government support for the principle. The provision of time might indeed afford an opportunity for the opponents of the Bill to deploy their arguments in favour of its rejection and the appointment of a Royal Commission to consider the whole problem. The Home Affairs Committee would shortly be considering the difficult question of the Government’s approach to Bills raising issues of conscience and the extent to which Ministers should be committed upon them. The Committee were also to consider the next day proposals by the Home Secretary for the amendment of the Medical Termination of Pregnancy Bill to remove some of the unsatisfactory features which had resulted from amendments in Committee. In advance of this consideration it would not be appropriate for the Cabinet to consider whether time should be given for the Bill, particularly as the complicated issues which it raised were not before them.

The Prime Minister, summing up the discussion, said that it would be convenient if, after the Home Affairs Committee had considered the Home Secretary’s proposals for amending the Bill, the Legislation Committee would discuss whether time should be given for its further consideration in the House. The Committee should, if possible, settle the matter but if they were unable to do so the Chairman, or any member who dissented from the view of the majority, would be free to bring the matter to his own attention so that he could consider whether it should be brought before the Cabinet. If that became necessary it would be helpful to have a full statement of the history of the Bill and the issues of policy which it raised. As to the other Private Members’ Bills which had been discussed, the Sexual Offences (No. 2) Bill, the Sunday Entertainments Bill and the Employment Agencies Bill could be given Government time as proposed, subject to the proviso that there was no interference with the Government’s programme or with their plans for rising for the Summer Recess and that no precedent was to be created which would enable a Private Member to claim that if his Bill made progress he was entitled to expect the Government to provide time for it to be passed.

The Cabinet—
(2) invited the Lord President of the Council—
(a) to arrange for the Legislation Committee to consider, in the light of the discussion of the Medical
Termination of Pregnancy Bill by the Home Affairs Committee on the following day, whether Government time should be provided for its further discussion in the House of Commons;

(b) to arrange for facilities to be given for the consideration by the House of Commons of the Sexual Offences (No. 2) Bill, Sunday Entertainment and Employment Agencies Bills, subject to the provisos indicated by the Prime Minister in his summing up of their discussion.

2. The Foreign Secretary said that we had raised at a meeting of the International Civil Aviation Organisation (ICAO) the issue of the restrictions imposed by the Spanish Government on the use of Spanish air space neighbouring the Gibraltar airfield. The discussion so far had not been unfavourable to us, but present indications were that we should not secure sufficient votes to debar the imposition of the restrictions. These would not prevent us from using the Gibraltar airfield in normal weather, but would make its use impossible at other times and one charter firm had already switched its flights from Gibraltar to Malaga in consequence. We should seek to ensure that there was no further switching of such charter flights without previous reference to Ministers. If the outcome of the discussions in ICAO proved in the event to be unsatisfactory, it appeared that we must, at least for the time being, abandon any hope of securing assistance in international organisations in dealing with the mounting Spanish campaign on our position in Gibraltar, since the discussions in the Committee of Twenty-four had also failed to impose any restraint on the Spanish Government. In such circumstances it might be necessary to consider retaliation against Spanish interests.

In discussion it was pointed out that approval had recently been given by the Air Transport Licensing Board for one of the British charter aircraft firms to switch its flights from Gibraltar to Malaga because these flights were part of a subsequent tour of Spain by motor coach and Spanish controls at the frontier of Gibraltar now made these impossible to operate. The issue did not relate to the imposition of restrictions or the use of Spanish air space. There was no requirement upon the Board to seek Ministerial approval before giving authority for such changes, but they had been asked (and had agreed) to consult the Board of Trade before approving any other changes affecting Gibraltar in present circumstances.

The Foreign Secretary said that the situation in Greece had deteriorated somewhat. We were still seeking to secure the release from imprisonment of Mrs. Ambatielos, but the British Consul had recently been denied access to her on the ground that she was being interrogated under oath. As regards our general attitude towards the Greek Government we were keeping in close touch with our
allies, who broadly shared our view that at this stage it would be more effective to maintain the pressure which our respective Ambassadors were exerting privately on the regime to appoint a constituent assembly and return to a form of democratic Government, rather than to make known publicly our concern at the military coup that had taken place. On balance, it was for the time being to our advantage to maintain contact with the present régime, while avoiding any question of appearing to give it explicit recognition. It was questionable how long it would be open to us, or in our interest, to maintain this position, but we could not ignore the fact that we maintained relations with Governments in a number of other countries which had resulted from military coups d'état within the last two or three years. It might be convenient to the Cabinet if he were to circulate a paper explaining the present position and setting out the policy which he advocated in existing circumstances.

In discussion it was urged that the Government's position was difficult to justify to its supporters and that, despite the further risk to Mrs. Ambatielos which might be entailed, there were broader reasons why we should publicly declare our sense of outrage at the coup. The balance of view was, however, that for the time being we should, in concert with our allies, maintain our present policy in relation to the régime.

The Cabinet—

(1) Took note that the Foreign Secretary would circulate a paper on the policy which should be pursued in respect of the present régime in Greece.

The Foreign Secretary said that the recent meeting of the inter-governmental Maritime Consultative Organisation to consider the implications for shipping of the wreck of the Torrey Canyon had been successful; and although the main outcome was that numerous points had been referred to sub-committees, it appeared that this was how the Organisation effectively carried out its business. Our success had been the consequence of a well-prepared and documented case.

The Commonwealth Secretary said that the situation in Nigeria was no less tense than before, but was somewhat changing in nature. Previously the Eastern Region had effectively been moving towards a declaration of independence in the face of opposition to this course from the rest of Nigeria. The Western and Mid-Western Regions were however changing their attitude somewhat and favoured a much looser form of Federation. This was likely to result in a diminution of the pressure which was being exerted by the Northern Region on the East. The troops in the North were, however, undisciplined and we could not exclude the possibility that Colonel Gowon, the Head of the Military Government, might be overthrown.

The Cabinet—

(2) Took note of the statements by the Foreign and Commonwealth Secretaries.
3. The Cabinet had before them a memorandum by the Foreign Secretary (C (67) 78) on future policy in South Arabia.

The Foreign Secretary said that the handling in Aden of the problems which faced us between now and the independence of South Arabia would call for wide diplomatic experience. For this reason he had decided that Sir Humphrey Trevelyan, formerly a member of the Indian Political Service and subsequently of the Diplomatic Service and until recently British Ambassador in Moscow, should replace Sir Richard Turnbull as our High Commissioner in Aden. He would make a statement in Parliament to this effect later that day explaining the reasons for the change. He would not, however, make any firm public declaration at this stage of any decisions that the Cabinet might take about our policy towards South Arabia or about the intended date of independence. To do so would cause difficulties in that country and in the United Nations and would be inappropriate in view of the current visits of King Faisal of Saudi Arabia and of two Ministers of the South Arabian Federal Government. He would however undertake to make a full statement of policy in Parliament soon after the Whitsun Recess.

Developments in the preceding two months made it necessary to reconsider some aspects of our existing proposals for the grant of independence to South Arabia. When the Cabinet had last considered the matter on 13th March, the plan had been to grant independence on 1st November, 1967, maintaining our sovereignty in Aden and our control of internal security there until then; to withdraw all our forces from the mainland of South Arabia as quickly as possible after the grant of independence but to provide carrier-based air support to the new State against external aggression for up to six months thereafter. The Federal Government had rejected these proposals because they maintained that their ground forces would not be ready to assume full responsibility for internal security until 1st April, 1968, and that their naval and air forces would not be ready until some months later. They had said that they would be willing to accept independence on 1st September, 1968, but only if:

(i) we were to transfer all responsibility for internal security in Aden State on 1st March, 1968;
(ii) British forces remained in support in Aden State until 1st September, 1968;
(iii) we gave a Defence Guarantee for up to three years after 1st September, 1968;
(iv) a new Constitution were brought into force well before 1st September, 1968.

In the meantime the United Nations Mission to Aden had failed to make any contribution to solving the problem and, although we must seek to ensure the continued involvement of the United Nations, there seemed no prospect that in the timescale on which we were planning to withdraw from South Arabia we could expect to receive
much help from the United Nations. Attempts to persuade the leaders of the Front for the Liberation of Occupied South Yemen (FLOSY) to collaborate in finding a solution to the problem of South Arabia or even to talk to us had so far failed, despite the further efforts of the Minister without Portfolio (Lord Shackleton). They were unwilling to make any move unless they were recognised as the sole representatives of South Arabia, which would be quite unjustifiable: this would be a position which we could not sustain. Violence in Aden was continuing and there was no sign that the United Arab Republic (UAR) was making any effort to reduce it.

It was essential to our policy for reducing defence expenditure that we should maintain our decision to withdraw our forces by about the end of 1967. We could not accept the proposals of the Federal Government either as regards the continued presence of our forces in Aden up to September, 1968, or for a Defence Guarantee thereafter. At the same time we must do what we could to improve the prospect that the Federal Government would remain in being until our withdrawal. To this end we should decide that the grant of independence to South Arabia and the final withdrawal of our forces from Aden should be deferred from 1st November, 1967, to 1st January, 1968. The naval air force should be made available for six months thereafter and we might also examine the possibility of providing from Masirah and Sharjah support by land-based bomber aircraft after independence. We should also seek to provide the Federal Government earlier than the summer of 1968 with the four jet Provost aircraft due for delivery then to make up their air arm.

As regards the political future of South Arabia, our aim must remain to broaden, so far as we could, the basis of the Federal Government. Efforts were being made, though with little apparent prospect of success, to arrange round table discussions aimed at producing a caretaker Government of all parties and interests, which would include the FLOSY, the National Liberation Front, the South Arabian League and the East Aden Protectorate States. If these efforts failed it might be possible to persuade one or other of the terrorist organisations to co-operate with the Federal Government. In the meantime we must continue to back the Federal Government itself, although a major element in our problem was that neither the local population in Aden nor the Federal Government themselves found their survival as such credible, particularly in view of our own declaration in favour of broadening the Government's base. We could not ignore the possibility that towards the end of the period there might be no local Government at all.

There now remained little time in which to take final decisions on our policy for South Arabia. It would be necessary to enact legislation before the Summer Recess giving power to grant independence to South Arabia and to debate a Bill for this purpose in Parliament towards the end of June. We must then be ready to say publicly what our intentions were.

The Defence Secretary said that he was in full agreement with the Foreign Secretary's proposals, although they could mean that the naval task force would have to remain in the vicinity of Aden.
for 7½ months. It would be important to reach early agreement on the precise nature and role of this force and, since it would be based on Singapore, we should seek to make arrangements for rest and recreation for its personnel in Kenya. There was reason to hope that the Kenya Government would welcome this. As regards the date for final withdrawal of our troops from Aden it would be essential to take a firm decision by 1st June in view of the stage which planning had reached. The possibility of providing bomber support from Masirah or Sharjah had been further examined and it was now clear that this could only be done by V-bombers which would not be suitable for the task; no offer of such support should therefore be made to the Federal Government except in very guarded terms. Although Lord Shackleton had suggested that we should provide air support to South Arabia with aircraft based at Khormaksar this possibility had been fully examined earlier and was not acceptable since it would mean protecting the airfield with ground forces, which would inevitably become involved in internal security operations and would delay our withdrawal. There were indications that preparations were being made in the Yemen by the UAR for the further use of poison gas and in view of the risk that it might eventually be used in South Arabia we should consider issuing a warning to the UAR on the subject.

Discussion showed general agreement in the Cabinet with the Foreign Secretary’s proposals. We should hold firm to our intention to withdraw from South Arabia at the end of 1967, and make it clear to the Federal Government that this was our intention, while keeping some flexibility about the precise date in January, 1968, when independence would be granted and our forces finally withdrawn from the mainland. As regards our policy on political developments in South Arabia, no final decision could be taken until Sir Humphrey Trevelyan had had an opportunity to appraise the situation in Aden and until matters had developed further in the United Nations; it would, however, be necessary to reach decisions within a very few weeks. In view of the proposed delay in the grant of independence to South Arabia it might not be necessary to pass the proposed Aden Independence Bill through all its stages before the Summer Recess.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that the grant of independence to South Arabia should be deferred until a date early in January, 1968, and that a naval carrier force should, if necessary, be stationed in the vicinity of Aden for six months thereafter. The Federal Government should be informed that this was our decision. It was not possible at this stage to take decisions on the political aspects of our policy towards South Arabia, which would depend on how matters developed and on the recommendations which Sir Humphrey Trevelyan would make. But our policy should continue to be the greatest possible broadening of the base of the Federal Government. It might be possible for some arrangement to be reached between the various parties involved without holding a formal round-table conference. There should be further discussion about the timetable of the Independence Bill.
between the Foreign Secretary and the Lord President in view of the later date now intended for the grant of independence to South Arabia.

The Cabinet—

(1) Invited the Foreign Secretary to be guided by the Prime Minister's summing up of their discussion in respect of the policy to be pursued in South Arabia.

(2) Invited the Foreign Secretary, in consultation with the Lord President of the Council, to consider in the light of the discussion Parliamentary timetable for the South Arabian Independence Bill.

Cabinet Office, S.W.1,
11th May, 1967.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 23rd May, 1967, 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 BOWTEN, 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. PATRICK GORDON WALKER, M.P., Minister without Portfolio
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 following were also present:
The Right Hon. GEORGE THOMSON, M.P., Minister of State for Foreign Affairs
The Right Hon. GEORGE M. JONES, Q.C., M.P., Attorney-General

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. L. ERRINGTON

SECRET
Subject:
MIDDLE EAST
Middle East

The Foreign Secretary said that the present critical situation in the Middle East had developed from retaliatory action undertaken by Israel in Jordan because of terrorist attacks from both Jordan and Syria. In consequence Jordan, Syria, Israel and the United Arab Republic (UAR) had in turn felt obliged to adopt increasingly belligerent attitudes and the present position was that the UAR had mobilised some 60,000 men, together with a considerable armoured force and substantial air support along the Sinai frontier. In addition, the Palestine Liberation Army of two divisions was mobilised in the Gaza Strip. These forces were considerably greater and better trained than were the Egyptian forces in 1956, which had been deprived of air support by our own bombing attacks. The Israeli forces, on the other hand, were much smaller and there were indications that Israel had been caught unprepared. The Secretary-General of the United Nations had given way precipitately to pressure from the UAR to withdraw the United Nations Emergency Force (UNEF) and, in addition to moving up to the Gaza and Sinai frontiers, the Egyptian Forces had reoccupied the batteries at Sharm-el-Sheik controlling the Tiran Straits. They were thus in a position to close the Gulf of Aqaba and had been moving warships into that area and were reported to be laying mines. They were likely to stop ships flying the Israeli flag from entering the Gulf of Aqaba and to stop other ships if they were carrying strategic supplies to Israel.

Israel had repeatedly made it clear that she would regard the closing of the Gulf of Aqaba as a casus belli, since access to the port of Eilat was vital to her economy—according to a recent assessment some 15 per cent of her import trade by weight passed through this port in 1965, some 90 per cent of her oil imports and some 40 per cent of her exports of phosphates. Although Israel’s position in relation to the UAR was considerably weaker than it had been in 1956, and great damage was likely to be done to her towns by air attack in the event of war, there was a grave risk that Israel would be tempted to launch a preventive war since her relative strength was likely to decline, especially if access to the port of Eilat were cut off. The immediate problem was to find means of dissuading Israel from taking this step and thereafter of bringing the situation under control.

The United States were committed to intervene to prevent the destruction of Israel and wished to reactivate the Tripartite Declaration of 1950 which guaranteed existing frontiers in this part of the Middle East. This proposal was not, however, acceptable to us, since it would involve a commitment to military action to maintain the frontiers, not only of Israel, but also of the UAR and reactivation would be harmful to our relations with the Arab States generally. The French Government, as the third party to the Declaration, took a similar view. The Soviet Foreign Minister (Mr. Gromyko) had recently visited Cairo and, while there was no information about the purpose of his visit, it might be assumed that the Soviet Government...
were concerned to support Syrian interests in order to reassert their position in the Middle East. In the circumstances he had proposed in the first place to call a meeting of the Security Council to consider the threat to peace in the Middle East and to pass a resolution calling for the Tiran Straits to be kept open. It was now clear, however, that there was likely to be insufficient support to enable such a meeting to be called before the Secretary-General returned in two days' time from his visit to Cairo; and thereafter it was likely that the Soviet representative would prolong the discussion and eventually veto the resolution. It was unlikely that Israel would feel able to await the outcome of a meeting of the Security Council, and he therefore sought the authority of the Cabinet to join with the United States Government and such other maritime countries as could be enlisted in support in announcing an intention to establish a naval force, whether under the auspices of the United Nations or not, to keep the Gulf of Aqaba open to shipping of all nations, or to reopen it. It was very desirable that such a declaration should be made without delay although no effective force could be assembled immediately. The United States had two ships which could be brought to the Gulf in a few days, but it would be necessary for ships of the Sixth United States Fleet to pass through the Suez Canal together with supporting British vessels from Malta. It would not, therefore, be possible to prevent the Gulf of Aqaba being closed, but the assurance that it would be reopened offered the best chance of dissuading Israel from launching a preventive war. The declared purpose of the operation would be to assert maritime rights, not to assist Israel, and would be unlikely to have any serious effect on our relations with the Arab States generally.

In discussion, it was pointed out that the proposed naval force would necessarily have to be drawn largely from United States and British ships at present in the Mediterranean, and it was questioned whether the Egyptian Government would permit them to pass the Suez Canal once the intention of reopening the Gulf of Aqaba had been announced. It was suggested further that, before any decision could be reached, detailed consideration should be given with the United States Government to the practicability of the proposed operation if the Egyptian Government should offer resistance to it and to the risks involved, including the risk of being drawn into military action against the UAR. Alternative means of opening the Straits should also be explored. It would be relevant to know the extent to which other countries would participate and what the likely effect would be on our position and interests in the Middle East. It was urged that no commitment should be made until these issues had been explored, and it was questioned whether an immediate statement of intent was essential in order to avoid precipitate action by the Israeli Government.

In further discussion it was argued that it would be inconsistent with our interests in the Middle East to incur the risks inherent in any commitment to the use of force to reopen the Straits. In addition to its effect on our relations with the Arab States and on our difficulties in South Arabia in particular, such action might have grave financial
consequences. Even although we should no doubt seek to avoid the appearance of taking the lead, there was a risk, in view of the firm United States commitments to Israel and of the predominant part which the United States must necessarily play in any operation, of our being drawn into their wider commitment, the full extent of which should first be ascertained. It was questioned whether, if the United States had already given firm assurances to Israel and if Israel were reluctant to take the offensive, any further assurance on our part would have any significant effect on the Israeli attitude.

On the other hand, it was pointed out that the United States’ commitment was an undertaking to prevent the destruction of Israel. It did not however cover her economic strangulation through the closing of the Gulf of Aqaba and would therefore not operate to deter Israel from embarking on a preventive war if she judged that this offered less risk than submission to economic blockade. Reassurance over the Gulf of Aqaba was more likely to be effective in restraining her, but it would have to be given without delay. Further, while it was possible to regard the Tripartite Declaration as having been superseded, Israel had agreed to withdraw from the Tiran Straits in 1957 on assurances, to which we were party, that the Straits would be occupied by the UNEF and we were committed by a statement made by the then Prime Minister, Mr. Macmillan, of 14th May, 1963, and subsequently endorsed by the present Prime Minister on 16th December, 1964, and 13th April, 1965, in relation to the freedom of passage through the Gulf of Aqaba. If we did not honour these assurances, and if Israel were to launch a preventive war and reoccupy the Sinai peninsula, she clearly would not agree to withdraw on any subsequent assurances, particularly as there would be a consequent risk of intervention by the Soviet Union on behalf of the UAR. Furthermore our relations with the United States were passing through a critical stage and would be very severely strained, with adverse consequences for our financial position, if we refused to play any part with them in the Middle East situation. Since we could neither stand aside nor accept the implications of the Tripartite Declaration and since there was little prospect of early action by the United Nations, the course which offered least risk and the best prospect of restraining Israel, was to give an assurance in concert with other maritime countries of intention to make effective the freedom of passage through the Tiran Straits in the terms of the 1957 declaration. Such an assurance need not indicate a particular course of action, but urgent consideration should be given in conjunction with the United States Government and the other maritime powers concerned with the issue to devising a workable plan and to assessing its implications. It seemed doubtful whether the Egyptian Government would resist action to keep the Straits open if convinced of the United States’ determination to do so.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that we should base ourselves on the assurance given to Israel by the main maritime powers in 1957 that they would support and assert the freedom of passage in the Straits of Tiran. On that
occasion we had said that we would assert this right on behalf of all British shipping and were prepared to join with others to secure general recognition of these rights; and it was in this spirit that we should act now. The Foreign Secretary, in his forthcoming visit to Moscow, should inform the Soviet Government accordingly, and should tell them that the Minister of State for Foreign Affairs (Mr. Thomson) would be visiting Washington at the same time in order to seek to promote action, in collaboration with other maritime countries concerned with access to the Gulf of Aqaba, in accordance with the declaration. The Minister of State, who should be accompanied by defence advisers, should endeavour to ascertain the position of the United States Government in relation to the Tripartite Declaration of 1950 and to persuade them that in view of Mr. Macmillan's statement of 14th May, 1963, and of his (the Prime Minister's) own statements of 16th December, 1964, and 13th April, 1965, we could only base future action on the declaration of 1957. He should make it clear that it was our intention to make that declaration effective, provided that any measures for this purpose were sufficiently international in character and that an acceptable military plan for this purpose could be devised. The precise scope and nature of this plan would, of course, have to be ad referendum to the Cabinet, who would be concerned to be satisfied that it was militarily realistic. They would also wish to consider whether it implied an unacceptable risk of escalation.

The Cabinet—

Invited the Foreign Secretary and the Minister of State for Foreign Affairs to be guided by the Prime Minister's summing up of their discussion on their visits to Moscow and Washington.

Cabinet Office, S.W.1,
24th May, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 25th May, 1967,
at 11 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. 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. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. RICHARD MARSH, M.P., Minister of Power
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. HERBERT BOWDEN, M.P., Secretary of State for Common-
wealth Affairs
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home
Department
The Right Hon. PATRICK GORDON WALKER, M.P., Minister without
Portfolio
The Right Hon. ANTHONY CROSLAND, M.P., Secretary of State for Education
and Science
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. FREDERICK MULLEY, M.P., Minister of State for Foreign
Affairs (Item 1)
The Right Hon. Sir ELWYN JONES, Q.C., M.P., Attorney-General (Item 1)

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. H. L. LAWRENCE-WILSON
Mr. K. BARNES
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1. The Minister of State for Foreign Affairs said that the main developments since the Cabinet had last discussed the situation in the Middle East had been the report that the Straits of Tiran had been mined by the Egyptians, the adjournment without a decision of the debate in the United Nations Security Council, the visit of the United Nations Secretary-General, U Thant, to Cairo and a proposal by President de Gaulle for a four-Power initiative to reduce tension in the Middle East. The approaches which we had made so far to other maritime nations regarding a declaration on the freedom of navigation in the Gulf of Aqaba did not suggest that there would be widespread support for robust action. The Foreign Secretary's discussions in Moscow suggested that the Soviet Union wished to avoid war in the Middle East, but nevertheless she was giving uncompromising support to the United Arab Republic (UAR). The aim of the United States was to dissuade Israel from opening hostilities by providing her with assurances that the right of innocent passage by sea through the Gulf of Aqaba would be secured. They wished to be able to do this when Mr. Eban, the Israeli Foreign Minister, visited Washington on 26th May following his visits to Paris and London. Unless Israel could be brought to believe that the right of innocent passage would be assured by diplomatic action, she was likely to take early military action to secure it, since if she had to fight delay would be to her military disadvantage. Very early assurances were therefore essential. The Minister of State for Foreign Affairs (Mr. Thomson) was discussing in Washington a programme of diplomatic and possibly military action with the United States Government designed to safeguard this right of innocent passage. Any proposals that might emerge would be ad referendum to both Governments.

In discussion differing views were expressed on the extent to which the situation in the Middle East had become more dangerous since the Cabinet's previous discussion. The involvement of the French Government through their recent proposal was a favourable factor, whereas the Soviet Union and the United States were now more clearly and publicly in confrontation in the area. Having regard particularly to the Suez operation of 1956, it was in our interest not to be seen to be taking the lead in international action in the present situation and it was for this reason that Canada and Denmark rather than ourselves had at our request called for the recent meeting of the Security Council. So far as diplomatic action was concerned, there was general agreement that, before any further step was taken to canvass support for a declaration by the principal maritime Powers in favour of the right of innocent passage through the Straits of Tiran, we should first follow up the French initiative for a quadripartite meeting of Permanent Representatives to the United Nations of the four Powers to discuss the situation. If the Soviet Union refused to take part in this or any action in the Security Council, our aim should be to secure French participation in further action with the principal maritime Powers.
As regards military action (should this become necessary) to enforce the freedom of passage for ships to the Gulf of Aqaba, the initial proposals of the United States, which rested heavily on the use of British Naval forces in the Red Sea, including the aircraft carrier HMS Hermes, were unacceptable to us politically and were militarily misconceived. The Ministers primarily concerned were to discuss the military assessment of the situation with the Chiefs of Staff under the Prime Minister's chairmanship later that day and we hoped to persuade the United States that the right course militarily would be to use, if necessary, a small force of minesweepers and frigates in the Gulf of Aqaba for escort and minesweeping duties, backed by powerful deterrent forces in the Eastern Mediterranean. If force had to be used we must not be, nor be thought to be, in the lead and it was essential also that countries other than the United States and the United Kingdom should contribute to any force used, though their forces might not be able to arrive on the scene at the outset. In the meantime, action was being taken to ensure that appropriate Naval ships would be available for use if necessary, but neither this nor any agreement that might be reached with the United States on the best military solution to the problems would commit us to action without further consideration by the Cabinet.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that the Minister of State for Foreign Affairs (Mr. Mulley) should leave for Paris immediately, provided this was acceptable to the French Government, to follow up the French initiative. The Minister should warmly welcome this initiative and seek agreement that the meeting which they had proposed of the Permanent Representatives of the four Powers in New York should take place that evening if the Soviet Government would agree or, if not, at the earliest possible moment. Further instructions should be sent to the Minister of State for Foreign Affairs (Mr. Thomson) in Washington. He should be authorised to complete the military discussions with the United States on the clear understanding that their conclusions and any action flowing from them were ad referendum to both Governments concerned. His instructions should endorse the first paragraph of the agreed summary (in telegram No. 1753 from Washington) of the discussions so far with the State Department, to the effect that the United Kingdom and the United States would press for effective action through the United Nations, in particular at the current meeting of the Security Council, to guarantee the freedom of passage through the Straits of Tiran and the Gulf of Aqaba. They would seek to ensure that any resolution included an endorsement of the principle of freedom of passage. If the Soviet Government abstained, the principle would have received United Nations approval. In the event of a Soviet veto, action by the maritime Powers would nevertheless be seen to have received wide international support. Mr. Thomson should be further informed that we welcomed the initiative of the French Government and were seeking an urgent meeting in Paris to pursue it with a view, if possible, to a quadripartite meeting in New York later that day of the Permanent Representatives to the United Nations of the four
Powers. This should precede any further canvassing of our proposal for an international declaration by the principal maritime Powers on the lines proposed in the second paragraph of the agreed summary in Washington telegram No. 1753. We should seek to associate the French Government as closely as possible from the outset with both the United Kingdom and the United States Governments in the proposal for such an international declaration when the time came to pursue it further. It should be made clear in the discussions in Washington that the United Kingdom did not wish to appear to be taking the lead in a declaration on the freedom of navigation in the Gulf of Aqaba and any international force which might be established for the purpose of maintaining that freedom should not be solely Anglo-American. Any naval force for minesweeping or escort duties in the Gulf of Aqaba should therefore include ships from other countries than the United States and the United Kingdom. It might be some time before these could reach the scene, but this could be accepted provided that the countries concerned associated themselves with the declaration and committed themselves to provide such ships.

Meanwhile, the Commonwealth Secretary should arrange for the Canadian Prime Minister to be informed of the way in which we were seeking a solution of the problem so that he might be fully aware of the Government’s views before any discussions which he might be having later that day with the President of the United States.

The Cabinet—

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

(2) Invited the Minister of State for Foreign Affairs (Mr. Mulley)—

(a) to pursue discussions with the French Government on the lines indicated by the Prime Minister; and

(b) to send instructions to the Minister of State for Foreign Affairs (Mr. Thomson) in Washington on the lines indicated by the Prime Minister.

(3) Invited the Commonwealth Secretary to arrange for a telegram to be sent to the Canadian Prime Minister on the lines indicated 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 Chancellor of the Exchequer (C (67) 83) on the Regional Employment Premium (REP).

The First Secretary of State said that it was now possible to assess the public reactions to the proposal to introduce REP which had been put forward by the Government in the recently published Green Paper. There had on the whole been a favourable reaction...
by the responsible Press and opinion among economists had been
decidedly in favour of the proposal. The reactions of Regional
Economic Planning Councils had been mixed, those covering regions
with heavy unemployment welcoming the proposal, while others in
regions outside the development areas which nevertheless had
considerable employment problems tending to emphasise the
harmful effects on their regions of a further measure of preference
for the development areas. The Confederation of British Industry
(CBI) and much, though not all, opinion in industry had been hostile
to the proposal. The Trades Union Congress (TUC) on the other
hand supported it. The Ministerial Steering Committee on Economic
Policy had considered what course the Government should take in
the light of these reactions and had agreed that they should go ahead
with the introduction of REP by means of a new clause to be
introduced at the Committee stage of the Finance Bill. The
Committee had been conscious that REP was by no means the final
solution to the problems of the development areas, but it offered
the best prospect of reducing unemployment in these areas without
giving rise to inflationary pressures or endangering the balance of
payments.

One of the main criticisms made by the CBI had been that the
shortage of skilled labour in the development areas would be likely
to frustrate the intended effects of REP in reducing unemployment.
The CBI had informed him that they had proposals to make for
increasing the supply of skilled labour in the development areas and
be proposed to discuss the matter with them. It would be desirable
for the Government to be able to announce further measures to
expand training facilities at the same time as they announced their
decision on REP.

The Ministerial Steering Committee had considered the case for
adjusting the existing boundaries of the development areas if REP
were introduced and for providing some form of special assistance
to those regions outside the development areas with particular
employment problems—the so-called “grey areas”. On balance,
the Committee did not favour either of these courses. If special
assistance were given to selected areas outside the development
areas, there would inevitably be pressure from still further areas for
similar help and the eventual result would be seriously to weaken
the present preference given to the development areas. The
Committee had agreed, however, that the Government, at the same
time as they announced their decision on REP, should also announce
the commissioning of a study in depth of regional economic policies
with a view to publishing a further Green Paper on this subject in,
say, 18 months’ time. This study would examine the problems of
the “grey areas” and possible action that could be taken to help
them, including such matters as improvement of communications.

The Green Paper had proposed that the Government should
give an assurance that, if REP were introduced, it would continue to
be paid for at least five years. The Ministerial Steering Committee
agreed that, in order to ensure an adequate incentive to firms to move
to development areas, the assurance should cover seven years instead of five. It was intended that before the REP was eventually terminated the amount of the premium should be gradually tapered off over a period of years. The Committee had considered whether tapering should begin before the expiry of the seven-year period so as to phase out the premium completely by the end of that period. This, however, would run counter to the purpose of giving an assurance relating to a longer period than that proposed in the Green Paper and the right course would be to give an assurance that the premium would continue at the full rate for at least seven years.

It would be necessary to decide whether REP should be paid to the nationalised steel industry. Nationalised industries in general did not receive the existing premium under the Selective Employment Tax (SET) and would not receive REP. But the nationalised steel industry would present a different problem in that it was essentially a manufacturing industry.

In order to demonstrate that the Government had taken full account of the criticisms which had been made of the proposal for REP, it would be desirable to publish a White Paper setting out the main criticisms and the replies to them. It would also be highly desirable to arrange a debate in Parliament, since Parliament had not hitherto had an opportunity to express views on the issue. It was for consideration what attitude the Government should adopt in such a debate. Ideally, the Government should make clear that they would take account of views expressed in the debate before coming to a decision; but since only a few days would elapse between the debate and the putting down of the necessary new clause to the Finance Bill, such a posture might be regarded as unrealistic. The Government should therefore announce during the debate their decision to introduce REP, but should say that decisions on particular aspects, such as the coverage and duration of the scheme and the rate of premium, had not yet been made and account would be taken of the views of Parliament in determining these matters.

In discussion, there was general support for the proposals outlined by the First Secretary of State. Time should be found for a debate in Parliament, even if this meant using a day which had already been set aside for proceedings on the Finance Bill.

In further discussion it was argued that it would be necessary to consider carefully whether REP should be paid to the nationalised steel industry in view of the discrimination which this would involve between some important firms in the industry. For example, the plant of Richard, Thomas and Baldwin Limited at Newport, which was outside the development area, would not be eligible for REP. It was planned to extend this plant and it might well be more economic to site this additional capacity at Newport than elsewhere; but the fact that plant at Newport would not be eligible for REP might bring in question these plans for expansion. On the other hand, it was argued that there was an overwhelming case for payment of REP to the nationalised steel industry. The industry was at
present eligible for the national premium under SET since it was a manufacturing industry; the fact that the major part of it was about to be nationalised should not be allowed to affect the position. If the nationalised part of the industry were to be excluded from REP, this would put it at an unfair disadvantage as compared with that part of the industry which would remain in private hands. Payments of REP to the steel industry would not imply that it should also be paid to other nationalised industries, since they were properly regarded as service rather than manufacturing industries for purposes of SET. Discrimination between competing firms in the same industry was an inevitable feature of REP which would not be confined to steel.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that the Government should proceed with the introduction of REP on the lines proposed by the First Secretary of State. While the balance of view was in favour of payment of REP to the nationalised steel industry, this question should be further considered by the Ministerial Committee on Economic Policy with a view to reaching a decision before the debate in Parliament.

The Cabinet—

(1) Agreed that the Government should introduce the Regional Employment Premium.

(2) Invited the First Secretary of State, in consultation with the Lord President of the Council—

(i) to arrange for the publication of a White Paper setting out the main criticisms of the proposal for Regional Employment Premiums and giving answers to them;

(ii) to arrange for a debate in Parliament on the Regional Employment Premium.

(3) Agreed that the Government should announce their decision to introduce the Regional Employment Premium during the debate in Parliament, but should indicate that decisions on particular aspects (such as the coverage and duration of the scheme and the rate of premium) would be deferred in order to take account of views expressed in the debate.

(4) Agreed that, subject to consideration of views expressed in the debate in Parliament, the Regional Employment Premium should be paid to manufacturing industry in the development areas at the rates set out in paragraph 8 of the annex to C (67) 83; and that the Government should give an assurance that the premium would continue to be paid at the full rate for at least seven years.

(5) Invited the Chancellor of the Exchequer to arrange for a new clause to be moved at the Committee stage of the Finance Bill to provide for the introduction of the Regional Employment Premium.
(6) Invited the First Secretary of State to commission a study of regional economic policies and to arrange for this to be announced concurrently with the Government's decision on the Regional Employment Premium.

(7) Invited the First Secretary of State, in consultation with the Minister of Labour and in the light of further discussion with the Confederation of British Industry, to consider what measures to increase the supply of skilled labour in development areas might be announced concurrently with the decision on the Regional Employment Premium.

(8) Invited the Minister of Power to circulate a memorandum to the Ministerial Committee on Economic Policy on the payment of the Regional Employment Premium to the nationalised steel industry.

Cabinet Office, S.W.1,
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 30th May, 1967, 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. CLEDWYN HUGHES, M.P., Secretary of State for Wales
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. PATRICK GORDON WALKER, M.P., Minister without Portfolio
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. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. RICHARD MARSH, M.P., Minister of Power
The Right Hon. GEORGE THOMSON, M.P., Attorney-General
The Right Hon. SIR ELWYN JONES, Q.C., Parliamentary Secretary, Treasury

The following were also present:
The Right Hon. GEORGE THOMSON, M.P., Minister of State for Foreign Affairs
The Right Hon. SIR ELWYN JONES, Q.C., Attorney-General
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. H. L. LAWRENCE-WILSON

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1. The Foreign Secretary said that the situation in the Middle East remained extremely grave. Israel had so far been persuaded not to take military action and Mr. Eshkol's Government remained in power despite the challenge from those favouring pre-emptive action. The key to the situation lay in convincing Israel that the Great Powers were seeking a solution to the crisis which would enable shipping to have the right of innocent passage to the port of Eilat, since this was essential to the economy of Israel and indeed, because of oil supplies, to her continuing existence. There was no prospect at the moment of Four-Power talks taking place as proposed by the French Government; the Soviet Government were unwilling to participate in such talks but, while wishing to be seen as the friend of the Arab States, they had indicated to him that they were anxious to avoid war breaking out in the Middle East. Meanwhile, it seemed that in the United Nations discussions would continue for some time and that it was unlikely that even a holding resolution urging restraint on both Israel and the United Arab Republic (UAR) and proposing a moratorium on the enforcement by the UAR of a blockade would be carried. It was not clear precisely what assurances President Johnson had given to the Israeli Foreign Minister, Mr. Eban, on the latter's visit to Washington, although it seemed likely that the Government of Israel had publicly overstated these for domestic political purposes.

Any course that we might choose to adopt in this crisis, including taking no action at all, held risks for us. We should continue to strive for a holding resolution in the Security Council and to work towards a negotiated solution to the crisis. It would not in his view be possible to revert to a situation in which the UAR exercised no rights over shipping passing through the Straits of Tiran; equally unless Israel could be guaranteed the right of innocent passage by shipping to the port of Eilat, this would mean capitulation and would therefore be unacceptable to her. A compromise might take the form of the UAR having a measure of control and inspection of such shipping in respect of strategic supplies but with the types of cargo which were allowed to pass freely so defined as to include oil in particular. We should seek to provide the background against which such a settlement would be negotiated, by canvassing support for an international declaration in favour of the right of innocent passage through the Straits of Tiran; and continue with contingency plans to enforce this if all else failed. This was essential if action in the United Nations were to have a chance of success and if Israel were to be deterred from pre-emptive military action. We should not know, until consultations with other countries had been initiated, what support there would be for such international action, although Canada and the Netherlands had indicated their support and it seemed likely that Norway and Sweden would do so. It seemed likely that France would support a holding resolution in the Security Council and a declaration in favour of the right of innocent passage through the Straits of Tiran but that she would not be prepared to
canvass support for this. Only a short time was available in which to complete such action effectively since a continuation of the present uncertainty might entail such a deterioration in Israel's military (though not economic) position that she would be forced to take military action to preserve her existence.

In discussion it was urged that the changes which had now taken place in military dispositions by the Arab countries and particularly by the UAR represented a permanent change in the balance of power in the Middle East, to the disadvantage of Israel, which both she and the Western Powers would have to accept, although we must seek to ensure that this change did not lead to a further series of Arab victories which would endanger Israel's existence. While we should seek a negotiated settlement which would give ships carrying Israeli supplies and goods the right of innocent passage through the Straits of Tiran and the Gulf of Aqaba and should seek to achieve an international declaration (preferably in the United Nations Security Council, or failing that by a considerable number of maritime countries) of the freedom of navigation in these waters, it would be unwise for the United Kingdom to be seen to be taking the lead even in organising such a declaration. Whatever our sympathies with Israel might be, our economic interests lay primarily in the Arab countries; in particular we were heavily dependent on their oil. Bearing in mind both these interests and our wider interests in avoiding an international conflict in this area as elsewhere, it was therefore of crucial importance to us that we should avoid either participation in a solely or primarily Anglo-American force to assert effectively the freedom of navigation in the Gulf of Aqaba, or even taking the lead in seeking to organise a fully multilateral force for this purpose. If one were organised we might play some part in it but it seemed doubtful whether in fact such a force could be established. Furthermore, the position in international law did not appear to be free from doubt. It could well be argued that the situation in respect of the freedom of navigation in the Gulf of Aqaba was comparable with that in respect of the Suez Canal and we had acquiesced for a number of years in the Canal being closed to Israeli shipping or supplies for Israel. It was doubtful whether we should seek to enforce in respect of the Gulf of Aqaba rights which we had failed to assert in respect of the Canal over so long a period. Nor was it essential to British interests to restore the right of innocent passage in the Straits and the Gulf.

On the other hand, it was argued that we had a major interest in seeking a negotiated settlement which fully safeguarded the right of innocent passage for Israeli goods and supplies in the Gulf, though it might prove to be acceptable that such a settlement should include the maintenance of Egyptian forces at Sharm es Shaikh and an Egyptian right to control the passage of strategic goods to Israel, provided that the definition of strategic goods clearly and specifically excluded oil. On the broadest view of our interests, it was important to us to maintain the freedom of navigation and the rights of innocent passage in international waterways and it was clear that in international law the Straits of Tiran and the Gulf of Aqaba were in this category. Nor had the UAR a valid claim to belligerent rights.
which would override that freedom of navigation. Moreover, although there could be no question of our seeking the overthrow of President Nasser, which would be contrary to our interests, British interests in South Arabia and in the Persian Gulf and our wider position in the Middle East would suffer further damage if it were seen that the President had been wholly successful in his recent moves and had thereby put at risk the continued existence of Israel. Nor should we ignore the strengthening of Soviet influence on the Middle East which would be involved. Above all, it was of major importance to our interests to avoid an international conflict arising from the Middle East and it seemed certain that this would develop unless Israel were in the near future to receive firm and satisfactory assurances relating to the rights of innocent passage in the Gulf of Aqaba. We must seek the restoration of some form of a United Nations presence in this area, even though it would be impracticable to re-establish the United Nations Emergency Force. Without satisfactory assurances in respect of the Gulf the present Israeli Government might be overthrown and Israel would have no option but to go to war, since otherwise her future existence would be at risk. In particular, her geographical situation was such that she could not afford to risk a pre-emptive strike by the Egyptian Air Force. In these circumstances, it was argued that an international declaration in respect of the Gulf of Aqaba was essential to the preservation of the peace and that the assertion of such a right of innocent passage must be effective. Such a declaration would be the basis for any further international action and might require the establishment of a multilateral naval force to make it effective. Such a force should not be solely Anglo-American nor should it be seen to derive solely from an Anglo-American initiative (particularly having regard to our application to join the European Economic Community) but there was reason to hope that at least some other maritime nations would be prepared to commit forces to it, even although their ships might not be able to arrive on the scene in the near future. There could be no hope of obtaining agreement on an international declaration and on establishing such a force unless we were to play a leading part in seeking agreement to the declaration and unless we were in a position to consult other nations about the practicability of establishing a viable multilateral force on the lines which were contemplated. We should therefore take action on the lines proposed in the Foreign Secretary’s paper, on the understanding that discussions relating to the international force represented at this stage only planning for contingencies and that no commitment would be undertaken without further reference to the Cabinet. Moreover in order to restrain a pre-emptive strike by the Israelis in the circumstances in which they were now placed it would be of crucial importance that it should be known that such discussions were taking place about an international commitment to the assertion of the right of innocent passage in the Gulf of Aqaba. While it should be made clear that such discussions were not based on an Anglo-American initiative, our statement should not be so narrowly confined that it failed to carry conviction with the Israelis.
The Prime Minister, summing up the discussion, said that our objectives were to prevent Israel from taking pre-emptive action and to seek a negotiated settlement to the crisis in the Middle East through the United Nations or by other means. We should continue to urge restraint on Israel and, if necessary, on the United States also: and we should seek to establish precisely what assurances Israel had received from President Johnson during the recent visit to Washington of Mr. Eban, the Israeli Foreign Minister. The Foreign Secretary should be authorised to canvass the widest possible support for a declaration to assert the right of innocent passage for shipping through the Straits of Tiran and in the Gulf of Aqaba and we must accept that, in this aspect of the matter, we could not avoid to some extent taking the lead, though we should seek to associate other countries, particularly France and Canada, with the canvassing. Concurrently, planning should continue and international discussions take place with the aim of establishing what were the prospects of constituting a viable force on a wide international basis to enforce this right of innocent passage, it being made clear both in our approaches to other countries and in Parliament that such planning was on a contingency basis only. Discussions relating to such a force would have to include consideration of deterrent forces in the Eastern Mediterranean. Meanwhile we should continue our efforts in the Security Council.

The Cabinet—
Invited the Foreign Secretary to be guided by the Prime Minister's summing up of their discussion.

2. The Commonwealth Secretary said that the situation in Hong Kong had eased considerably since the previous meeting of the Cabinet. It appeared that the local Communist leaders were avoiding direct clashes with the police and although they had had some success in inciting strikes and intimidating labour, the situation in general was considerably more stable. Great credit was due to the Governor and to the Hong Kong police for the way in which they had handled the situation and the arrival of HMS Bulwark had helped to revive confidence. There was furthermore some indication that the mainland Communist leaders were concerned at the mishandling of the situation by the local Hong Kong Communists. Nevertheless, the situation was still uneasy.

The Foreign Secretary said that the United Kingdom representative in Shanghai had been very roughly handled by the Chinese and had in effect been expelled, although technically our Mission there had not been closed. We were in a weak position to retaliate. Although he had considered seeking the agreement of his colleagues to the expulsion from the United Kingdom of the New China News Agency, this act might lead to further retaliation in China and it did not therefore appear to be desirable at present.
The Commonwealth Secretary said that Colonel Gowon, the Head of the Military Federal Government in Nigeria, had recently announced a decision by that Government to set up 12 constituent States. That morning, however, Colonel Ojukwu, the Head of the Government of the Eastern Region, had announced the independence of that Region, and, although there was some internal threat to his position it seemed likely that he would maintain full control. The whole situation in Nigeria was therefore highly uncertain and it was impossible at this stage to assess how it might develop. Our immediate interests lay in the security of British subjects in Nigeria and in our oil supplies. Plans had been made for the evacuation of British subjects if necessary, but there had so far been no threat to their safety. We should also shortly have to consider whether to agree to the payment of oil royalties to the Government of the Eastern Region, or whether they should continue to be paid to the Federal Government.

The Commonwealth Secretary recalled that Mr. Simbule, the High Commissioner designate for Zambia in the United Kingdom, had (when he was in Tanzania) made a vicious attack on this country since the agreement to his appointment had been signed. We had protested at Mr. Simbule's speech and had sought an explanation of it, but he had since repeated it and without our agreement he had arrived in the United Kingdom the previous day. On his (the Commonwealth Secretary's) instructions Mr. Simbule had not had any official reception at the airport and we should for the time being refuse to receive him. He would also advise The Queen that Mr. Simbule should not be received at Buckingham Palace. We should, meanwhile, seek to obtain from President Kaunda a retraction of Mr. Simbule's offensive statement, but unless we received such a retraction Mr. Simbule would not be acceptable as High Commissioner.

The Prime Minister said that arrangements had been made for certain Royal Navy ships to visit Cape Town in the near future. This visit would no doubt give rise to considerable criticism among the Government supporters in Parliament and more widely in the country and the Cabinet would wish to consider in such circumstances whether the visit should take place. It was, however, relevant to their decision that we had succeeded in achieving, as part of the programme of visits, arrangements for multi-racial entertainment which would be a considerable advance on the attitude which had hitherto been adopted by the South African Administration.

The Foreign Secretary said that, as part of the arrangements which had been made with the South African Government for the reduction of our naval presence at Simonstown, we had agreed that Royal Navy ships should pay visits to South Africa from time to time. It was greatly in our interest to maintain the naval facilities which we were at present accorded and the continuation of such visits was essential to that end. Coloured members of the crews would have to conform on shore with local apartheid legislation but we had succeeded in negotiating that not only local British people, but also
the South African Navy and the Cape Town municipality would arrange multi-racial entertainment for the crews. We should not jeopardise these arrangements by announcing them prematurely but our achievement represented a considerable advance on the position which had hitherto prevailed in South Africa.

In discussion it was suggested that as long as coloured members of the crews of our ships would be subject to local apartheid discrimination when on shore it would be contrary to the Government's policy to permit the visits to take place; and they should therefore be cancelled, though we might announce that they had been deferred because of the situation in the Middle East. There was, however, general agreement that the visits should take place as planned, both because of our need to maintain the naval facilities at Simonstown, which would for example be of great importance to us if we were to take part in a multilateral naval force in the Gulf of Aqaba, and because of the advance which had been achieved through ensuring multi-racial entertainment for the crews by South African authorities.

The Cabinet—
(1) Took note of the statements by the Foreign and Commonwealth Secretaries.
(2) Agreed that the visit of Royal Navy ships to South Africa should take place as planned.
(3) Invited the Defence Secretary, in consultation with the Foreign Secretary, to consider in the light of their discussion the form and timing of any public statement about the arrangements which had been made for the multi-racial entertainment of the crews.

Cabinet Office, S.W. 1,
30th May, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 30th May, 1967, at 3 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. 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. CLEWDYN 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. PATRICK GORDON WALKER, 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. RICHARD MARSH, M.P., Minister of Power
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. H. L. LAWRENCE-WILSON
SECRET

Subject
DEFENCE EXPENDITURE STUDIES
The Cabinet had before them a memorandum by the Secretary of State for Defence (C(67) 81) on Far East Defence Policy and a note by the Secretary of the Cabinet (C(67) 87) to which was attached a letter to the Prime Minister from the Prime Minister of Singapore.

The Defence Secretary recalled that at their meeting on 11th April the Cabinet had decided that, in consulting with our allies about our policy in the Far East and in particular about our intention to withdraw from Singapore/Malaysia, we should leave open for decision in June/July whether or not we would maintain maritime and air forces in the Far East area after this withdrawal and, if so, of what size they should be. The initial consultations which he and the Foreign Secretary had had with the Governments of the United States, Australia, New Zealand, Malaysia and Singapore had been made much more difficult by our inability to state a willingness to maintain such forces on a continuing basis. All five countries were opposed to our deciding now to withdraw wholly from Singapore/Malaysia in the mid-1970s and even more strongly to an announcement of this intention in July when the defence expenditure studies would be completed; they considered that this would seriously impair the political stability of the area. In a recent letter to the Prime Minister, Mr. Lee Kuan Yew, the Prime Minister of Singapore, had stressed his concern lest that by announcing an intention to leave Singapore in the middle 1970s we should cause a complete loss of confidence in the area. In addition to our general interest in the maintenance of this stability, we had a particular interest in the survival of the present régime in Singapore since its co-operation with us was of paramount importance to an orderly rundown of our forces there. The Prime Minister would be visiting President Johnson later that week and it was essential to decide now whether he should say that we might be willing to maintain a continuing military capability for use in the Far East after 1975-76. We must also recognise that, if we were to decide to announce in July that we planned to leave Singapore/Malaysia by the mid-1970s, it might be essential to announce simultaneously our intention to maintain a continuing capability in the area; otherwise the present Administration in Singapore might collapse in the next 12 months. It would, however, be premature to decide now on the character, scale and deployment of any capability that we might finally decide to maintain for use, if required, in the Far East since this must await decisions on our defence policy as a whole in the light of the defence expenditure studies. Although these were not yet completed, the work done so far indicated that, within a defence budget of £1,800 million (at 1964 prices) for 1975-76, a useful capability could be provided for this purpose. Taking account of the forces that would be required in any event to discharge responsibilities to our remaining dependent territories, to help friendly Commonwealth Governments or to serve as part of a United Nations force in the peace-keeping role, the additional cost of maintaining such a capability would not be
large since it would be part of the forces which we should require for other purposes: even if we were to deploy some part of it in the Far East, the extra cost would only be about £10 million annually. The forces giving this capability might comprise a small naval force, including amphibious units either based on shared facilities in Australia or using facilities in Singapore maintained by the Singapore Government, with Army and RAF forces available for reinforcement from the United Kingdom and perhaps sent out periodically for exercises to Australia and Singapore or Malaysia. But no decisions need be taken now on these matters or on the part which a deployment of our Polaris submarines East of Suez or a continued use of Gurkhas might play in our plans. The future position of the Gurkhas was set out in detail in C (67) 81.

In discussion it was argued that it would be mistaken policy for the Government to make a commitment in respect of their defence posture and oversea policy which would not have effect until as far ahead as 1975-76. Constitutionally, the present Government could not commit a successor Government by a mere pronouncement of intention, while politically we could not foresee the circumstances in the latter part of the 1970s in which such a commitment might take effect. Furthermore, it was questioned whether the maintenance of a military capability for action in the Far East, in the terms proposed by the Defence Secretary, might not entail some additional defence expenditure. Such additional expenditure would admittedly be entailed if some form of United Kingdom military presence in Australia were to be involved. Such expenditure would involve the corresponding curtailment of the Government's plans for social and economic expenditure in the United Kingdom, plans which our lack of rapid economic growth would in any event restrict below the minimum that was desirable. In general, a declared intention to continue to play a military role in the Far East in the latter half of the 1970s would be out of accord with the role in the world which this country could in future afford to play and could only lead to yet further reductions in that role in the near future. In these circumstances, there was considerable support for the view that we should not in any event commit ourselves to maintaining a military presence in Australia after 1975-76, in the sense of stationing forces in that country, though some Ministers who took this view felt that it would be acceptable that we should declare an intention to maintain a military capability for use in the Far East to meet commitments assumed by the Government of the day, on the understanding that the maintenance of such a capability did not involve maintaining forces beyond those which were required for our other policies and commitments.

On the other hand, it was pointed out that a declaration that we would maintain a military capability for use in the Far East after 1975-76 did not in reality entail any new commitment. On the contrary, it implied a very large reduction of our existing commitments. It was of the greatest importance to our economic policy that we should reduce our prospective defence expenditure and the only theatre to which it was practicable and in accordance
with our own vital interests and security to look for major reductions over the next few years was the Far East. To achieve such large reductions (which were the largest we had ever made in so short a period except immediately after a World War), it was essential that we should at least plan our military forces and weapons policy on the basis that we should have withdrawn from the mainland of Asia (save from Hong Kong) by 1975–76 at the latest. Our future weapons systems must be planned some 10 years ahead. In these circumstances we should at least make it clear to our allies that we would have withdrawn by 1975–76, though it was for further consideration whether it would be desirable to make a public statement to that effect in the near future. The discussions which the Foreign Secretary had had in Washington on the occasion of the meeting of the Council of the South-East Asia Treaty Organisation and which the Defence Secretary had subsequently had in Malaysia and Singapore showed that we could not hope to obtain the acquiescence of our allies in a withdrawal from the mainland of Asia by that date unless we were now to give them a commitment that we would maintain a military capability for use in the Far East thereafter. Even if we made such a commitment, there would be the utmost difficulty in negotiating the reduction of our forces and of our commitments in the intervening period. Unless we obtained the acquiescence of our allies in this manner we could not effect a withdrawal in accordance with our present plans (and thereby achieve the necessary savings on defence expenditure): the alternative would then be either to continue our presence for a longer period, or to withdraw precipitately in the face of opposition to our allies in a manner which would, by jeopardising local political and business confidence, risk the overthrow of the existing régime in Singapore, with the consequent danger of disorder which would not only entail increased defence expenditure, but put at risk the security of our forces, of their dependants and of other British subjects in the area.

In these circumstances, it was strongly urged that, while we need not decide until the final conclusion of the defence expenditure studies in July whether or not we should maintain after 1975–76 a military presence in Australia, it was essential that the Prime Minister on his forthcoming visit to Washington should be in a position to assure the President of the United States, and that we should concurrently assure our other allies, that we would maintain a continuing military capability for use in the Far East in the manner proposed by the Defence Secretary.

In further discussion, note was taken of the conclusions of the Defence Secretary’s paper regarding the stationing of the Polaris submarines East of Suez and the future of the Gurkhas. The Cabinet were informed that the Ministers concerned had decided that in any event we should not seek to acquire the Poseidon missiles and there was agreement that, although there should be no commitment, it would be appropriate that in the course of his discussions the Prime Minister should ascertain the views of the President on the possibility of stationing the Polaris submarines East of Suez.
The Prime Minister, summing up the discussion, said that our main objective must be to obtain the acquiescence of our allies in our plan to remove our forces from Singapore/Malaysia by the mid-1970s, having run these down by about half by 1970-71. We must also seek to reduce our commitments in the area in accordance with the intended reductions in our forces. If we were to achieve this, it appeared that we should have to pay a price by indicating a willingness to maintain a military capability for use in the Far East beyond the mid-1970s. The purpose of this capability would be to meet any commitments that we might be shouldering in the area at that time; the size, character and deployment of any such capability need not be decided now.

The Cabinet—
Approved C (67) 81.

Cabinet Office, S.W.1,
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 1st June, 1967,
at 10 a.m.

Present:
The Right Hon. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs
(In the Chair)
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. 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 following were also present:
The Right Hon. KENNETH ROBINSON, M.P., Minister of Health (Item 4)
Mr. GEORGE THOMAS, M.P., Minister of State for Commonwealth Affairs
(items 2 and 3)
The Right Hon. FREDERICK WILLEY, M.P., Minister of State, Ministry of
Housing and Local Government (Item 5)

The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:
Mr. P. ROGERS
Miss J. J. NUNN
Mr. W. A. NIELD
Mr. K. BARNES
Mr. H. L. LAWRENCE-WILSON
Mr. P. E. H. STANDISH

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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 had been no major developments in the Middle East situation since the Cabinet had last discussed it. A holding resolution had now been tabled in the Security Council and support for it was being canvassed. Contingency planning was continuing against the possibility that the use of force might have to be considered in order to secure the right of innocent passage through the Straits of Tiran and in the Gulf of Aqaba; and our approaches to other countries to gain support for a declaration in favour of this right would begin as soon as President Johnson authorised similar approaches by United States Ambassadors. In the meantime a British ship on passage through the Straits of Tiran to Aqaba had not been molested: instructions had been issued that its time of arrival should be reported to the Egyptian authorities at Suez and that it should if necessary submit to search, but only under protest. Several other ships, including two bound for Eilat, had passed through the Straits of Tiran without incident since the blockade had been announced, though none had done so since 27th May and as yet no oil tanker had attempted the passage. The importance of the reported move of Soviet warships in the Mediterranean had been exaggerated by the Press; our information showed that so far these moves fell somewhat short of what would be necessary to bring Soviet naval strength in the area up to its normal level and this would be much less than would be needed in a confrontation. Finally, as regards the undertakings which it was thought that Israel might have received from President Johnson during the recent visit of the Israeli Foreign Minister, Mr. Eban, to Washington, it seemed clear that the United States Administration had not committed themselves any further than we had done: they had undertaken to provide us with a formal record of the discussions.

The Cabinet—

took note of the statement by the Foreign Secretary.

3. The Minister of State for Commonwealth Affairs said that the declaration of secession by the Governor of the Eastern Region of Nigeria, Colonel Ojukwu, had given rise to a very dangerous situation. The Federal Government had declared a blockade of Port Harcourt and Federal troops were said to have begun to move towards Enugu and to be due to arrive there that day. It did not seem likely that the Federal Government would succeed in an invasion of the Eastern Region from the north or in enforcing the
blockade, but the situation might alter if, as was reported, there was support for the Federal Government from all the other regions of Nigeria. In the meantime the Shell Oil Company would seek the permission of the authorities in Lagos for ships to enter Port Harcourt. The United States Embassy in Lagos wished to begin a general evacuation from the Eastern Region of dependents and other non-essential personnel but we had opposed this; although we had plans to evacuate from the threatened area British subjects, who numbered about 1,250 of a total of 3,500 in the Eastern Region, no move would be made unless our nationals were threatened since otherwise such a move might exacerbate the situation and embarrass our own position. As regards recognition of a separate State in the East, we should wait on developments, and particularly on the action taken by African countries. In the meantime our Deputy High Commissioner in the Eastern Region (who in view of his status had diplomatic standing, unlike the representatives of other powers in the Eastern Region, who were Consuls) would continue to deal with Colonel Ojukwu without prejudice to the question of recognition.

In discussion the Cabinet were informed that preparations were in hand to bring to a high state of readiness the forces needed to implement contingency plans to evacuate British subjects from Nigeria. Since however it had been considered unwise to announce that these preparations related to Nigeria, lest this should adversely affect the situation there, they had given rise to alarmist reports linking them with the Middle East crisis. It was agreed that, in view of the dangerous implications of this development for our position in relation to the Middle East, this aspect of the matter required further consideration by the Ministers directly concerned.

The Cabinet—

(1) Took note of the statement by the Minister of State for Commonwealth Affairs.

(2) Invited the Foreign Secretary, in consultation with the Secretary of State for Defence and the Minister of State for Commonwealth Affairs, to consider further, in the light of their discussion, the desirability of announcing that the military preparations in question related to the possibility of our having to evacuate British subjects in Nigeria.

The Minister of Transport said that the announcement in reply to Questions in Parliament of the visits of certain Royal Navy ships to Cape Town, without our insisting that visits by the crews on shore would only take place if all entertainment were on a fully multi-racial basis and that the crews did not have to accept the rules of apartheid, had been very badly received by Government supporters in Parliament. Unless we could insist on such conditions, the visits should be cancelled.

In discussion there was general agreement that despite these considerations the balance of advantage was heavily in favour of allowing the visits to take place. Such visits were essential to the continuation of the Simonstown Agreement and the facilities which
we were thereby accorded were of substantial importance to us and
would be of much greater importance if hostilities were to break
out in the Middle East. We must also have regard to the importance
of continuing to persuade the South African Government not to
support the illegal regime in Rhodesia. Furthermore, the
arrangements which had been made for multi-racial entertainment,
which had been reported during the Cabinet's previous discussion
on this issue, represented a substantial advance on the previous
position and should not be jeopardised. It would also be
unreasonable to prohibit the few coloured members of the crews
from going ashore if they wished to do so; for example, one member
of the crew was a St. Helenian who wished to visit his relatives in
Cape Town. It was nevertheless important that these considerations,
and in particular the fact that multi-racial entertainment had been
arranged, should be more widely publicised and arrangements had
been made for this to be done at a meeting of the Parliamentary
Labour Party.

The Cabinet—

(3) Agreed that the visits of Royal Navy ships to Cape Town
which had been arranged in the near future should take
place as planned.

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4. The Cabinet considered a memorandum by the Home
Secretary (C (67) 90) on whether Government time should be given
for the completion of the remaining stages of the Medical Termination
of Pregnancy Bill.

The Home Secretary recalled that on 11th May the Cabinet had
agreed that the question of giving Government time for the Medical
Termination of Pregnancy Bill should be considered by the Legislation
Committee in the light of the prospect that the Bill would be so
amended as to make it a workable measure. He had been able
to persuade the sponsors of the Bill to accept the amendments
considered necessary for this purpose and the Legislation Committee
had agreed, the Lord Privy Seal dissenting, that Government time
should, if necessary, be found for it.

The Bill, as introduced by Mr. David Steel, was designed to
give statutory effect to the existing case law permitting abortion on the
ground of risk to the life or health of the pregnant woman and to
introduce additional grounds, including the potential abnormality
of the unborn child. In Committee the grounds of abortion had
been further enlarged to include risk of injury to the "well-being"
of the woman, the unborn child or the woman's other children.
This did not make sense in relation to the risk of injury to the
well-being of the foetus and had in addition been criticised because
of the vagueness of the concept of "injury to well-being". The
sponsors were now willing to put down amendments to delete
references to well-being and to refrain from attempting to bring
the concept back by defining “health” to include “well-being”.
So amended the Bill would provide for abortions on only two
grounds:

(1) risk to the life of the woman or injury to the physical or
mental health of herself or any existing children of her
family; and

(2) substantial risk that the child would be seriously handicapped.
The Bill included safeguards not provided by the existing case law
and he and the Minister of Health were satisfied that with the
proposed amendments and certain others of a technical character
it would be in a workable form. The issue had now been fully
debated in both Houses and it would be unfortunate if Parliament
were prevented by shortness of time from reaching a decision upon it.
Private Members’ Bills upon it would be introduced year after year
until a decision could be reached and it would be preferable for
time to be found on this occasion. Time on one evening from
7 p.m. onwards, enabling the House to sit through the night if
necessary, should be sufficient.

The Lord Privy Seal questioned whether to make Government
time available to the sponsors of the Bill was compatible with the
attitude of neutrality towards the principle of abortion which the
Government had hitherto adopted. Recent articles in the Press
suggesting that the Government proposed to “come to the rescue”
of the Bill and to “defeat a filibuster” had created an impression
of Government support which would be confirmed in the public
mind if Government facilities were now given. This might do harm
to the Government’s reputation with considerable sections of public
opinion which were by no means wholly Roman Catholic, as was
illustrated by the collection of 500,000 signatures to a petition against
the Bill which had been organised by a non-Roman Catholic
Committee. Moreover there was considerable difference of opinion
on two features which the Bill would still contain, even if it were
amended as proposed. The absence of a special qualification for
doctors to be permitted to undertake or approve abortions had been
publicly deplored by representatives of the Royal College of
Obstetricians and Gynaecologists and of the British Medical
Association. The inclusion of risk of deformity in the child among
the grounds for abortion had been criticised by the Archbishops of
Canterbury and York on the ground that this factor should be
considered only in relation to a risk to the health of the woman
herself. It was not disputed that the Bill as it had left Committee
was unsatisfactory; and it was not clear that the present Bill could
be put into a workable condition in which it would be acceptable
even to those who favoured reform of the law in principle. It would
be preferable therefore to give no Government time for the further
consideration of this Bill but to await the production of what might
be a better Bill in a later session.

In discussion it was emphasised that the Legislation Committee’s
view that the sponsors of the Bill should be given time was based
on the consideration that, when an important social issue had been

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thoroughly debated, Parliament should not be prevented from reaching a conclusion on it merely because a Private Member could not command the necessary time. The present Bill dealt with an important issue on which public opinion was much concerned; in announcing that Government time would be given it should be made clear that this was the ground for the Government's decision and that they maintained their neutrality on the principle of the Bill. Neutrality would be demonstrated by the fact that on a free vote Ministers would vote in different lobbies. On the other hand, it was argued that merely to give time inevitably involved some departure from neutrality since without it the Bill would be unlikely to be passed; and to give facilities for one Private Member's Bill which were not available to all would be seen as evidence of partiality. The issue was not of such outstanding importance that the Government, who had already thought it right in the national interest to take measures which attracted public criticism, need feel bound to risk further criticism in order to give an opportunity for the Bill to be enacted in the current session.

In further discussion the following points were made—

(a) Representatives of the medical profession in England and Wales including the gynaecologists had at their own request been seen by the Home Secretary and the Minister of Health on the previous day. They had expressed themselves satisfied with the Bill, amended by the deletion of the concept of "well-being", notwithstanding that no special qualifications were required of doctors undertaking or approving abortions.

(b) The Secretary of State for Scotland would think it necessary to make it clear in debate on the remaining stages of the Bill that the position in Scotland was satisfactory under the existing law and he was not therefore in favour of the Bill.

(c) While there should be a free vote for Ministers on Third Reading it would be unfortunate if a substantial number of Ministers voted on Report against the amendments removing the concepts of risk to the well-being of the mother and to the future well-being of the unborn child which the Home Secretary, with the agreement of the Home Affairs Committee, had persuaded the sponsors to accept. If these amendments were defeated it might become desirable that Ministers should vote against the Bill on Third Reading solely on the ground that the Bill was not then in a workable form.

The Foreign Secretary, summing up the discussion, said that the Cabinet were agreed that if the Bill failed to complete its remaining stages in Private Members' time Government time should be given on one evening after 7 p.m. The Lord President in announcing this decision later in the day should make it clear that the Government were providing time in order to enable the House to reach a decision on the Bill and that the Government's attitude of neutrality was maintained. Ministers should be free to vote as they considered right but in doing so on the major amendments should bear in mind that
these amendments had been urged on the sponsors as a result of the view of the Home Affairs Committee that they were necessary to put the Bill in a workable condition.

The Cabinet—

(1) Invited the Lord President of the Council to arrange for Government time on one evening after 7 p.m. to be made available to the sponsors of the Medical Termination of Pregnancy Bill, if this proved necessary to enable the House of Commons to reach a conclusion upon it, and to take an opportunity of making it clear that this was the sole basis of the Government's decision.

(2) Agreed that, subject to the considerations indicated in the Foreign Secretary's summing up of their discussion, Ministers should be free to vote as they thought fit in the debates on the remaining stages of the Bill.

5. The Cabinet considered a memorandum by the Lord President of the Council (C(67) 89) on an amendment to the Leasehold Reform Bill passed in Standing Committee.

The Lord President recalled that in February 1966 the Cabinet, after lengthy discussion (CC (66) 7th Conclusions, Minute 2), had adopted proposals for leasehold reform which were published in a White Paper (Cmd. 2916) and embodied in the Bill as introduced. It was an important feature of the proposals that the right of enfranchisement would be confined to leaseholders whose property did not exceed the Rent Act limits in rateable value; but in Standing Committee an amendment to remove these limits had been carried by a majority of 18-1. Its consequences had been considered by the Ministerial Committee on Legislation on Rent, Land Commission and Leasehold Enfranchisement, who had identified the four possible courses of action described in the memorandum but had been unable to agree which to adopt. The Committee's general view was that there was no satisfactory solution; it was a choice of evils. Acceptance of the amendment would mean that some leaseholders in London might obtain windfalls of many thousands of pounds free of capital gains tax, which would be an absurd consequence of a Bill designed originally to help the smaller leaseholders in Wales. The Committee recognised, however, the political difficulty of restoring the Rent Act limits and considered that the alternative to accepting the situation might be to adopt the principle of enfranchisement at the market value of the freeholder's interest, shown as course (d) in the memorandum.

The Minister of State, Ministry of Housing and Local Government, said that the amendment would have been withdrawn by its proposer upon a Government undertaking to look again at the question of Rent Act limits. The Opposition members of the Standing Committee had not permitted the amendment to be
withdrawn and it had been carried on a division, the Minister of State supporting the amendment in view of his agreement that a case had been made out in debate to warrant reconsideration of the clause. As regards the action to be taken, he did not favour enfranchisement at market value. This would be complicated and might entail the addition of several new clauses to the Bill, it would not satisfy the proprietors of the large London estates who were the principal opponents of the Bill and it would be unwelcome to the Government’s supporters. The better course would be to accept the decision of the Standing Committee.

In discussion there was general support for the view that the Rent Act limits of rateable value should be restored in conformity with the original decision of the Cabinet. It would be possible on Report to secure the reversal of a decision taken by a relatively small number of Members in Standing Committee.

The Foreign Secretary, summing up the discussion, said that the Cabinet were firmly of the opinion that the Government should not accept the removal by a Standing Committee of an important feature of their Leasehold Reform proposals. The Minister of State should accordingly table the amendments necessary to restore the Rent Act limits of rateable value.

The Cabinet—

Invited the Minister of State, Ministry of Housing and Local Government, to table amendments to the Leasehold Reform Bill on Report to restore the Rent Act limits of rateable value defining the houses to which the Bill would apply.

6. The Cabinet considered a memorandum by the Minister of Labour (C (67) 86) proposing an announcement about the timing of decasualisation of employment in the docks.

The Minister of Labour said that, in accordance with the Cabinet’s decision, he had announced the previous October that the Government endorsed in principle the changes in pay recommended in the 1966 Report of Inquiry under Lord Devlin into the wages structure and level of pay (Cmnd. 3104) to accompany decasualisation, but that implementation of these changes must in the Government’s view be conditional upon agreement for the elimination of restrictive working practices and must be subject to the criteria of the Government’s policy on incomes. Since then the Local Modernisation Committees’ representatives of employers and unions in each port, had been negotiating on the elimination of restrictive practices, guided by the National Modernisation Committee under the chairmanship of the Minister of State, Board of Trade (Lord B. 8175).
Brown). Considerable progress had been made and the Committee had undertaken to report to him on 1st July about the position then reached. However, the considerable time which the negotiations had necessarily taken had led to growing impatience in some ports and among some groups of workers. The latest manifestation of this was a threat by the tally clerks in the Port of London to strike from Monday, 5th June, unless and until an early date was announced for the introduction of decasualisation. The London tally clerks had reached an agreement with the employers in February 1967, which provided a satisfactory basis for decasualisation, but it was essential that decasualisation should be introduced on the same date in all ports. The Transport and General Workers' Union, the principal union concerned, was now pressing for an early announcement of this date. In the light of the progress of the negotiations, he was reasonably confident that the report due to be made on 1st July would provide a satisfactory basis upon which to proceed. While it would be wrong for the Government to commit themselves unconditionally at this stage to a date for the introduction of decasualisation, the time had now come to make it plain that a definite date for its introduction could now be foreseen, provided that the progress already made was maintained. It was important to make an early announcement in order to stem the rising discontent among dock workers which might otherwise prejudice not only the smooth introduction of decasualisation but also the introduction of new working practices required by the prospective growth of container traffic in the ports, particularly at Tilbury. It was now reasonable to look forward to the possibility that decasualisation could be made effective on 15th September next and he accordingly sought the agreement of the Cabinet to an assurance being given that, provided the forthcoming report on the elimination of restrictive practices confirmed that the progress made met the Government's conditions, decasualisation would be introduced not later than that date and that the way would then be open for the industry to implement the changes in pay recommended by the Devlin report. If the Cabinet approved his proposal, he would speak accordingly to the leaders of the industry that day. While there could be no guarantee that this would avert the threatened strike of tally clerks, there was a reasonable prospect that it would do so.

In discussion, it was suggested that the implementation of the proposed changes in pay would carry some risks for the policy on incomes. The changes involved not only improvements regarded as inescapable consequences of the introduction of decasualisation, which would add some 6 per cent to the wages bill, but also a modernisation payment of £2 a week which would constitute a further addition of some 10 per cent. It was essential to ensure that, in return for increases of this order, the maximum progress was made with the elimination not only of those restrictive practices which stemmed specifically from the present casual system of employment, but also of other practices such as excessive manning. However, technological developments and especially the spread of container traffic could be expected to result in the elimination of many of the
present wasteful practices. Moreover, a statement in the form proposed by the Minister of Labour would still leave it open to the Government to postpone the introduction of decasualisation if progress on these matters were not satisfactory.

It was also suggested that it might be desirable to seek the agreement of both sides of the industry to a planned reduction in the size of the labour force as a condition of the introduction of the new pay scales to accompany decasualisation. It was pointed out, however, that natural wastage over the next few years would of itself ensure a reduction in the labour force of 5–7 per cent per annum; it was expected that schemes for severance payments to men who were prepared to leave the industry voluntarily would be introduced; and negotiations on a new pension scheme would probably result in agreement to the retirement of all dock workers over 65 years of age. These factors taken together should ensure a substantial progressive reduction in the labour force. While there was a general expectation among dock workers that there would have to be reductions in the labour force, it would be unwise to introduce further proposals specifically involving redundancy at the present stage of negotiations.

In further discussion the following points were made—

(a) There had recently been pressure from both employers and unions in London for a guaranteed minimum wage for that port of £17 a week, compared with the figure of £16 originally agreed for London and £15 agreed for other ports. This pressure had now, however, abated and was unlikely to be renewed in the immediate future. While the cost to the employers of a guaranteed minimum of £17 a week for London would not be great, if it were conceded it would lead inevitably to corresponding increases in other ports and would have unfortunate repercussions on the policy on incomes generally. The Government should therefore continue to resist any pressure for a higher differential for London.

(b) An early announcement of the probable date for the introduction of decasualisation would have a useful effect in quickening the procedures for the licensing of port employers under the provisions of the Docks and Harbours Act, 1966, in those ports where progress had hitherto been slow. It was nevertheless unlikely that licensing would be completed in all ports by 15th September, 1967; but this would not be an obstacle to the introduction of decasualisation on that date.

The Foreign Secretary, summing up the discussion, said the Cabinet agreed that the Minister of Labour should make an announcement about the probable date for the introduction of decasualisation in the terms proposed in his memorandum. The Minister should in his further negotiations with the industry take account of the points made in discussion and should report further to the appropriate Ministerial Committee in the light of the forthcoming report from the National Modernisation Committee on the elimination of restrictive practices.
The Cabinet—
Invited the Minister of Labour—
(i) to arrange for an announcement about the timing of the introduction of decasualisation in the docks on the lines proposed in paragraph 9 of C (67) 86;
(ii) to report further to the appropriate Ministerial Committee in the light of the forthcoming report from the National Modernisation Committee on the elimination of restrictive practices.

The Cabinet considered a memorandum by the Minister of Transport (C (67) 80) about the nationalisation of the ports.

The Minister of Transport said that the Ministerial Committee on the Reorganisation of the Docks had recently considered the proposals for nationalisation of the ports which were summarised in the annex to her memorandum and had approved them as a basis for the consultations which were now necessary with the various interests involved. The Government would not be committed in detail by such consultations to the provisions she proposed: decisions could only be taken in the light of the consultations and these might well lead her to propose modifications of the detailed proposals, possibly including matters of some substance. The proposals followed broadly the recommendations of the Study Group on this question which had reported to the National Executive of the Labour Party in 1966, but were different in some specific matters, for example in proposing a more selective approach to the number of ports to be taken over at the initial stage of nationalisation. On the question of workers' participation in the management of the nationalised industry, she was not at this stage putting forward precise recommendations. It was important to take account of the views of the industry on this question and to leave to them reasonable scope to work out detailed arrangements for themselves. Her proposals therefore merely listed, as a basis for consultations, a number of possible ways in which workers' participation might be secured.

In discussion, there was general support for the proposals by the Minister of Transport, but the following points were made—

(a) There should be some consideration of the desirability of aligning the areas to be covered by Regional Port Authorities (RPAs) with the regions into which the country was divided for other purposes such as economic planning. It would also be desirable to consider the relationship between the areas of the RPAs and the areas which might be covered by the kind of reorganised Local Government units which the Royal Commission on Local Government was known to be considering. On the other hand, it
was suggested that in the interests of the efficient running of the industry it was necessary to define the areas covered by RPAs in accordance with the circumstances of the industry rather than in relation to regions defined for other purposes. Local Government areas were of limited relevance since it was not proposed to leave any ports under municipal control after nationalisation, despite the objections which some municipalities could be expected to raise to this course.

(b) The Minister's proposals would vest the assets of the ports in the RPAs, and they would assume responsibility for the liabilities of the undertakings which they took over; but they would not control investment plans for their areas, which would be decided by the National Ports Authority (NPA). This division of responsibility on financial issues which were crucial to development might give rise to difficulties and to demands from the RPAs for greater control over investment programmes in their areas. Against this, it was argued that a strong central authority with effective control over investment and finance was an essential feature of the scheme. It might, for example, be necessary in the national interest for the central authority to give priority to some ports over others, particularly to provide for the concentration of container traffic, and this might call for the over-riding of local interests.

(c) Implementation of the proposal in paragraph 18 of the annex to C (67) 80 that workers' participation might be secured by "some form of representation of port workers on the NPA and/or RPAs" might cause difficulties in a situation where the authority of the port workers' unions was under constant challenge from unofficial movements. However, this proposal was only one of a number of possibilities which it was proposed to discuss with the industry and the Government were in no way committed to it. It would be necessary in the further consultations to take account of the report on workers' participation which was expected shortly from a Study Group under Mr. Jones of the Transport and General Workers' Union, set up by the National Executive Committee of the Labour Party.

(d) The Secretary of State for Wales said there was a case for adjusting the proposed boundary of the Wales and Severnside RPA. He would arrange for his officials to discuss this with the Ministry of Transport.

The Foreign Secretary, summing up the discussion, said that the Cabinet approved the proposals annexed to C (67) 80 as a basis for the consultations which the Minister of Transport proposed to hold, on the understanding that the Government were not committed to them at this stage and that no commitments would be made until the Cabinet had had an opportunity to consider the matter further in the light of the results of those consultations. The Minister should give further consideration to the points made in discussion and should take account of these in pursuing her consultations and in her subsequent report to her colleagues.
Prices and Incomes Bill
(Previous Reference: CC(67) 19th Conclusions, Minute 5)

The Cabinet—
(1) Approved the proposals annexed to C(67) 80 for the nationalisation of the ports as a basis for consultations with the interests concerned.

(2) Invited the Minister of Transport to consider further the points made in discussion, in accordance with the summing up of their discussion by the Foreign Secretary and in consultation with the Ministers concerned.

8. The First Secretary of State said that the provisions of the Prices and Incomes Bill had recently been approved by Ministers and the Bill would be published shortly. He had, however, been urged by the Confederation of British Industry (CBI) to alter one of the Bill's provisions and he now sought the Cabinet's agreement to this course.

Clause 5 of the Bill as now drafted provided for the protection of employers against legal proceedings by their workers for the recovery of increases of wages due under contractual agreements but which had been withheld in deference to the Government's policy on prices and incomes. Some employers who were in breach of contractual obligations in this way were already covered by the protection afforded by Section 30 of the Prices and Incomes Act, 1966, since they had followed the procedures which were laid down in that section; others who had not followed those procedures had nevertheless been afforded protection as the result of an Order under Part IV of the Act. There remained, however, a number of employers who had withheld increases of wages in deference to Government policy by informal agreement with their workers; and it was to extend protection against legal proceedings to such employers that the provisions of Clause 5 of the Bill were included. It was necessary, however, to define the period of time to which the protection under this clause should be related. As the Bill was now drafted, protection extended to a breach of any agreement entered into before 23rd November, 1966, the date of publication of the White Paper on the Period of Severe Restraint (Cmnd. 3150). The reason for limiting protection in this way was that it was considered that, after the publication of the White Paper, employers would be fully aware of the provisions of the policy and if they nevertheless entered into an agreement which contravened that policy it would not be justifiable to afford them protection from the consequences of their action. The CBI, however, had represented strongly to the Minister of Labour and himself that not all employers had appreciated the full significance of the complicated provisions of the White Paper immediately it was published, since their interpretation was not in all cases free from doubt. Some employers after that date had unwittingly entered into agreements which were contrary to the policy. While a number of these employers had been made the subject of Orders under Part IV and were thus protected from legal proceedings, others had been persuaded, usually by the Minister of Labour or
his officers, not to implement the agreements in question. The
Government would be open to criticism if employers who had
conformed with the policy as a result of such persuasion were not
protected from legal proceedings for breach of their contractual
obligations. Moreover, if the Bill did not extend protection to
employers in this position, the CBI were likely to advise them to
pay their workers the increases withheld rather than to risk legal
proceedings; if they did this, then employers who were protected
from proceedings by the statutory provisions would in turn come
under pressure from their workers to pay the increases which had
been withheld.

It would be possible to extend protection to the employers in
question by relating the protection under Clause 5 of the Bill to
breach of agreements entered into either before 30th June, 1967, which
would be the end of the period of severe restraint, or before the
date of publication of the Bill in early June. It was desirable to
limit the scope of this retrospective provision as far as was consistent
with protecting those employers who deserved protection and he
would therefore favour relating protection to agreements entered
into before the earlier of the two possible dates—i.e., the date of
publication of the Bill. It was possible, however, that to frame the
provision in this way would give rise to difficulties of drafting and
in that event the provision should be related to agreements entered
into before 30th June, 1967. It would be preferable to amend the
Bill in this way rather than to introduce the amendment during its
passage in response to pressure.

In discussion there was general agreement with the proposal
by the First Secretary of State.

The Cabinet—
Invited the First Secretary of State to arrange for the Prices
and Incomes Bill to be so amended as to provide that the
protection to employers against legal proceedings for breach
of contractual agreements by withholding increases of wages
in deference to the Government’s policy on prices and
incomes should extend to breaches of agreements entered
into before the date of publication of the Prices and Incomes
Bill, or, if that were to give rise to difficulties of drafting
to breaches of agreements entered into before 30th June
1967.

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9. The Cabinet considered two memoranda by the Secretary
of State for Wales (C (67) 84 and 85) to the former of which was
annexed a draft White Paper on the economy of Wales.

The Secretary of State for Wales said that the Government had
an obligation to publish a document on the economy of Wales and
he had accordingly undertaken to present a White Paper before the
Summer Recess. A draft White Paper had been prepared in collaboration with all the Departments concerned and had been approved by the Ministerial Committee on Environmental Planning, subject to a number of amendments which had now been incorporated in the draft annexed to C (67) 84. He now sought the agreement of his colleagues to the publication of the White Paper, subject to further amendments which would be needed to take account of the Cabinet's decision on 25th May to introduce a Regional Employment Premium (CC (67) 32nd Conclusions, Minute 2), and any further amendments which might be needed to take account of developments and decisions reached before the date of publication.

These proposals were generally agreed.

The Cabinet——
Invited the Secretary of State for Wales——
(i) to arrange, in consultation with the Ministers concerned, for the draft White Paper annexed to C (67) 84 to be amended to take account of the Government’s decision to introduce a Regional Employment Premium and of any other developments or decisions reached before the date of publication;
(ii) to arrange, subject to (i) above and in consultation with the Lord President of the Council, for the publication of the White Paper.

Cabinet Office, S.W.1,
1st June, 1967.
36th Conclusions

CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 6th June, 1967, 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 (Items 1-3)  
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. PATRICK GORDON WALKER, 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 PEARCE, 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. KENNETH ROBINSON, M P, Minister of Health (Items 4 and 5)  
The Right Hon. JOHN DIAMOND, M P, Chief Secretary, Treasury (Items 4 and 5)  
The Right Hon. JOHN SILKIN, M P, Parliamentary Secretary, Treasury  
The Right Hon. MARGARET HERBISON, M P, Minister of Social Security (Items 4 and 5)  
The Right Hon. Sir ELWYN JONES, Q C, M P, Attorney-General (Items 1 and 2)
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1. The Prime Minister said that, during his visit to Ottawa, his discussions with the Canadian Prime Minister, Mr. Pearson, had been mainly concerned with the situation in the Middle East and the possibility of action by the maritime nations to assert the freedom of navigation in the Gulf of Aqaba. The position of the Canadian Government had been somewhat reserved, partly owing to their internal differences. He had also had some discussion of the situation in Vietnam.

In Washington his discussions with President Johnson about the Middle East had shown that, perhaps for the first time in recent years, the United States Government felt more in need of our support on an international problem than we felt in need of theirs. They were clearly concerned at the possibility that they might be internationally isolated in terms of the policy which they wished to pursue in the Middle East as they already were to a considerable extent as regards their policy in Vietnam; and they were as anxious as ourselves that any action to ensure freedom of navigation in the Gulf of Aqaba should be multilateral and should not be based solely or primarily on United Kingdom and United States efforts. The discussions on this subject, however, had been largely overtaken by the hostilities between Israel and the Arab States which had broken out shortly after his return from Washington.

In the discussions on Vietnam he had expressed to the President our grave concern at the possibility that the extent and intensity of the conflict might increase and had made it clear that we must feel ourselves free at any time to take further initiatives in pursuit of a settlement if we judged it opportune to do so. It seemed likely that the extent of United States bombing of North Vietnam had been moderated to some extent; and there was no question but that the United States Administration were anxious to seek a settlement if one could be obtained on any reasonable terms. 

In discussing our position in South-East Asia the President had opposed our intention to leave the mainland of Asia (save for Hong Kong) in the mid-1970s; but, perhaps because of the developments in the Middle East, this view had not been pressed as hard as we had previously expected and the United States Administration realised that we should take our decision in the light of our own interests, after considering the views of our allies. They were anxious that we should succeed in our application to join the European Communities and recognised that in the course of our negotiations it would be necessary for us to present the Anglo-American relationship in a manner which would involve the least incompatibility with our professed desire to become more European in our outlook and policies. In this connection he had reminded President Johnson of our earlier public statement that it would be desirable at some stage to renegotiate the Nassau Agreement. Indeed, the present visit had shown that the concept of a special relationship between the United States and ourselves was in any event undergoing a gradual
modification, although close relations in the shape of continuing consultations on international affairs would no doubt continue.

The Commonwealth Secretary said that in the course of his visit on behalf of the Prime Minister to the Expo '67 Exhibition in Montreal, he had had further evidence of the division of view in the Canadian Cabinet in respect of the Middle East. Expo '67 was proving an exceptional attraction, having had 9 million visitors so far; the British pavilion was outstanding.

The Cabinet—

Took note of the statements by the Prime Minister and the Commonwealth Secretary.

2. The Foreign Secretary said that, from the information available to us, it seemed that Israel had won a considerable initial victory against the air forces of the Arab countries. Numbers of Egyptian aircraft had been destroyed on the airfields and there had been no reports or claims of Egyptian air action; although Syrian and Jordanian aircraft had been operating, they had been largely ineffective; there was no truth in the report that the oil refinery at Haifa had been bombed; nor had there been any air raids on Tel Aviv and the shelling of the city from the sea had been ineffective. It was not however clear that Israel was achieving a comparable success in the land battle in the south where a hard struggle was taking place: the Israelis were being reticent about its progress. Heavy fighting was taking place in Jerusalem where attempts to maintain a cease fire had twice broken down after an initial acceptance; Israel appeared that day to have taken the offensive against Jordan following shelling by Jordanian troops. We were taking administrative action to delay the shipment of arms to Middle East countries while an assessment was made of the attitudes and actions of other countries, including particularly those of France and the Soviet Union; the United States had stopped the supply of arms to both sides. Our shipping had been warned to delay for 24 hours any approach to the Suez Canal, which was now reported to be closed. British dependants and other civilians were being evacuated from the most dangerous areas and preparations were being made for further evacuations if necessary.

He had seen the Ambassadors of the Arab States at their request on the previous day. Their initial attitude had been one of strong protest and they had proposed recommending collectively to their Governments the withdrawal of sterling balances, but he had succeeded in reassuring them about our attitude and no such recommendation would now be made. In most of the Arab capitals local forces now had the situation under control and earlier attacks on British property had ceased. Meanwhile exchanges were taking place with the Governments of the United States, the Soviet Union, France and Italy and it might be that in due course it would be
possible to concert action towards a settlement of the crisis between the four Great Powers, though much would depend on the course of the fighting in the Middle East itself. In the Security Council, a resolution confined to an appeal for a cease fire had failed to gain the necessary support and it might be necessary for us to accept a resolution in less satisfactory terms, as an alternative to a most undesirable failure on the part of the Council to agree on any resolution at all.

The Defence Secretary said that the military assessment was that Israel had succeeded in eliminating the Egyptian Air Force; this would have a major effect on the land battle. There had been allegations by Egypt and Jordan that Israel had been given air cover by British and United States carrier-borne aircraft; this was completely untrue and, so far as we were concerned, physically impossible. Iraqi troops had entered Jordan and in view of the Israeli attack on the country it was likely that King Hussein would fall. Plans to evacuate British nationals by air from some of the countries involved would be difficult to implement since the airfields that we would need were closed and there was a risk that, if Algerian troops moved through Libya on their way to the United Arab Republic (UAR), they would attack British forces and nationals there. There was no indication of any Soviet troop movements relevant to the Middle East situation.

In discussion doubts were expressed about the proposal that we should support a resolution in the Security Council which would purport not merely to deprive Israel of all the advantages that she would gain by successful military action but also to alter the situation to her disadvantage as compared with that which obtained before the events immediately leading to the present hostilities. There was general agreement, however, that it was of great importance for us to do what we could to avoid a situation in which the prestige of the United Nations was damaged irreparably by failure to take any action at all in the present crisis and that we would make it plain that, in voting for a resolution some parts of which were both unrealistic and contrary to the view that we held about such matters as the right of innocent passage through the Straits of Tiran, we were doing so with reservations in respect of those parts.

As regards the supply of arms to the Middle East, it was generally agreed that it was important to ensure that we did not hold up supplies to Israel if the Soviet Union continued to supply the Arab States. It was not clear how the Soviet attitude would develop, particularly if it were to appear that Israel was likely to achieve overwhelming victory, since this would mean a loss of prestige for her and also an increased possibility that Chinese Communist influence would spread in the Middle East. The likelihood was that in these circumstances the Soviet Union would become willing to agree to an attempt by the major Powers to stop the fighting; a recent message to the Prime Minister from the Soviet Prime Minister,
Mr. Kosygin, had dealt only with attempts to stop the fighting and had contained no recriminations or allegations of the kind that were appearing in the Soviet Press. We should consider what the elements of a lasting settlement might be in the event of an Israeli victory and also what action we should take if the present indications that Israel was succeeding in her military action were reversed and her defeat became probable.

The Cabinet were informed that events in the Middle East had not so far seriously affected the position of sterling. So far as possible we should not allow external events of the present kind to influence our internal economic policy.

The Prime Minister, summing up the discussion, said that the Cabinet agreed with the action in the United Nations proposed by the Foreign Secretary. There had been embarrassing Press comment about the alleged views of individual Ministers at the Cabinet's previous discussion: the origin of these comments should be investigated by the Lord Chancellor. As regards the present situation, it would no longer be appropriate to pursue the proposal for a declaration by the maritime Powers on the right of innocent passage through the Straits of Tiran; and contingency planning to enforce this right had been suspended. The Foreign Secretary would report further to the Cabinet at their next meeting on developments in the Middle East situation: the Ministers immediately concerned would decide as necessary on any action that was required meanwhile on arms supplies to the Middle East.

The Cabinet—

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

(2) Invited the Lord Chancellor to investigate the origin of recent Press speculation about the views expressed by individual Ministers in earlier Cabinet discussions on the Middle East.

3. The Commonwealth Secretary said that the main danger in Nigeria at present was that irregular forces from the Northern Region might attack the Eastern Region in consequence of the declaration of independence by Colonel Ojukwu, the military Governor of the latter. It did not, however, appear that there were any moves by regular forces of the Federal Government and it was significant that the Head of the Military Federal Government, Major-General Gowon, had recently appointed to the Executive Council a number of civilians, including Mr. Awolowo, the main political leader in the Western Region. The economic measures being taken by the Federal Government against the Eastern Region appeared to be having some effect, but could not be expected to be decisive in the longer term. The United States Government had arranged to evacuate all United States women and children in the East. The
morale of British subjects in this area was excellent and, although we had arranged for dependants to be evacuated from the most dangerous parts of the East, we had not officially advised civilians to leave and so far some of those evacuated had only been moved to safer areas of Nigeria. Preparations for evacuation had, however, been taken; two British ships were standing by in Port Harcourt and we should evacuate a number of civilians by air if necessary.

No African country had as yet recognised the independence of the Eastern Region, nor had we ourselves yet had any request for such recognition from Colonel Ojukwu.

The Cabinet—

Took note of the statement by the Commonwealth Secretary.
and would not prejudice decisions on the latter, the Cabinet should recognise that the taking of the power in the National Insurance Bill would virtually commit the Government to making some interim increase.

The Minister of Social Security recalled that the Government were committed to seek out and alleviate poverty affecting children and old people, and had given repeated assurances since November 1965 that the problem of child poverty was being urgently considered. Pressure for improved family endowment would be revived by the publication later in the month of her Department's survey of family circumstances and, because of the long delay in announcing the Government proposals, it was, in her view, imperative that interim provision should be made for an increase of family allowances to take effect, certainly before Christmas, but preferably at the same time as the increases in national insurance benefits, since otherwise the dependency benefits for children would have to be reduced when the increased allowances were paid. If nothing were done, the increase in Supplementary Benefit in the autumn would further increase the number of families living below Supplementary Benefit level and the numbers affected by the "wage stop". The numbers would also be increased by any rise in the level of unemployment. While the amount and distribution of an interim increase in family allowances should be left for subsequent consideration, it was possible that the extra expenditure could most effectively be concentrated on the larger families, for example, by an increase of 4s. a week in the allowances for third and subsequent children.

In discussion there was general agreement that, if an interim increase in family allowances were to be made, power to do so should be taken in the forthcoming National Insurance Bill. It would not be possible to enact before the Summer Recess a separate Bill introduced after decisions had been taken in the light of the review of public expenditure, if the House rose as planned about the beginning of August; nor would it be acceptable to leave over such a Bill for completion in the autumn at the end of the Session. To introduce a Bill at the beginning of the new Session would not enable an interim increase to be made sufficiently in advance of the proposed general improvement in family endowment in April 1968.

In further discussion it was suggested that a decision to take power to increase family allowances in the National Insurance Bill was inconsistent with the Cabinet's earlier view that a decision on an interim increase should await the outcome of the review of public expenditure. It would mean reverting to a piecemeal approach to the problem of family provision, whereas the relative advantages of increasing cash allowances, as compared with increasing benefits in kind, ought to be more fully considered, and extra expenditure on family allowances would necessarily limit the possibilities, for example, of implementing the recommendations of the Plowden Report on primary education. An interim increase which would necessarily be small if it were not to prejudice subsequent decisions.
on family endowment would have little impact on the problem of family poverty and would offend those who were opposed to any general increase in the allowances, irrespective of needs. Many families with incomes below supplementary benefit level would obtain no advantage from an increase confined, as had been suggested, to larger families, while some families with high incomes would benefit. It was suggested that consideration should be given to the adoption of a more selective interim scheme related to need which would make a greater impact on family poverty and be less open to objection.

On the other hand, it was pointed out that the Cabinet had already reached a decision in principle against the adoption of any means-tested approach to family endowment. An interim increase in family allowances on a modest scale would not prejudice subsequent decisions on improvements in family endowment, whether through the adoption of a generalised “give and take” scheme, or a generalised improvement in family allowances without an element of “give and take” or a combination of the two. It would be unacceptable to wait until the following April before taking any action to relieve family poverty and the Government would be exposed to strong criticism if, while making provision for increases in the social security benefits of all other sections of the community, they made no extra provision for children.

The Prime Minister, summing up the discussion, said that on balance the Cabinet were agreed in principle that there should be an interim increase of family allowances to take effect concurrently with the general increases in national insurance benefits at the end of October, and that the legislative basis could best be provided by including in the National Insurance Bill a power operative until April 1968 to enable family allowances, if necessary for only some of the children in a family, to be increased by Order and national insurance dependency benefits for children to be correspondingly reduced. The Cabinet recognised that this would involve a commitment to make some increase, but the amount and distribution of the increase were left open for later decision in the light of the review of public expenditure and the increase would be subsumed in the subsequent improvement in family endowment. While the Cabinet had earlier decided against the adoption of any means-tested approach to family endowment, the making of an interim increase in family allowances did not affect their subsequent freedom of choice between a “give and take” type of scheme, or a further general increase in family allowances, or a combination of the two.

The Cabinet—

Invited the Minister of Social Security to arrange for the inclusion in the forthcoming National Insurance Bill of a provision to enable family allowances to be increased by Order in accordance with the Prime Minister’s summing up of their discussion.
The Chancellor of the Exchequer said that, after discussion the previous day with the First Secretary of State, the President of the Board of Trade and the Minister of Technology, it had been decided to carry out a measure of reflation in respect of the motor car industry. This action was in accord with the economic strategy which he had considered in February while preparing the Budget, when he had had in mind that such a measure might be desirable by the middle of the year. The mitigation of the existing restrictions on hire-purchase should stimulate the economy by increasing substantially the demand for, and the production of, motor cars during the course of the year. We should not be deterred from taking such a measure, which was necessary for the health of the country's internal economy, by the repercussions of the situation in the Middle East on our external position. We should, however, bear in mind that it might prove necessary to reimpose the restrictions in some degree the following spring, though this would depend on the course taken by the economy in the intervening period.

The Cabinet—

Took note, with approval, of the statement by the Chancellor of the Exchequer.

Cabinet Office, S.W.1,
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 8th June, 1967, 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. PATRICK GORDON WALKER, 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. Sir ELWYN JONES, Q.C, M.P, Attorney-General (Item 2)
The Right Hon. JOHN SILKIN, M.P, Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. H. L. LAWRENCE-WILSON
Mr. P. E. THORNTON
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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 latest military situation in the Middle East conflict was that Israel, having defeated the Egyptian forces in Sinai, had now virtually ceased operations except against Jordan and Syria; reinforcements were however reported on their way to the United Arab Republic (UAR) from Algeria, including 50 MiG aircraft, and if these were to reach the UAR Israel must be expected to act against them. Although, contrary to rumour, King Hussein was still in Jordan, the situation there was very serious and arrangements were in hand to evacuate British nationals from the country by air; there was no information about the internal situation in the UAR. Israel had stated her willingness to accept a cease-fire provided that her Arab opponents did so, but only Jordan had so far shown herself willing. There were reports that an Arab summit conference might be called, possibly by President Boumedienne of Algeria, to formulate a common policy on a cease-fire, on oil supplies and on diplomatic relations with the United Kingdom and the United States. Our main interest now lay in re-establishing our relations with the Arab States on as friendly a basis as possible and for the immediate future this would be best served by saying as little as possible publicly about the situation in the Middle East. He proposed, therefore, to avoid if possible making a further statement in Parliament that day. As regards action in the United Nations, it was possible that the Soviet Union might table a resolution in the Security Council calling upon Israel to withdraw behind her frontiers, but in view of the moderate attitude which she had adopted diplomatically in circumstances of great difficulty for her this seemed unlikely. This attitude, which was in sharp contrast to Soviet propaganda, was in keeping with that which the Soviet Government had taken during his recent visit to Moscow; despite this, however, there were very recent indications that Soviet broadcasts to the Middle East were now beginning to follow those from the UAR in propagating the lie that British and United States aircraft had supported Israel in the Middle East fighting. A settlement of the crisis, which must aim at establishing a stable relationship between Israel and the Arab States, would be very difficult to achieve; one of our objectives must be that any such settlement should not be, or appear to be, reached between the United States and Soviet Governments alone, but that we and the French should play a part in reaching it. Finally, as regards arms supplies to the Middle East, we should now cease to hold these up by administrative delay and revert to normal arrangements, under which such supplies were considered on their merits case by case.
In discussion it was suggested that, while the fighting was still in progress in the Middle East, it would be wrong to resume supplies of arms to countries in the area. On the other hand it was argued that there were strong grounds for reverting to normal practice, particularly in view of the fact that Israel had shown herself willing to accept a cease-fire and that hostilities were not now likely to last long. Furthermore, some other countries, and especially the Soviet Union, were continuing to supply arms and the continued imposition of a delay on our part might lead to Israel suffering greater difficulties than the Arab States in maintaining her forces. In addition, if we were to default, both to Israel and the Arab States, on orders which had been placed with us, we should cease to be regarded as a reliable source of supply and might put at risk large long-term orders already placed with us, including one for aircraft for Saudi Arabia. We should therefore revert to our normal practice as regards supplies to the Middle East though no public statement to this effect should be made.

In further discussion the Minister of Power said that discussions had been taking place with the oil companies and with United States Government officials about oil supplies in view of the action taken by a number of Arab States to stop the flow of oil to ourselves and the United States. This might lead to some temporary and limited rundown of our present stocks, which amounted to some 90 days' supply, but there would be no substantial difficulty in maintaining our supplies thereafter provided that the countries concerned did not reduce total output. Such a reduction would lead to a shortage of supplies and might even require petrol rationing. The implementation of a rationing scheme would take about two and a half months and require about 5,000 additional staff; in view of the uncertain situation it was essential that preparations should be put in hand now for petrol rationing so that if it became necessary it could be introduced before stocks were dangerously reduced.

In discussion of the oil situation it was suggested that in view of the real attitudes, as distinct from the public statements, of the oil-producing Arab States, it was unlikely that there would be a stoppage of oil supplies to us for more than a short period, particularly in view of the world oil surplus and the desire of Iran and Venezuela to increase output. Contingency planning for petrol rationing should however continue and the Cabinet would consider the situation further at their next meeting.

The Cabinet were also informed that, as was inevitable with volatile exchanges in such a dangerous international situation, sterling had initially been under some strain but the position had not been serious and was now restored.

The Cabinet—

(1) Took note of the statement by the Foreign Secretary.
(2) Agreed that the temporary delay imposed administratively on supplies of arms to the Middle East should cease and that supplies should be resumed on the normal basis.

SECRET
3. The Foreign Secretary said that the discussions between British and Spanish officials in Madrid on the restrictions imposed by Spain on the use of air space in the neighbourhood of the Gibraltar airfield were expected to end that evening without any agreement being reached. The Spanish representatives had maintained their insistence in respect of Spanish sovereignty over Gibraltar. On the conclusion of the discussions we should issue a statement deploring the maintenance of these restrictions on aviation and should then submit a formal complaint about them to the International Civil Aviation Organisation (ICAO). The United States Government had hitherto been unhelpful in our dispute with Spain over Gibraltar in general and in particular during the earlier discussions in ICAO on the Spanish aviation restrictions. Our Ambassador in Washington had been instructed to approach the United States Government in an effort to persuade them to adopt a more helpful attitude in future.

The Foreign Secretary said that an ugly situation had developed in respect of British representatives in Peking. A Chinese mob had broken into the Embassy and done much damage while a number of our representatives had been roughly handled. We had had no assistance or expression of regret from the Chinese Government. We should have to consider how long we could reasonably ask our representatives to remain in such circumstances.

The Commonwealth Secretary said that in the light of the latest developments the British High Commissioner had decided that British women and children in the Eastern Region should be evacuated. Nearly all had now left. So far the Federal blockade had not restricted the export of oil from the Eastern Region.

The Prime Minister said that the Defence and Oversea Policy Committee had discussed the previous day the situation in Rhodesia and the action which the Government should take. Their consideration of the issues was not yet concluded, but thereafter it would be appropriate for the matter to come before the Cabinet.

The Foreign Secretary said that there were still large Egyptian forces in the Yemen although some had been withdrawn. It was too soon after the event to assess whether the defeat of the United Arab Republic by Israel would have any effect on the morale of the forces remaining in the Yemen and whether the Yemeni royalist forces would renew their attacks.

The Cabinet—

Took note of the statements by the Prime Minister, the Foreign Secretary and the Commonwealth Secretary.
Approach to Europe
(Previous Reference: CC (67) 29th Conclusions, Minute 4)
Arrangements for Trade and Industry in the European Communities: Draft White Paper

4. The Cabinet considered a note by the Chairman of the Official Committee on the Approach to Europe (C (67) 94), to which was attached a draft White Paper about arrangements for trade and industry in the European Communities.

The Prime Minister said that the Cabinet would wish to consider whether it was necessary to publish a White Paper on this subject at all; if so, whether the draft before them was satisfactory for the purpose and whether it should be the last of the present series of White Papers on this subject.

In discussion, it was suggested that the present draft was not suitable for publication since it merely reported the present position and did not examine the commercial and industrial implications of United Kingdom membership of the European Communities. Where the problems involved in United Kingdom membership appeared to be relatively easy of solution, the draft expounded them at some length but not always so as to make the most of the encouraging features; but where, on the other hand, there were difficult problems, they were either dealt with inadequately or not mentioned at all—as, for example, that of Commonwealth immigration. On the other hand, it was pointed out that, if an attempt were made to remedy the defects to which attention had been drawn, the White Paper would be inordinately long and it was doubtful in any event whether there was sufficient interest to warrant publication of a White Paper on this subject.

The Prime Minister, summing up the discussion, said that the Cabinet considered that the present draft was not suitable for publication. The Foreign Secretary should consider the draft further, in the light of the criticisms which had been expressed, to see whether a satisfactory White Paper of reasonable length could be produced. Ministers should send any further detailed comments on the present draft to the Foreign Secretary. The Cabinet would wish to reconsider the matter in the light of his views.

The Cabinet—

Invited the Foreign Secretary to consider, in the light of their discussion of the present draft, whether it was desirable to publish a White Paper on the trade and industrial aspects of our membership of the European Communities and if so what its form should be.

Cabinet Office, S.W.1.
8th June, 1967.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 13th June, 1967, 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 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. PATRICK GORDON WALKER, 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. EDWARD SHORT, M P, Postmaster-General (Item 2)
The Right Hon. Sir ELWYN JONES, Q C, M P, Attorney-General

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

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. H. L. LAWRENCE-WILSON

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1. The Commonwealth Secretary said that in recent weeks there had been Press reports that the head of the illegal régime in Rhodesia, Mr. Smith, wished to resume talks with us about a settlement; and there had been confirmation of this possibility in messages from the Governor and others, though not directly from Mr. Smith. There was no clear indication whether a settlement on the lines of that which emerged from the talks with Mr. Smith on HMS Tiger might be in mind or some other basis, nor whether members of the illegal régime other than Mr. Smith might be involved. The Prime Minister and he had taken up with Lord Alport, formerly British High Commissioner in the Federation of Rhodesia and Nyasaland, an earlier suggestion that the latter might go to Rhodesia later this year to visit the Governor and to attempt to influence opinion in the country; as a result Lord Alport had agreed to visit Salisbury in the following week. In addition to having talks with the Governor, he would be available to see all sections of Rhodesian opinion and to receive any views which they—including members of the illegal régime—might wish to put forward, though he would not take any initiative. Even if Lord Alport were to be refused entry to Rhodesia this would damage further the public position in this country of the illegal régime. Lord Alport's visit would be announced in Parliament that day in reply to a Question.

In discussion the Cabinet were informed that, although the economic situation in Rhodesia had deteriorated as a result of economic sanctions, these had as yet had no political effect. Some countries were not enforcing these sanctions vigorously and in particular it had not yet been possible to reach agreement with France on arrangements which would restrict the flow of oil to Rhodesia through Mozambique. Mr. Smith's position in the illegal régime was uncertain and in any event we could not be sure that any proposals which might be made on his behalf for a settlement of the Rhodesia problem would have the support of others in the régime. Our own position on a settlement in Rhodesia remained that we would not grant independence before majority rule; and we would only be willing to consider with other Commonwealth countries any modification of this commitment if there were a marked change of circumstances in Rhodesia, such as the removal of extremists of the Rhodesia Front from power in the illegal régime, which gave more reasonable prospects of an acceptable settlement. It was suggested that in these circumstances it would be preferable not to announce in advance that Lord Alport would be willing to see members of the illegal régime if they approached him, although in practice he would no doubt be prepared to do so, since this might be thought to foreshadow the resumption of talks. It was however pointed out that it would be impracticable to deny, in answer to supplementary questions, that Lord Alport, while himself taking no initiative, would be willing to see all sections of opinion in Rhodesia.
The Minister of State for Foreign Affairs said that the main events since the Cabinet had last considered the Middle East situation had been the resignation and subsequent re-election of President Nasser of the United Arab Republic (UAR) and the outbreak of further hostilities between Israel and Syria. But the cease-fire was now being observed generally, though sporadic outbreaks of fighting might continue for some time. Israel was now taking firmly the line that she would retain the territories that she had conquered while the Soviet Government was attempting to re-establish her position with the Arab countries by adopting an increasingly aggressive attitude towards Israel; there were suggestions that the Arab countries themselves would start guerilla action against Israel. Our Permanent Representative at the United Nations (Lord Caradon) had advised that immediate action there should concentrate on the relief of the suffering that had resulted from the war and in particular on the refugee problem. In the search for a general settlement of the Middle East problem a major objective for us must be the earliest possible resumption in the flow of oil to us from the Arab States, who were beginning to link this with demands that Israel should withdraw from conquered territory. Arrangements had been completed for the evacuation from Middle East countries of British residents who wished to leave, apart from those in the UAR who would be leaving that day. Arms supplies to Middle East countries had been resumed on the normal basis but with a careful scrutiny case by case.

The Minister of Power said that the prospects for our oil supplies in the immediate future were not yet clear. Supplies from a number of Arab countries to this country and the United States had been stopped. The Governments concerned, save for Iraq, had done no more than put an embargo on tankers leaving for ports of either nation but production in Kuwait, Saudi Arabia and Libya had been stopped through action by the mobs. If this situation were to continue it would have very serious effects and there would be a substantial shortfall in supplies for the Eastern hemisphere. In addition Iraq had placed an embargo on supplies from Iran passing through her territorial waters. He had in consequence instructed that arrangements be put in hand for the introduction of a petrol rationing scheme and this fact would become public knowledge when the printing of ration books began at the beginning of the following week. It was necessary to do so since a rationing scheme required between two or three months to bring into operation. Even if one became necessary, there would be advantage in deferring the introduction of rationing, if possible, until towards the end of August so as to avoid the peak of the holiday period; if this were to be done some economy in petrol consumption would be necessary from now on and he was considering making a Ministerial broadcast asking for the co-operation of the public. The United States Government had declared a state of emergency, which was legally necessary to enable their oil companies to take collective action in the face of anti-trust legislation to meet a prospective shortage. The Oil Sub-Committee of the Organisation for Economic Co-operation and Development
had met the previous day but agreement on action had been prevented by French obstruction; a further meeting would take place later that day.

In discussion it was the general view that the balance of advantage lay in making no Ministerial broadcast appealing for economy in the use of petrol at present, but that, if a statement on the situation in the Middle East were made in Parliament that day, it should cover the general position on oil supplies. As regards the embargo on oil supplies from Iran passing through the territorial waters of Iraq, we should not ourselves dispute this since we must seek to avoid becoming involved in a further dispute with the Arab States and it must be a major objective of our policy to restore so far as possible good relations with them.

The Commonwealth Secretary said that the Minister of State for Commonwealth Affairs would make an announcement on the following day of our intention to carry out a referendum in Gibraltar on the choice between British and Spanish sovereignty. Its terms took account of the United Nations resolution on Gibraltar. The Spanish Government would be informed of the statement shortly before it was made but had not been consulted on the terms of reference of the referendum.

The Cabinet—

T ook note of the statements by the Commonwealth Secretary, the Minister of Power and the Minister of State for Foreign Affairs.

2. The Cabinet had before them a Note by the Secretary of the Cabinet (C (67) 95) to which was attached the draft of a White Paper on the "D" Notice system, together with the confidential final revise of the Report of the Privy Counsellors, under the chairmanship of Lord Radcliffe, who had investigated an alleged breach of "D" Notices in the previous February.

The Prime Minister said that the need for a White Paper, to accompany the Radcliffe Report which was due to be published that afternoon, arose from the fact that the rather narrow interpretation placed by the Radcliffe Committee on their terms of reference might result in some misunderstanding of the position unless a full statement were made by the Government both about the circumstances of the incident which had given rise to the appointment of the Committee and about the implications of that incident for the future of the "D" Notice system. The draft White Paper had been discussed in detail by the Ministers primarily concerned; and it presented as objective a picture as possible of the considerations involved.

In discussion it was suggested that the White Paper might be criticised on the grounds that it appeared to contest the findings of the Radcliffe Committee in so far as these exonerated the Daily Express
from the accusation that it had deliberately infringed two “D” Notices in the article published in February. Moreover, the White Paper might be thought to concentrate attention unduly on the extent to which the Secretary of the “D” Notice Committee might be held to have erred in his handling of the affair, whereas the Radcliffe Report revealed not only that the “D” Notices involved had themselves been progressively eroded by the passage of time but also that, in so far as the recent incident was concerned, officials other than the Secretary of the “D” Notice Committee might be held to be at some fault as regards the action which they had taken or had failed to take. In these circumstances, it might have been preferable if the White Paper had been confined to accepting the findings in the Radcliffe Committee in relation to the incident in question and to stating that this incident showed that the “D” Notice system called for substantial revision, which was being undertaken as a matter of urgency.

On the other hand no Government could remain indifferent to the fact, disclosed by the Radcliffe Report, that certain “D” Notices had been so diluted in practice that they were no longer adequate to protect national security and that, as a result, the “D” Notice system as a whole was in danger of collapsing. But the only alternative to the fresh attempt to restore and strengthen that system which the White Paper proposed would be legislation designed to put the substance of “D” Notices on a statutory basis; and this would be so incompatible with the traditional freedom of the Press that it was essential to present to public opinion in a White Paper the full case for seeking to maintain the “D” Notice system and to enlist the free and voluntary co-operation of the Press in its effective working. The Government’s primary concern must therefore be not to attempt to apportion blame among the individuals involved in the incident in question but to re-establish the “D” Notice system on a sound basis by remedying the defects which the Radcliffe Report had brought to light and, in particular, putting the position and responsibility of the Secretary of the “D” Notice Committee on a clearer and more precisely defined footing than hitherto. Action to this end had, in fact, been begun before the incident which had given rise to the appointment of the Radcliffe Committee. It should now be resumed, in conjunction with the consultations with the Press about the future of the “D” Notice system which the Prime Minister proposed to initiate personally in the near future. Meanwhile it should be made clear that no disciplinary action had been taken against the Secretary and that he had only been asked to elucidate certain discrepancies in the evidence given to the Radcliffe Committee which the Government felt bound to try to clear up before they could publish the White Paper.

The Cabinet—
Agreed that the draft White Paper attached to C(67) 95 should be published that afternoon.

Cabinet Office, S.W.1,
13th June, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 15th June, 1967, 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
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. MARGARET HERBISON, M.P., Minister of Social Security (Items 4 and 5)
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Miss J. J. NUNN
Mr. H. L. LAWRENCE-WILSON
Mr. L. ERRINGTON
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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 a Motion opposing the Government’s decision to establish a third airport for the London region at Stansted had been signed by 260 Members of Parliament and public opposition to the decision was mounting. The Essex County Council had issued a writ claiming declarations against the implementation of the decision. The issue of this writ did not legally debar the Government from making an Order to implement the decision in respect of Stansted, but there would in these circumstances be political advantage in deferring such action, and the consequential debate, until Parliament resumed in October.

In discussion there was general agreement with this proposal. It was, however, urged that it would be important not to base the decision to postpone the debate solely on the fact that a writ had been issued, since this might be taken as a precedent which would enable the Government’s action in other cases to be frustrated by individuals or bodies of less standing. The statement of the Government’s decision to postpone the debate should pay regard to the standing of the Essex County Council and the wider circumstances. Furthermore, it would be important that in the intervening period the Government’s case in respect of the decision to establish the airfield at Stansted should not go by default and the Ministers concerned should ensure that full publicity was given to the considerations which had led the Government to that decision.

The Cabinet—

(1) Agreed that the making of an Order in respect of the establishment at Stansted of the third London airport should be delayed until October.

(2) Invited the Lord President of the Council to consider, in consultation with the President of the Board of Trade, the Minister of Housing and Local Government and the Attorney-General, and in the light of the discussion, the terms in which this postponement should be announced.

(3) Invited the President of the Board of Trade and the Minister of Housing and Local Government to consider the means by which greater publicity could be given to the considerations which had led the Government to decide that the third airport for the London region should be at Stansted.

2. The Foreign Secretary said that, as expected, the talks which had been taking place with Spain in Madrid, about the restrictions on aviation which the Spanish Government had proclaimed in the air space near Gibraltar, had broken down. The way was therefore open to us to take the issue back to the International Civil Aviation Organisation and the presentation of our case was being prepared.
in consultation with the Law Officers; in due course we might seek recourse to the International Court of Justice at The Hague on the issues between ourselves and Spain. The Spanish Government had been informed of our intention to carry out a referendum in Gibraltar enabling the inhabitants to choose between British and Spanish sovereignty and our Permanent Representative at the United Nations, Lord Caradon, had informed the United Nations Secretary-General, U Thant, of our plans. So far there had been no reaction from the Spanish Government to the announcement of this referendum but they might well decide to take further action against Gibraltar; proposals would be brought before Ministers in the near future indicating what retaliation would be open to us should they do so.

The Foreign Secretary said that at the meeting in Luxembourg on the previous two days of the Council of the North Atlantic Treaty Organisation he had discussed with other members the situation in the Middle East: he would report the outcome of these discussions on the next item of the Cabinet's agenda. He had also discussed with the French Foreign Minister, M. Couve de Murville, our application to join the European Economic Community (EEC). M. de Murville had taken the line that the member Governments of the EEC and the Commission itself would require a series of meetings at which to discuss our application amongst themselves and would not therefore be in a position to have any joint discussions with the United Kingdom until the autumn. He had made it clear in reply that we regarded such a delay as unreasonable and that we wished to start such discussions before August. The Five were now taking a much firmer line, both in public and in private, in respect of the French obstructiveness in considering our application. The only other item of importance was that the United States Secretary of State, Mr. Rusk, had informed him that the United States and Soviet delegates at Geneva had agreed, ad referendum to their respective Governments, on the draft text of a Treaty on the non-proliferation of nuclear weapons, which they would table for wider discussion. There were alternative texts of some passages and there was as yet no agreed passage on nuclear safeguards, but nevertheless this position represented a considerable advance on the part of the Soviet Government, whose attitude might well have been affected by their concern at the situation in the Middle East. The text of the Treaty would no doubt now be subject to difficult negotiations with other countries concerned.

The Commonwealth Secretary said that the situation in Hong Kong was still uneasy and there were widespread rumours of further strikes and other disturbances. There was some evidence that the Communist leaders in Hong Kong were no longer wholly in control of the situation. The Government of the People's Republic of China were urging the Hong Kong Communists to await a call to action, but this might mean either that the Chinese Government intended to bring further pressure to bear upon us or alternatively that they were seeking a relaxation of the present tension. The Governor of Hong Kong, who had been ill, had been due to go on leave before the disturbances. He had delayed his departure when they broke
out and his firm and skilful handling of the recent troubles had been responsible for keeping the situation under control, but he would shortly have to take his deferred leave if there were not to be a serious risk to his health.

The Commonwealth Secretary said that there was some indication that the Federal Government of Nigeria might refuse to agree that oil royalties should be paid by the oil company into a suspense account pending the clarification of the situation in respect of the declaration of independence by the Government of the Eastern Region. It was not yet clear whether this would lead to delay in shipments of oil.

The Cabinet—

Took note of the statement by the Foreign and Commonwealth Secretaries.

3. The Foreign Secretary said that our posts in Arab countries were reporting concern at the effects there of our efforts before the recent hostilities in the Middle East to secure the right of innocent passage through the Straits of Tiran and of the lie that British and United States aircraft had assisted Israel to achieve her victory over the Arab air forces. It seemed that aircraft had been detected by radar in Jordan flying in over the Mediterranean (instead of from the direction of Israel) and had been assumed to be British or American although they were in fact Israeli; there were indications that Government sources in some Arab countries did not believe the allegations but they were facing difficult local situations and were not free to say this openly. Our objective must be to re-establish good relations with the Arab States as far and as quickly as we could and, in the first instance, an examination was being made of what we could do to help Jordan and to assist the refugees. It appeared that the Suez Canal was blocked, although the nature and extent of the blockage was not known nor indeed who had caused it; Israel had hitherto refused to co-operate in attempts to clarify the situation but now appeared willing to do so. It did not seem likely that our ships in the Canal would be able to leave at least until there had been a meeting of the United Nations General Assembly, but they had sufficient food and water and messages from them were permitted.

The Soviet Union had failed to obtain sufficient support to secure the adoption in the United Nations Security Council of two resolutions directed against Israel and she had now sought a special meeting of the General Assembly; this was a complete reversal of her attitude on all previous occasions on the use of this procedure in the United Nations, when she had been strongly opposed to such special meetings. It seemed probable that there would be simple
majority among member countries of the United Nations that was necessary before a special meeting could be convened and that it would take place early the following week. There were indications that the Soviet Union might be represented at the meeting by Mr. Kosygin or Mr. Gromyko and that the Foreign Ministers of other countries might attend; in this event he himself proposed to attend the meeting on behalf of the United Kingdom. Although it was unlikely that the meeting itself would be other than an occasion for propaganda, it would provide valuable opportunities for discussion with representatives of Arab and Commonwealth countries on the immediate steps required towards a settlement in the Middle East and on such matters as the refugee problem. He had discussed the general situation with other members at the meeting on the previous two days of the Council of the North Atlantic Treaty Organisation.

The Minister of Power said that the oil situation in the Middle East was changing continuously and it was impossible to forecast how it would develop in the short run. At present the Suez Canal and the Levant pipelines were closed and production in Iraq, Libya and Bahrain had stopped; oil production had restarted in Kuwait and Saudi Arabia and exports were continuing from Abu Dhabi, Qatar and Algeria; no Arab State was permitting the export of oil to United Kingdom or United States destinations. Continuation of this situation would mean a reduction of 28 per cent in oil supplies to Western Europe and a reduction during the first three months of 25 days in our 91 days’ oil stocks, on the assumption that other European countries were willing to share the shortage equally with us even though there was no restriction on oil supplies to them. The United States Government had declared a state of emergency which was necessary under her anti-trust legislation to enable United States oil companies to co-operate in taking all necessary steps to deal with the oil situation. French obstruction had, however, so far prevented effective action in the Organisation for Economic Co-operation and Development, despite the attitude of the other members and particularly of the Netherlands.

Although the oil supply situation was not as serious as had seemed possible a few days earlier, the continuation even of the present situation would mean a heavy additional burden on our balance of payments amounting perhaps to £50 million over a six-month period. There was also cause for concern about the long-term effects of recent events in the Middle East on the position of our oil companies there and particularly about their concessions in Iraq, in which Italian and Japanese companies were showing interest. In view of the uncertain prospect, preparations for the introduction of petrol rationing were continuing.

In discussion the Cabinet were informed that the effect of action by Iraq to prevent the passage of tankers from Abadan through her territorial waters was less serious than had at first been thought, but that it seemed unlikely that supplies from Iran could be substantially increased immediately. Our main problem as regards oil supplies lay in the fact that, although Arab Governments might themselves wish to resume oil supplies to us, or to connive at our receiving
them, popular pressure stimulated by the United Arab Republic might make it difficult for them to do this. Our aim must continue to be to seek to improve our relations with the Arab States and we must be seen publicly to be opposed to any extreme proposals which Israel might put forward following her victory. We must also do all that we could to assist in the relief of the suffering in the Middle East that had resulted from the fighting.

The Cabinet—

(1) Took note of the statements by the Foreign Secretary and the Minister of Power.

(2) Invited the Minister of Power to make regular reports to the Cabinet about the situation in respect of oil supplies.

4. The Chancellor of the Exchequer recalled that in the previous November the Cabinet had agreed, in the light of the forecasts then made of likely increases in prices and earnings, that the leading national insurance benefit rate for a single person should be increased by 10s. Subsequently, in view of the smaller increases in prices and earnings which had actually occurred and were in prospect, he had proposed a proportionate reduction in the increase of benefit, and the Cabinet had agreed that the increase in the leading rate should be limited to 9s., other rates being increased proportionately. It now appeared likely, however, that there would be a rather larger increase in prices—in particular the increase in electricity prices might have a disproportionate effect on pensioners’ expenditure—and in these circumstances it would be difficult to defend an increase in the national insurance rate of less than 10s. While an increase of 10s. would, as compared with the 9s. previously agreed, result in a direct extra cost to the Exchequer of some £6½ million a year, this would be offset for the next two years if, as he proposed, the employers’ contribution were increased to produce an equivalent increase in the income of the National Insurance Fund, which would enable Exchequer borrowing to be correspondingly reduced. The total increase in the contribution of employers and employees would respectively be of the order of 2s. 3d. and 2s., instead of 2s. and 1s. 11d.

In discussion the point was made that the increase of 9s. in the national insurance benefit rate previously agreed would still suffice to cover the greater increase in prices now assumed. On the other hand, there was general agreement that an increase in the benefit rate of no more than 9s. would now be difficult to defend. The previous Act increasing national insurance benefits and contributions provided a precedent for increasing the employers’ contribution more than the employees’.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that the forthcoming National Insurance Bill should provide for an increase in the leading national insurance benefit rate
for a single person of 10s. a week on the footing that the employers' contribution would be increased to 2s. 3d. so as to enable the additional cost to the Exchequer to be offset for the next two years.

The Cabinet—
(1) Agreed that the forthcoming National Insurance Bill should provide for an increase of 10s. a week in the standard rate of national insurance benefit for a single person.
(2) Invited the Minister of Social Security, in consultation with the Chancellor of the Exchequer, to determine the appropriate increases in the rates of contribution in accordance with the Prime Minister's summing up of their discussion, and any necessary consequential adjustments in other rates of benefit.

5. The Cabinet considered a memorandum (C (67) 96) by the Lord President of the Council to which was annexed a proposed legislative programme for 1967-68.

The Lord President said that the programme in Annex A of his paper had been generally approved by the Future Legislation Committee and was brought before the Cabinet for provisional approval at this stage in order to provide a firm basis for preparatory work on the selected Bills. The Cabinet would have a further opportunity to consider the programme in the autumn in the context of The Queen's Speech on the Opening of Parliament. It was possible that time would have to be found either in 1967-68 or in the succeeding Session for legislation arising out of our entry into the European Economic Community and on this as well as on more general grounds it was important that Departments should push ahead with the preparation of their Bills and in particular should have as many as possible ready for introduction at the beginning of the Session, since to have a good supply of Bills ready at that point would greatly simplify the management of the programme. Annex B to C (67) 96 contained a provisional outline of the programme for later Sessions. No decision on this was required at present and he would continue to discuss long-term plans with departmental Ministers with a view to distributing major measures through the remaining Sessions of the Parliament so that some attractive measures would remain for the end of the period and others could be foreshadowed in White Papers.

In discussion the following points were made—
(a) Commonwealth Telegraphs might become essential.
(b) A Coal (Borrowing Powers) Bill would be required before Christmas.
(c) Post Office (Status) should be added to the Bills expected to be ready at the beginning of the Session.
(d) If proposals for an *Industrial Expansion Bill* now before the Economic Policy Committee were approved it might be possible for the Minister of Technology to deal with certain projects by Order and to avoid the necessity for separate Bills on *Concord Production, Aircraft Industry Finance* and *Beagle Aircraft*.

(e) *Vehicle Registration* would be ready by the beginning of the next Session and *Channel Tunnel*, to which it was an alternative, seemed unlikely to be required during the Session except possibly in the form of a short and uncontroversial interim measure.

(f) A *National Insurance (Miscellaneous Provisions) Bill* to deal with certain anomalies in existing legislation might become necessary and should be added to the Reserve list. So also should a Bill on *Oil Pollution* which might be required as a result of the report of the Sub-Committee of the Select Committee on Science and Technology.

(g) The Minister of Transport was anxious that *Ports Reorganisation Bill* should be brought forward to 1968-69; but this raised the question of the most advantageous spacing of the various Bills which the Minister wished to introduce during the remainder of the Parliament and the Lord President would discuss the timetable with her.

(h) The list of Bills for Private Members included one on *Gypsies* but legislation of a more far reaching kind might be required on this: the Minister of Housing and Local Government was in correspondence with the Minister without Portfolio. An *Air Pollution Bill*, on which the assistance of Government draftsmen had been promised to Mr. Bob Edwards, M.P., should be added to the Private Members List. The *British Nationality Bill* might also prove to be unsuitable for a Private Member but the possibility of taking it in the Second Reading Committee should be considered.

The Prime Minister, summing up, said that, subject to the points made in discussion and to further examination in the autumn, the Cabinet approved the legislative programme for 1967-68 circulated with C (67) 96. The Lord President should continue to keep the timing of major proposals for subsequent Sessions under review in consultation with the Ministers concerned: plans should be discussed on the assumption that the Parliament would run its full term. The legislation required in the forthcoming Sessions was likely to impose a heavy burden of work on Parliamentary Counsel and it was important that Ministers should make themselves personally responsible for seeing that adequate time was allowed for drafting at all stages. Decisions on policy should be sought well in advance and drafting instructions given quickly thereafter: an outline delivered promptly was more useful than detailed instructions given late. Last minute changes, either in the programme or in individual Bills, should be avoided and Departments should remember that Parliamentary Counsel were responsible not only for drafting Bills but for advising on a wide range of legislative, Parliamentary, procedural
and allied questions. He proposed to circulate a memorandum to bring these points to the attention of all Ministers concerned with legislation.

The Cabinet—

(1) Approved, subject to the points made in discussion, the legislative programme for 1967-68 set out in Annex A to C (67) 96.

(2) Invited the Lord President of the Council, in consultation with the Ministers concerned, to continue to keep under review the timing of major measures for future Sessions.

(3) Took note that the Prime Minister would circulate to Ministers concerned with legislation a memorandum on the responsibilities of Parliamentary Counsel on the lines indicated in his summing up of their discussion.

Cabinet Office, S.W.1.

15th June, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 20th June, 1967, at 9.45 a.m.

Present:
The Right Hon. Michael Stewart, M.P., First Secretary of State and Secretary of State for Economic Affairs
(In the Chair)
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. 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. Richard Marsh, M.P., Minister of Power
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 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. Clewyn 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., Minister of State for Foreign Affairs (Items 1 and 2)
The Right Hon. John Silkin, M.P., Parliamentary Secretary, Treasury
Mr. John Mackie, M.P., Joint Parliamentary Secretary, Ministry of Agriculture, Fisheries and Food (Item 1)

Secretariat:
Mr. P. Rogers
Miss J. J. Nunn
Mr. L. Errington
Mr. H. L. Lawrence-Wilson
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1. The Cabinet considered a memorandum (C (67) 107) by the Home Secretary on the adoption of permanent summer time, to which was attached a memorandum and a report by officials which had previously been considered by the Home Affairs Committee.

The Home Secretary said that the Home Affairs Committee had approved by an overwhelming (but not complete) consensus, proposals to introduce summer time permanently by legislation taking effect in the autumn of 1968, and to extend the statutory period of summer time by order under the existing Summer Time Acts so as to begin on 18th February, 1968. The Secretary of State for Scotland, who had not been present at the meeting of the Committee, had asked that the matter be considered by the Cabinet. Though opinion tended admittedly to be subjective there was little doubt that there had been a shift of opinion in recent years and that the majority of organisations which had been consulted in England and Wales in the course of a recent review of the subject were now in favour of the adoption of permanent summer time (or Central European Time (CET)). Since the survey of opinion had been conducted before the Government announced their decision to seek membership of the European Economic Community, it seemed improbable that the prospect of entry to the Community had had much influence on the result. The Home Affairs Committee had considered but rejected a proposal that the change should be made experimentally. An experiment would be unsettling, and it seemed unwise to commit the Government to legislate further at the end of an experimental period.

The Secretary of State for Scotland said that he found the report on the review of the social and economic aspects of extended summer time appended to C (67) 107 most unconvincing. From enquiries which he had made of the Scottish TUC it appeared that the favourable opinion which they had expressed was based merely on consultation between the Secretary and the Agricultural Secretary of the Transport and General Workers' Union. Public opinion appeared to have been gauged partly by consultation with the organisers of the Women's Royal Voluntary Service and partly by the inclusion in a Gallup poll undertaken for other purposes of questions which had elicited that, while 45 per cent of those replying favoured the change, only one in 49 knew why, whereas one in three of the 25 per cent opposing it were able to give reasons. Whereas there was expected to be a marginal reduction in the number of road accidents it seemed clear that in the north at any rate insufficient account had been taken of the effect of the greater risk of fog and frost which was likely to result in an increase in accidents, particularly to children on their way to school. The probable cost of the change, including the necessity to invest an additional £40 million in generating capacity and the additional costs in the agricultural and construction industries, appeared to have been brushed aside. A proposal which affected every individual in the country should be more fully considered before a decision was taken.
In discussion it was suggested that in view of the opposition to the introduction of CET in Scotland, where the inconvenience of a prolonged period of cold and darkness in the mornings would be particularly felt, the change should not be made unless there were clear grounds of national interest for making it. On the other hand it was argued that the public would readily adjust to the change, as they had to double summer time during the Second World War; that there was undoubted advantage in the opportunities for recreation provided by the extra hour of daylight in the afternoon; and that business and commercial interests would benefit from the coincidence of business hours in this country with those in Western Europe. Moreover the cost, particularly to the agricultural industry, appeared to have been exaggerated and the Central Electricity Generating Board had withdrawn their previous opposition to the proposal, since they now expected to have sufficient generating capacity to meet the additional demand in the mornings for light and power. In a debate in the House of Lords on the previous day there had been no opposition to the proposal. There might be some advantage from the point of view of public opinion in presenting the change as an experiment; on the other hand this was a subject on which the public would expect the Government to take an early decision and if, in the event, the change proved unpopular or inconvenient, fresh legislation could be introduced. There would be advantage, however, in considering whether the new time could be called either West European Time or, to retain the association with Greenwich, Greenwich Summer or Greenwich Daylight Saving Time.

The First Secretary of State, summing up the discussion, said that the preponderant opinion in the Cabinet was in favour of the adoption of permanent summer time by legislation taking effect in the autumn of 1968 and preceded by an order extending the period of summer time under the existing legislation so that the change would in effect take place from 18th February, 1968. The Home Secretary should consider in the light of the discussion whether a title other than Central European Time could be adopted and meanwhile should announce the decision in general terms in reply to a Parliamentary Question on 22nd June.

The Cabinet—

(1) Approved the proposal in C (67) 107 for the introduction of permanent summer time by legislation taking effect in the autumn of 1968 and preceded by an Order extending summer time in 1968 so as to begin on 18th February.

(2) Invited the Home Secretary to consider, in the light of their discussion, whether some title other than Central European Time could be found for permanent summer time.
2. The Minister of Power said that there had been no major change in oil supplies since the Cabinet had last discussed the subject; the Suez Canal was still blocked; Iraq and Libya were not producing oil; and all other Arab States were denying supplies to United Kingdom and United States destinations. There had been suggestions that the Soviet Union might be willing to supply oil to us and this possibility, which raised major questions of policy, was under discussion between the Departments concerned; Venezuela had indicated her willingness to supply additional oil but only in substantial quantities if long-term contracts were made. Despite hostile public statements by the Algerian Government they had recently allowed two tankers to be loaded with liquid methane for the United Kingdom and a third tanker was expected to be accepted for loading that day.

The oil stock situation was reasonably good since, when the emergency had started, we had had 90 days supplies in the country and a further 10 days in tankers at sea. Preparations for the introduction of petrol rationing were proceeding, however, and the necessary ration books and forms would have been issued to regional centres by the end of July. Discussions were taking place on how to share the supply and reduce consumption of fuel oil for industry.

French obstruction to a declaration by the Organisation for Economic Co-operation and Development of a state of emergency in relation to oil supplies continued; such a declaration was essential if American oil companies were to be able legally to co-operate with European companies in steps to deal with the emergency without contravening American anti-trust legislation. A further meeting of the Oil Sub-Committee of the Organisation would be held later that week in an effort to obtain agreement on the declaration of a state of emergency. There had been increases in the price of oil of about £1 per ton in West Germany, Switzerland and Belgium and increases were being considered in France and the Netherlands. British oil companies had given notice that they might wish to raise oil prices to meet the cost of longer tanker haulage and of higher purchase prices; if a definite request to raise prices were made, it would have to be dealt with quickly and without reference to the National Board on Prices and Incomes. The most difficult aspect of the current situation was not the shortage of supplies but the extra burden on our balance of payments; the present estimate was that, if the present situation continued, this might amount to £50 million over six months but this estimate was being re-examined.

In discussion, it was agreed that the question of lifting the embargo on the purchase of oil and oil products from the Soviet Union raised major policy issues which the Cabinet would wish to consider on the basis of a detailed paper. Although oil from the Soviet Union would be cheaper than other alternatives to Middle East supplies, we could not expect to obtain it except on long-term contracts. Our investments in the Middle East were substantial and
important for our balance of payments and very careful consideration would therefore be necessary of the effects on our economic situation and also on our defence and foreign policy of any lifting of this embargo. Our main aim must be to re-establish as soon as possible normal supplies of oil from the Middle East. It was possible that an outbreak of hostilities in Nigeria might cause a stoppage in supplies but Nigerian oil was more important for the long than for the short term.

In further discussion the Cabinet considered the demand by the Government of Libya that we should withdraw our forces stationed in that country. The view was expressed that we should not aim, as we were at present, to retain our forces in Libya in the hope that the situation there would become calmer and the request for their removal be withdrawn, but that instead we should seize the opportunity to withdraw these forces quickly.

The First Secretary of State, summing up the discussion, said that the Cabinet would wish to give further consideration both to the issues that would be involved in any removal of the embargo on the purchase of oil and oil products from the Soviet Union and to an assessment of the attitudes of the Arab countries on the supply of oil to us. It would be desirable for this consideration to take place on the basis of memoranda rather than of oral statements, but in the meantime the Cabinet would wish the Minister of Power to make a further oral statement on the oil supply situation at their first meeting in the following week.

The Cabinet—

(1) Invited the Minister of Power to make a further statement on the oil supply situation at their first meeting in the following week.

(2) Invited the Minister of Power to circulate a memorandum on the issues that would be involved in the removal of the embargo on the purchase of oil from the Soviet Union.

(3) Invited the Foreign Secretary to circulate a memorandum assessing the manner in which the attitudes of Arab countries to the supply of oil to this country might develop and the consequences for our economic interests.

The Cabinet—

3. The Cabinet considered a memorandum (C (67) 106) by the Secretary of State for Scotland, the Minister of Housing and Local Government and the Secretary of State for Wales, to which was annexed the draft of a White Paper on Town and Country Planning.

The Minister of Housing and Local Government said that the purpose of the White Paper, which had been approved in draft by the Home Affairs Committee, was to announce the legislation which it was intended to introduce for England and Wales in the coming Session of Parliament and for Scotland in the 1968-69 Session.
legislation would reduce the delays resulting from the present procedures, ensure wider public participation at the formative stage of planning schemes and adapt the planning process to enable development plans to deal not merely with land use but with the whole range of relevant social and economic considerations, including transport and investment policies. It was proposed that the new type of development plan should continue to be subject to the approval of the Minister but that the detailed implementation of the plans should be dealt with locally, subject to the power of the Minister to call a particular plan in for his own consideration, or to require the local planning authority to hold a public inquiry. The power to decide minor planning appeals, which at present rested with the Minister, would be delegated to Inspectors, subject to the control of the courts in case of error of law or procedure and to the supervision of the Council on Tribunals. The opportunity would be taken to redeem the pledge given in the White Paper on the Land Commission that public authorities would be enabled after the confirmation of the compulsory purchase order to use the more rapid vesting procedure for acquiring formal title to the land and to make some further improvements in the protection afforded to buildings of special historic or architectural interest. The proposals would be discussed in detail with interested organisations including the local authority associations and the Council on Tribunals. It had been suggested during the discussion of the draft White Paper by the Home Affairs Committee that either in the White Paper or at the Lobby Conference on its publication Ministers should indicate that the Government were considering the adequacy of the public local inquiry as a means of investigating and reaching conclusions on important schemes of development which raised novel issues and might have effects on a more than local scale. He proposed therefore in paragraph 28 of the draft White Paper, which already indicated that the Government were considering the methods of controlling development to be carried out by statutory undertakers, to give an indication that they were also reviewing the treatment of cases that raised wide and novel issues of more than local significance. If the Cabinet approved the draft he hoped that the White Paper would be published on 28th June.

In discussion the following principal points were made—

(a) The Inspectors to whom delegated powers were to be given would be concerned with relatively minor planning appeals dealing with individual properties and not with questions of more general interest such as the proposal to build a road across Christchurch Meadow. Their decisions would not be open to question by the Parliamentary Commissioner for Administration unless maladministration were alleged. They would, however, be subject to the control of the courts on matters of law and procedure.

(b) It was a major defect in the existing planning machinery that the local inquiry on a particular proposal could not also investigate alternatives to that proposal. A local inquiry was in any event inappropriate for the investigation of proposals which involved
questions of national policy, such as the site for a third London airport; and means should be sought of reconciling the need for investigation of the wider issues which had to be determined before proposals affecting a particular locality could be formulated with the need for hearing local objections and balancing the considerations involved in a choice among several potential sites. There would be advantage in devoting a separate paragraph of the White Paper to an explanation of the nature of the problem which the Government were seeking to resolve.

The First Secretary of State, summing up the discussion, said that the Cabinet approved both the proposals for legislation set out in the draft White Paper and the form of the draft itself subject to the inclusion of a paragraph indicating the nature of the problem raised by proposals of more than local significance, the investigation of which by a purely local inquiry was unsatisfactory. The Ministers concerned with the White Paper should prepare such a paragraph in consultation with the Lord Chancellor and the Lord President. If necessary the publication of the White Paper should be delayed for this purpose, but if those concerned could agree on a new paragraph in time the White Paper should be published on 28th June.

The Cabinet—

(1) Approved the draft White Paper annexed to C (67) 106, subject to the addition of a paragraph on the lines indicated in the summing up of their discussion by the First Secretary of State.

(2) Invited the Ministers responsible for the White Paper to draft the new paragraph in consultation with the Lord Chancellor and the Lord President of the Council and to arrange if possible for the publication of the White Paper on 28th June.

The Minister of Labour said that, in consequence of the dispute over the opening of the new continental freight terminal at Stratford, there was a danger of industrial action by railwaymen. The terminal had been blacklisted by the National Union of Railwaymen (NUR) in protest at the employment of outside workers by the forwarding agents leasing part of the depot and strike calls had been sent out the previous evening to a number of railwaymen at 21 freight and parcel depots in London. This might result in some damage to food supplies for London. The NUR had the right to report official disputes to the Minister of Labour, but if they did so he would not propose to use his good offices to attempt conciliation. The opening of the new freight terminal did not cause any redundancy among railwaymen and there was no justification for the threat of
industrial action. It was essential that the Government should do nothing which might weaken the stand being taken in respect of the Stratford terminal by the Board of British Railways.

In discussion there was full agreement with the views expressed by the Minister of Labour. It was noted that it might be necessary for the Official Committee on Emergencies to meet later in the day to consider action if the dispute should spread to other freight and parcel depots.

The Cabinet—

(1) Took note, with approval, of the statement by the Minister of Labour.

(2) Invited the Home Secretary to consider whether arrangements should be made for the Official Committee on Emergencies to meet to review the situation.

_Cabinet Office, S.W.1,
20th June, 1967._
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 22nd June, 1967, at 10 a.m.

Present:
The Right Hon. HAROLD WILSON, M P, Prime Minister
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. 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, Minister of State for Foreign Affairs (Items 1-3)
Mr. ROY HATTERSLLEY, M P, Joint Parliamentary Secretary, Ministry of Labour (Item 4)

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. W. A. NIELD
Mr. H. L. LAWRENCE-WILSON

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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 his discussions with President de Gaulle had ranged widely over world affairs. As regards the Middle East, the President maintained his view that there could be no settlement without Four Power discussions. He had recognised the importance of France and ourselves taking the same line in them, but, particularly in consequence of his earlier talks with the Soviet Prime Minister, Mr. Kosygin, when the latter was on his way to New York, had been disillusioned about the prospect of such discussions being able to achieve any early settlement and the implications this carried for the inability of France herself, or a disunited Europe, sufficiently to influence world events. He had recognised that the British position vis-à-vis the United States and Europe had changed substantially in the last two years, but he was still concerned at the extent to which our position made us liable to be involved in American policies. In particular, he was concerned at the continuation of hostilities in Viet-Nam, which in his view made it impossible to achieve any rapprochement between the United States and the Soviet Union or easing of world tensions. In the course of the discussion he himself had made a brief reference to our defence policy. The President had welcomed our decision not to buy Poseidon missiles; but he had not raised the general question of nuclear policy, which had not been discussed.

In the course of their discussion of African affairs he had drawn the President's attention to the continuing damage caused by the situation in Rhodesia and in this connection had made it clear that it was French opposition which stood in the way of an oil rationing scheme for Mozambique. The President had undertaken to examine further the French position in this regard.

In their discussions on Europe the President had made much of the danger that the European Economic Community (EEC) would, if we were to join it, pursue an “Atlantic” policy, since our entry would encourage existing tendencies in that direction on the part of the Benelux countries, Italy and the Federal Republic of Germany. He himself had urged the need for a quick decision about our entry. His reiteration of the importance of developing technological co-operation within Europe had made a considerable impact on the President, who had shown himself concerned at the economic difficulties which France was at present undergoing and the consequent need to reduce governmental expenditure in various fields. He himself had pointed out that, while the concept of a wide association of Atlantic and perhaps Pacific Powers had not yet reached the stage of practical politics, long delay in a decision about our membership of the EEC might well lead to pressures for such an
association acquiring considerable momentum. We had made our choice in favour of Europe: it was now for France to make her choice.

The attitude of the President had been friendly throughout and he had not been unreceptive to suggestions that closer Anglo-French co-operation would enable the two countries and Europe generally to play an effective role in world affairs. But the President had shown himself tired and depressed at his realisation that recent events, and notably his recent discussions with Mr. Kosygin, had demonstrated the failure of his policy of placing France in the role of intermediary between the Great Powers. His prevailing mood had been one of apocalyptic gloom about the state of the world and the need to reconsider and reconstruct French policies.

In discussion it was suggested that the outcome of the Prime Minister’s discussions with President de Gaulle indicated that negotiations for our membership of the EEC would be prolonged and, in the end, nugatory. From an economic point of view, some delay would not necessarily be a serious disadvantage since it would give further time for our economic recovery to show its full effect, but politically the constraints which would be imposed on our policies throughout a period of prolonged uncertainty would be disadvantageous. In these circumstances, it was questioned whether, in the light of France’s repeated suggestions that some form of British association short of full membership would, at any rate for the present, be the right solution, we should not consider further what our attitude to these suggestions should be.

On the other hand, it was argued that the discussions with the President did not justify so pessimistic a conclusion in respect of the outcome of negotiations for our entry into the Community. The President had not contested the Prime Minister’s explanation of the United Kingdom position in respect of capital movements, nor his exposition of the view that the position of sterling did not present a major problem. The President had, furthermore, shown considerable interest in the possibilities of building a Europe which was technologically advanced and had recognised the major change which had taken place in recent years in our position vis-à-vis the United States. Moreover, it might well be that if the President felt that Germany might, after his death, come increasingly to dominate Europe, he would wish to see the United Kingdom join the Community; and there was some reason to think that, in any event, he was more reconciled than hitherto to the prospect of our entry within the course of the next three years or so being more or less inevitable.

In further discussion on the question of association it was pointed out that it was important to distinguish between the three different forms which these suggestions had taken. As regards the first, association proper under Article 238 of the Treaty of Rome, there could be no question but that this would be inappropriate and unacceptable for us. The second proposition might be described as “probationary membership” under which we might have a status as an associate member for a period of years, with the possibility of
our being accepted as a member at the end of that period, provided our behaviour had been satisfactory. This solution too would be quite unacceptable. The third proposition was for a “treaty of transition” under which we should have a period of years to reorient our policies closer to those of the Community, but would be formally assured of membership at the end of that period. While this last proposition was clearly of a different character from the two preceding ones, it would not necessarily prove on further examination to accord with our interests and in any event it would be tactically fatal to let it appear at the present stage that we were interested in anything less than full membership.

*The Prime Minister,* summing up the discussion, said that his conclusion from his talks with the French President, upon whom he had exerted all possible pressure for a quick decision on the question of British entry into the Community, and who was now reviewing his whole position, was that we should continue to press our application for membership of the Community; it might be that by the autumn we should have further indications of the attitude of the Six and that would be the time to review where we stood. Basically, the President was still unconvinced that our entry into the EEC would not introduce an unacceptable degree of “Atlantic” influence. But he recognised, and found encouraging, the extent to which we were seeking industrial and technological independence of the United States: and in his now strikingly fatalistic mood about world affairs and his depression about the possibility of France maintaining the role in Europe and in the world which he had sought for her, it seemed probable that he was now prepared to recognise the inevitability of our membership. If, therefore, we maintained our pressure—as he himself had indicated to the President that we intended to do—he felt more definitely than before his visit that there was a reasonable prospect of our succeeding.

The Cabinet—

Took note, with approval, of the Prime Minister’s statement on his talks with President de Gaulle and of his summing up of the discussion.

3. *The Minister of State for Foreign Affairs* said that the debate on the situation in the Middle East in the Special Session of the United Nations General Assembly was not likely to end until the middle of the following week. Various groups of States were attempting to formulate compromise resolutions but the outcome would not be clear for several days. The Soviet Union, as part of her endeavour to restore her prestige with the Arab countries, had tabled resolutions strongly condemning Israel and was continuing to allege that we and the United States were giving full backing to
Israel. The speech by the Foreign Secretary in the debate, which had stressed the urgent need for relief of suffering in the Middle East and for United Nations mediation there, had been well received. His objective had been to make it clear that we had not given, and were not giving, full support to either party in the recent conflict and to begin the process of improving our relations with the Arab States, which was essential if our oil supplies from them were to be resumed. He had stated our belief in the right of Israel to exist as a State but, at the same time, had supported strongly the principle enshrined in the United Nations Charter that territorial aggrandisement should not come as a result of war. This did not mean that some rectification of frontiers was not essential as part of a general settlement. The Foreign Secretary had particularly asked that Israel should not take pre-emptive legislative action, before a settlement of the situation, to incorporate the whole of Jerusalem in her territory. Our view had long been that Jerusalem was a special case in which some kind of international status might be appropriate. Copies of the full text of the Foreign Secretary's speech would be circulated to members of the Cabinet.

In discussion, considerable disquiet was expressed at the interpretation which was being given in the United Kingdom Press to the Foreign Secretary's speech; this interpretation was to the effect that the Government would support a settlement in the Middle East involving the re-establishment of the frontiers between Israel and the Arab States which had existed before the recent conflict. The point was made that these frontiers were not such as to provide a basis for an enduring settlement in the Middle East, nor indeed had the Arab States themselves ever accepted them. This interpretation by the Press had led to a strong adverse reaction on the part of the Government's supporters in Parliament and it was essential quickly to correct any impression that, in order to secure our oil supplies from the Arab countries, we were prepared to see the frontiers between Israel and the Arab States settled on the basis of a complete withdrawal of Israel behind her previous frontiers. There was, however, general agreement that any corrective action could be best taken by background guidance to the Press, which would distinguish between a declaration of principle in respect of territorial aggrandisement as the result of war and an expression of views on the kind of settlement that might emerge through negotiations about the Middle East. Further statements of policy should, so far as possible, be avoided, since our interests would be best served if we did not take the initiative publicly, at any rate at this stage, about the nature of a settlement in the Middle East.

The Prime Minister, summing up the discussion, said that there seemed no prospect of an early settlement in the Middle East; before this could become possible there would have to be a relaxation of tension in the area and neither the Soviet Union nor the Arab States were yet ready to accept this. It was the view of the Cabinet that the settlement in the Middle East must, if it were to endure, involve some adjustments in the frontiers between Israel and the Arab States as these had existed before the recent conflict. The Minister of State
for Foreign Affairs should inform the Foreign Secretary urgently of the misleading interpretation which had been put publicly on his speech in the General Assembly. This should be corrected by suitable background guidance to the Press but in doing so we should avoid becoming publicly identified through further statements of policy with a particular view on the nature of a settlement in the Middle East.

The Cabinet—

(1) Invited the Minister of State for Foreign Affairs to be guided by the Prime Minister’s summing up of their discussion.

The Minister of State for Foreign Affairs said that there had been a mutiny in a section of the Federal Republican Army (FRA) and grave disorder in the Crater district of Aden. A number of British soldiers had been killed. The situation was still serious and was likely to remain so for a day or so. The current military position was not entirely clear. The mutiny had arisen from tribal jealousies in the Federal forces; this had been dealt with quickly by the Federal forces themselves but in the meantime violence had spread to the Crater where Arab police and supporters of the Front for the Liberation of Occupied South Yemen and the National Liberation Front had become involved. The Crater had been sealed off by British troops and the problem now was how to restore order there without further loss of life; there was no confirmation that Royal Marines had captured the district.

The Defence Secretary said that the situation in South Arabia had been made much more difficult by recent events in the Middle East and in particular by the allegations of collusion by ourselves and the United States with Israel, which had affected Arab morale. The most important feature of the situation for us would be how the FRA would react to this situation. A particular problem would arise if, as had happened during earlier operations in the Radfan, we were to find that troops who had been killed during the recent disturbances had been mutilated, since relatives now had the right to have their bodies brought back to this country.

In discussion it was noted that the Government’s policy on South Arabia had been made clear in accordance with the Cabinet’s discussion, in the Foreign Secretary’s statement in the House of Commons on the preceding Monday. This had made clear our intention to grant independence to South Arabia on 9th January 1968 and to withdraw our forces from the territory itself then. This was a major change from the policy pursued by the previous Administration.

The Cabinet—

(2) Took note of the statements by the Minister of State for Foreign Affairs and the Secretary of State for Defence.
4. The Home Secretary said that the Official Committee on Emergencies had met the previous day and would meet again that afternoon to consider what emergency action was required to deal with the situation arising from the unofficial strike at a number of London railway freight depots in consequence of the dispute over the Stratford terminal. Supplies to London had not so far been seriously affected; and as long as the strike did not spread to passenger services it did not appear that there would be occasion for action to be taken by the Government to ensure the continuation of supplies or services. There would be no business which would justify calling a meeting of the Ministerial Committee on Emergencies, but it was for consideration whether a meeting should be arranged and whether this should, contrary to normal practice, be made known, in order to demonstrate the determination of the Government to deal firmly with the situation.

The Joint Parliamentary Secretary, Ministry of Labour, said that the industrial situation that morning did not appear to be quite as gloomy as had seemed probable the previous day. It was reported that there was considerable reluctance in some depots to come out on strike and as long as the strike was not declared an official one by the National Union of Railwaymen (NUR), it seemed unlikely to spread much more widely. No meeting of the Executive of the NUR had yet been called and it was known that the General Secretary was in sympathy with the action being taken by the Board of British Railways. In these circumstances the balance of advantage lay in not calling a meeting of the Ministerial Committee.

In discussion there was general agreement that, as long as the situation did not deteriorate, there was no reason to hold a meeting of the Ministerial Committee on Emergencies. The best course would be for the Government, while maintaining a firm line in respect of the dispute, to avoid overt action except where this was necessary to maintain supplies or services.

The Cabinet—

Took note of the statements by the Home Secretary and the Joint Parliamentary Secretary, Ministry of Labour.

Cabinet Office, S.W.1.
22nd June, 1967.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Tuesday, 27th June, 1967,
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. PATRICK GORDON WALKER, 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. RICHARD MARSH, M.P., Minister of Power

The following were also present
The Right Hon. ARTHUR BOTTOMLEY, M.P., Minister of Overseas Development
The Right Hon. MARGARET HERBISON, M.P., Minister of Social Security
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury

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. 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. FRED PEARL, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLEIDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

Secretary:
Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. K. BARNES

SECRET
Subject

PUBLIC EXPENDITURE
Economic Outlook to 1972 and Civil Reviews
The Cabinet had before them the following memoranda by the Chancellor of the Exchequer:

C (67) 99—Public Expenditure: Civil Reviews: Housing.
C (67) 100—Public Expenditure: Civil Reviews: Education and Science.
C (67) 101—Public Expenditure: Civil Reviews: Roads.
C (67) 102—Public Expenditure: Areas of Choice.
C (67) 103—Public Expenditure: Continuation of Existing Policies.
C (67) 104—Public Expenditure.
C (67) 105—The Economic Implications of Public Expenditure (covering a note by officials).
C (67) 109—The Economic Implications of Public Expenditure, and a Memorandum by the First Secretary of State (C (67) 108) on the Economic Outlook to 1972.

The Chancellor of the Exchequer said that the voluminous studies by officials which were now before the Cabinet provided an analysis of the whole range of public expenditure and of the options in varying that expenditure which were open to the Government. Great credit was due to the officials concerned for the admirable work which they had carried out. The intention of the review was to indicate the bases on which it would be open to the Government to reduce civil expenditure in 1970-71 by between £200 and £300 million, depending on the extent of the saving achieved on defence, in order to achieve a total saving of £500 million. The papers reviewed the largest blocks of civil expenditure in order to facilitate decisions on such reductions and any change in priorities which the Cabinet might also wish to make. The report of the Medium Term Assessment Committee (MTAC) attached to the memorandum by the First Secretary of State (C (67) 108) gave a realistic appraisal of the future of the economy up to 1972. There was competition for the available resources between public investment, private investment, exports and private and public consumption. It was essential that the first priority should be given to exports, and it was important to encourage some areas of expenditure which were at present somewhat depressed, notably private investment. Provision was essential to meet programmes of social expenditure and governmental expenditure in support of private industry, such as investment in the nationalised industries. Hitherto, in considering priorities between these various fields, private consumption had been regarded as the residuary legatee after the needs of other fields of expenditure had been met: the Government were rightly determined to redress the previous balance between public and private expenditure in order to improve the standard of public services: but the time had now come to consider the degree of priority which should be accorded to the private consumer in his own right.
On taking office the present Administration had agreed to plan on a basis of a yearly increase in public expenditure of $4\frac{1}{2}$ per cent. This had in practice been exceeded and the yearly rate of increase was now 4-7 per cent, while further needs would inevitably continue to arise. Personal consumption, on the other hand, was increasing at a slower rate than over the past decade and it was questionable whether a continuation of this trend would be acceptable to the country. In the light of the papers before the Cabinet an important political decision in this respect was required.

In their past consideration of public expenditure the Government had not sufficiently refined their assessment of the demands made on resources by various fields of expenditure. Much work still remained to be done in this regard, but the papers before them now drew a broad distinction between three fields: expenditure on goods, expenditure on services and transfer payments. In terms of pressure on demand, expenditure on services involved the highest pressure and transfer payments the lowest.

In the light of the situation revealed by these various studies it should be the Government's aim to reduce the annual increase in public expenditure to a figure slightly less than their original target of $4\frac{1}{2}$ per cent by making a reduction of £500 million in the present planned expenditure in 1970–71. This would reduce the annual rate of increase in public expenditure between 1965–66 and 1970–71 to 4-1 per cent, and would mean that expenditure in 1970–71 would be £1,120 million higher, in terms of constant prices, than in 1967–68. The studies which were being carried out on the reduction of defence expenditure indicated that it might not be possible to achieve a greater saving than £200 million by 1970–71. To achieve the target of £500 million it would therefore be necessary to effect a reduction of £300 million in civil expenditure. In seeking such a reduction, it would be necessary for Ministers to look primarily at large blocks of expenditure, though officials should also consider the extent to which smaller savings could be made in other fields. The political implications of not making a cut of this order would be serious. It seemed improbable that it would be publicly acceptable that private consumption should increase only at the low rate which would then be involved. Private investment was expected to increase in 1968 and such an increase was important to our future productive capacity. The claims on resources resulting from higher rates of private consumption and of private investment would necessarily entail some restriction of public expenditure if the necessary resources were to be available for exports. 1968–69 would be a year of particular difficulty and it would then be necessary on the basis of present programmes substantially to raise the general level of taxation. An increase might also be necessary in 1969–70; and these increases would be superimposed on an increasing burden of household rates and on higher national insurance contributions. It was also necessary to bear in mind that the steady increase in prices entailed a diminution in the value of personal tax allowances as long as these remained constant in money terms. Even with the reduction of public expenditure which he proposed, some increase in taxation in this period would still be necessary. In considering the fields in which
reductions would be sought, his colleagues might concentrate on
his memorandum on the Areas of Choice (C (67) 102), covering a
report by officials which set out various major fields of expenditure
and the implications of reductions in each of them.

The First Secretary of State said that the report of the MTAC
attached to his memorandum (C (67) 108) included an assessment of
the probable growth of personal consumption on alternative trends
of productivity and alternative levels of public expenditure. The
consumer would not be content to regard his level of consumption as
a residual legatee in the allocation of resources after other
requirements had been fully met. Although the predictions in the
report might in some particular respects prove to be over pessimistic,
they could not be regarded as being so in total. The Government's
efforts to increase productivity should in time lead to a higher rate
of growth: but it would be imprudent to plan on the basis that such
higher rates would be achieved before this could be demonstrated by
events. Moreover, it must be borne in mind that the assessment made
no allowance for events such as the illegal declaration of independence
by Rhodesia, or the recent conflict in the Middle East. Such events,
which must be expected to occur from time to time, almost invariably
caus ed some damage to our economic position. It must also be
recognised that the assessment assumed a reasonable degree of success
in the Government's policy on prices and incomes.

In considering priorities between private and public expenditure,
it was also necessary to bear in mind that certain types of public
expenditure were important to the future growth of the economy.
Furthermore, some were more flexible in operation than others: for
example, expenditure on the social services could be more rapidly
expanded within a short period than expenditure on roads. If the
assumptions in the assessment proved to be over pessimistic, it would
then be possible rapidly to expand expenditure on the social services:
but other programmes would be inelastic in the short term.

The Defence Secretary recalled that the Cabinet had at an earlier
stage agreed that we should plan on the basis of changes in our
oversea policy necessary to achieve savings in defence expenditure of
the order of £200 million by 1970-71 and £300 million by 1975-76.
These changes included the assumption that we should have withdrawn
our forces and given up our defence facilities in Malaysia and
Singapore by not later than 1975-76. The studies which had
subsequently been carried out had demonstrated that these savings
could be achieved on the basis of such changes in our policy.
Moreover, the planned saving of £200 million in defence expenditure
by 1970-71 included the acceptance on the Defence Budget of
expenditure, not hitherto carried on that Budget, on the Armed Forces
Housing Loan and also expenditure on the P-1127, which the Cabinet
had decided should be undertaken for industrial reasons and the
future of the British aircraft industry and not because it was essential
for defence purposes. If allowance were made for the additional
expenditure on these two items, it could fairly be claimed that the
changes would provide for a saving on defence expenditure of £250
million by 1970-71. The cost of military equipment inevitably rose at a faster rate than the gross national product (GNP) and the attainment of a given level of military capability would therefore automatically increase in cost year by year. Yet on the basis of the present plans up to 1970-71 the Government would in the six years by which they would then have been in office have cut defence expenditure by 5 per cent whereas in the same period governmental civil expenditure would increase by 25 per cent. As regards the burden of defence expenditure on the balance of payments, recent studies had demonstrated that the real cost in foreign exchange was substantially less than had hitherto been supposed. After its preliminary interdepartmental examination by officials, he would circulate a paper to his colleagues showing the extent to which defence expenditure overseas represented a real burden on the balance of payments. As regards the possibility of reducing defence expenditure at an even faster rate, the studies had demonstrated that our overseas commitments could not be reduced at a faster rate than was now planned; and that we could not reduce our military capability except in step with the reduction of commitments. The plans provided, however, for a reduction by 1975-76 of 80,000 in uniformed personnel and of 25 per cent in our military capability.

The timetable for the consideration of the papers was inevitably tight. If there were to be a Parliamentary Debate on the issues involved before the Summer Recess, it would be necessary first to publish a White Paper, and its terms would have to be approved by the Cabinet by the end of the week beginning Monday, 10th July. The studies were now being considered by the Defence and Oversea Policy Committee and would come before the Cabinet in about 10 days' time. It was questionable whether it would be possible to hold more than two meetings of the Cabinet to consider them and the draft of the White Paper.

In discussion of the economic outlook, it was argued that it would be wrong to accept the assumption underlying the main projections in the report by the MTAC that productivity between now and 1972 would increase only at the same rate as the trend increase achieved in recent years. That rate of increase related to a period before the policies of the present Administration directed to increasing industrial efficiency had begun to take effect. To assume that we should not improve on this was tantamount to asserting that the whole range of these policies would have no material effect in accelerating the growth of productivity. On the other hand, it was pointed out that the MTAC report did not imply that we could not achieve the higher rate of increase in productivity; the report set out the implications for the economy of the alternative assumptions of a higher and lower increase. There was scope for argument on whether the effect of higher productivity would in the initial years entail additional strain on our balance of payments on the lines forecast in the report; but in any event it would be imprudent to assume beforehand, for the purposes of the review of public expenditure, that we should achieve the higher rate of increase. A high price in economic terms had already been paid for such an optimistic assumption in the past; and if we continued to make this assumption and founded on it an
ambitious public expenditure programme, we should find it difficult to retrench at a later stage if our expectations were not fulfilled. If on the other hand we planned on the basis of a more modest achievement, it would always be practicable to adjust public expenditure later, particularly in fields such as social security where the programme was flexible, if in the event productivity increased faster.

It was also argued that the level of unemployment projected in the MTAC report was higher than the Government should contemplate. In addition to human considerations, the continuance of unemployment at anything approaching the present level would mean serious under-utilisation of resources, particularly in the regions where unemployment was highest, and we could not afford this. It was the deliberate restraint of demand and the consequent high level of unemployment which were retarding the growth of the economy, rather than any failure of the Government’s policies for increasing industrial efficiency. The Government should therefore in the near future introduce sufficient reflationary measures to ensure a fuller utilisation of resources. On the other hand, it was argued that, while the underlying trend in unemployment was responding more slowly to the Government’s policies than might have been expected, there were reasonable grounds for believing that the second half of 1967 would bring a revival of demand. Public investment would be rising and increases of wages would also be providing a stimulus to consumer demand. There were already some signs in the construction industry that shortages of skilled labour were developing in some parts of the country. The danger of introducing further reflationary measures at the present time was that they would only begin to take effect from the spring of 1968, by which time the economy should in any case again be expanding.

In discussion of the implications of the economic outlook for the future programme of public expenditure, it was generally accepted that some reduction in the existing programme was necessary. Resources would have to be made available to match the expected recovery in private investment and this inevitably called for some restraint on either public expenditure or personal consumption. The main consideration was to avoid overstimulating the economy, with a consequent recurrence of balance of payments difficulties and the need for further deflationary measures. It was, however, also important to allow personal consumption to increase at a tolerable rate. Indeed, any attempt to hold down consumption too severely would be likely to fail since it would stimulate inflationary wage increases. While the Government were committed in the long term to some shift of resources from private consumption to the social services, the prospective rise in the real burden of taxation and other public levies showed that such a shift would take place even if the growth of public expenditure were held back to the extent proposed by the Chancellor of the Exchequer. Nor could the Government afford to ignore the attitude of the ordinary citizen, as a consumer, towards continued restraint of personal consumption.
Whatever the material facts might be, there was evidence that the public now felt strongly that the level of consumption should be increasing at a faster rate. These considerations pointed to a substantial reduction in the existing programme of public expenditure.

Against this, it was suggested that the papers before the Cabinet showed that the increase in public expenditure if the existing programme were continued would be mainly concentrated on the year 1968–69. The increase in that year was expected to be 6.9 per cent, but in subsequent years the estimated increase was much less and by 1971–72 it was expected to be less than the increase in the national product in that year. Expenditure in 1968–69 would be particularly high due to a number of non-recurrent factors and it would be logical to treat that year in isolation by temporary measures such as the use of the tax regulator, rather than by imposing a general reduction in the programme for that year and subsequent years. On the other hand, it was argued that it was illusory to suppose that the rate of increase in public expenditure would fall away after 1968–69. Experience showed that estimates of expenditure made some years ahead were invariably exceeded in the event, since new claims on the public purse could always be expected to materialise as time went on; and in relation to the later year in question, the programmes of departmental Ministers were not yet fully developed.

In discussion of the size of the reduction which should be sought in the programme of public expenditure to 1970, there was considerable support for a reduction materially less than that of £500 million proposed by the Chancellor of the Exchequer. A reduction of that order would mean that the annual increase in public expenditure would in fact be less than the yearly increase of 4½ per cent which the Government had set as their target in 1965. The argument presented for a reduction as large as £500 million relied primarily on the need to allow a faster growth in personal consumption than would otherwise be possible. But personal consumption as a proportion of GNP was already higher in this country than in most other industrially developed countries. It could be argued that the need for basic services such as roads and houses should take priority over an increase in personal consumption. A reduction of £500 million was intended to make possible an average annual increase in personal consumption per head of 2.2 per cent. This was approximately the same as the average increase over the past decade. But the growth rate of the economy during that period was higher than we could expect to achieve between now and 1970, and it would be more in accordance with the present economic prospect to aim at a growth in personal consumption averaging 2 per cent a year, which was the rate achieved in the period 1961–66. It should be possible to achieve this consistently with a much smaller reduction in the programme of public expenditure, which, including the cuts in defence expenditure might possibly be of the order of £300–£350 million in 1970–71 and could be achieved without unacceptable damage to the Government’s social objectives.

In further discussion, it was strongly argued that it would be wrong to decide the size of an overall reduction in the programme...
without regard to the way in which it was distributed among different kinds of expenditure. It would be necessary to consider the effects of particular reductions on the pressure of demand and on the demand for imports. It would also be of the first importance in allocating reductions to distinguish between expenditure which would itself make a contribution to the productive power of the economy—and would thus affect the rate of economic growth which we could achieve—and other forms of expenditure. It would be necessary to bear in mind that reductions in the roads programme would have a particularly serious effect in the development areas.

It was also relevant in determining the size of the reduction to consider the means of raising the additional revenue needed to maintain the pressure of demand at a constant level. It might well be that the raising of revenue by means of charges such as road tolls would be more palatable than additional direct taxation. A further possibility meriting examination related to mortgage lending by local authorities. An increase in the volume of lending to owner-occupiers would mean an increase in saving which would benefit the economy generally. At present, local authority mortgage lending tended to be treated on the same footing as public expenditure generally, though it was more akin in its economic effects to transfer payments than to other forms of expenditure. There might be advantage if it could be taken out of the category of public expenditure completely. One way of doing this might be to establish a consortium of local authorities which would undertake mortgage lending on a considerable scale, raising its funds on the market and not by resort to the Exchequer.

The Prime Minister, summing up the discussion, said the Cabinet agreed on the need for some reduction in the programme of public expenditure to 1970-71, but at this stage the balance of opinion inclined towards a reduction smaller than the £500 million proposed by the Chancellor of the Exchequer. However, a decision on the total size of the reduction would be affected by the kinds of expenditure which would be reduced. In deciding where reductions should be made, it would be necessary to consider carefully how far particular blocks of expenditure made a contribution to the productive base of the economy. The Chancellor of the Exchequer should consider with the Ministers most concerned the possibility of raising additional revenue by means of charges, particularly for services of an economic character. He should also consider with the Secretary of State for Scotland and the Minister of Housing the feasibility of removing local authority mortgage lending from the scope of public expenditure by the establishment of a consortium of local authorities on the lines suggested in discussion. He should report to his colleagues urgently on these matters so that account could be taken of them in the current review. The Cabinet would resume their consideration of public expenditure at an early date and the Ministerial Steering Committee on Economic Policy would be giving further consideration to the main issues involved in the light of the views which had been expressed.
The Cabinet—

(1) Invited the Chancellor of the Exchequer—

(i) to consider with the Ministers most concerned the feasibility and desirability of raising additional revenue by charges rather than by increases in taxation, as indicated in the Prime Minister's summing up of their discussion;

(ii) to consider with the Secretary of State for Scotland and the Minister of Housing and Local Government the possibility of establishing a consortium of local authorities to undertake mortgage lending on the lines suggested in discussion;

and to report on these issues to his colleagues in the context of the present review.

(2) Took note that the Prime Minister would arrange for the Ministerial Steering Committee on Economic Policy to consider further in the light of the discussion the main issues arising in the review of public expenditure.

(3) Agreed to resume their discussion at an early date.

Cabinet Office, S.W.1.
27th June, 1967.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 29th June, 1967, 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 (Items 1-4)
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. RICHARD CROSSMAN, 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 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. 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. JOHN SILKIN, M.P, Parliamentary Secretary, Treasury
Mr. PETER SHORE, M.P, Joint Parliamentary Under-Secretary of State, Department of Economic Affairs (Items 3 and 4)

Secretariat:

Sir BURKE TREND
Mr. P. ROGERS
Miss I. J. NUNN
Mr. H. L. LAWRENCE-WILSON
Mr. L. ERRINGTON
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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 debate on the Middle East in the General Assembly of the United Nations was likely to end late that week or early the following week. The objective of the Soviet Union, which might be achieved, was to obtain a two-thirds majority for a resolution condemning Israel, calling upon her to withdraw from conquered territory and to pay compensation to the Arab States; although this would have no legal validity, it would then enable the Soviet Union to take the matter up in the Security Council and to press there for sanctions against Israel.

A group of States led by Yugoslavia was working for a modified resolution which was more likely to obtain the necessary two-thirds majority in the General Assembly; although this resolution would be somewhat milder, it would still open the way for the same action to be taken by the Soviet Union in the Security Council.

A larger group of European, Asian, African and South American States was attempting to reach agreement on a resolution which would take account of all the factors bearing on a solution of the Middle East problem; although we were not openly taking the lead on this resolution, we were assisting its sponsors and we hoped that it would be such that we could support it and that it would obtain a majority in the General Assembly. It might then be possible to arrange for representatives of the United Nations to go to the Middle East and for the United Nations Emergency Force to be re-established in a strengthened form. Although the passage of two conflicting resolutions by the General Assembly would adversely affect the prestige of the United Nations, if the Soviet resolution alone were to be passed it would raise the possibility that the United States and ourselves might subsequently have to consider vetoing a resolution in the Security Council.

There were grave problems in the territory occupied by Israel west of the Jordan River; we were endeavouring to persuade Israel to prevent the further movement of refugees out of the area and to encourage those who had fled to return. Any improvement in the situation depended very much on the attitude, particularly in relation to the United Arab Republic (UAR), of King Hussein of Jordan, who would be visiting London at the beginning of the following week. Any improvement in the situation would be very difficult to achieve as long as the Government of Jordan continued to brand as traitors anyone who had dealings with Israel. As regards Jerusalem, although Israel had not formally annexed the Old City she had taken action which had the same practical effect and this would make an eventual settlement much more difficult.
Aerial photographs now available of the Suez Canal showed that there were 10 obstacles in it and it seemed clear that the UAR had been responsible for most, if not all, of these. It was estimated that it would take the UAR alone two months to clear the Canal. We were working with other countries primarily concerned to secure the re-opening of the Canal; although it was open to us in law to seek an injunction by the International Court of Justice at The Hague, it would be difficult for us to do so since, unlike the UAR, we had made reservations about the jurisdiction of the Court in a number of fields. The prospects for re-opening of the Canal were obscure, but some means of achieving it might be found when the Special Session of the United Nations General Assembly had been completed. The UAR had said that the Canal would not be re-opened until Israeli forces had been withdrawn from its eastern bank, but her economic situation had been serious even before the recent hostilities and it was difficult to see how she could afford the loss of earnings from the Canal, which amounted to between £6-8 million a week, unless the Soviet Union gave her massive support. The situation inside the UAR was confused and President Nasser appeared to be having difficulty in firmly re-establishing his position. Foreign consulates in the Canal Zone had been closed and since the cessation of hostilities there had been large deliveries of arms from the Soviet Union to the UAR; their nature was not clear but, although there had been reports that sophisticated weapons such as rockets might be included in them, this was not considered probable. It appeared however that large numbers of MiG aircraft had been included. Israel was now adopting a relatively moderate attitude towards the territorial aspects of a settlement in the Middle East problem, provided she could obtain guarantees for her security and essential rights.

The Cabinet—

(1) Took note of the Foreign Secretary's statement.

The Foreign Secretary said that we had reliable information that our application to join the European Communities had been strongly supported by the Five at the meeting of the Ministerial Council of the European Economic Community (EEC) earlier that week. In the upshot it had been decided that our application to join the Community should be remitted for examination and report by the EEC Commission by the end of September. France had not opposed this but, in pursuit of her policy of raising difficulties and causing delay in considering our application, had prevented the unanimous agreement among member States of the Community that was necessary before we could present our case to the Council. The Foreign Ministers of Belgium and Germany had then taken the lead in proposing that we should make our opening statement at a meeting of the Ministerial Council of the Western European Union (WEU) (which was in effect a meeting of the Six and ourselves) early in the following week and France had been unable to oppose this. It was the strong view of the members of the
Community other than France that we should take advantage of this opportunity to maintain the momentum of our approach to Europe and, subject to the agreement of the Cabinet, he would attend the WEU Council meeting on 4th or 5th July and make a full opening statement. This would be published as a White Paper and sent formally both to the WEU and to the EEC; he hoped that it would be approved at a meeting of the Ministerial Committee on the Approach to Europe on 3rd July but, if necessary, it would be brought before the Cabinet on 4th July.

In discussion there was general agreement that the Foreign Secretary should, as proposed, make a statement to the Council of WEU, since otherwise we should appear to have disregarded the advice of our supporters in the EEC and to have accepted the French view that the matter was not urgent. The statement should be discussed interdepartmentally in the normal way, on the basis that, although it could be amended as regards points of detail and presentation, its substance should not depart from the Cabinet's earlier decision in principle to seek membership of the EEC; and, in view of its political importance, the final draft should be considered by the Cabinet.

The Cabinet—

(2) Agreed that the Foreign Secretary should make a statement on our application to join the European Economic Community at the meeting the following week of the Ministerial Council of the Western European Union.

(3) Invited the Foreign Secretary to circulate the draft of such a statement for consideration at their next meeting.

The Commonwealth Secretary said that on 14th March the agreement to the appointment of Mr. Simbule as High Commissioner (Designate) for Zambia in London had been signed. Subsequently Mr. Simbule had made a vicious attack on the United Kingdom in a speech at Dar es Salaam and, although we had sought an explanation of the speech and had asked that there should either be an apology or that Mr. Simbule should be replaced, there had been no direct response from President Kaunda or from the Zambian authorities. Despite our request that he should not do so Mr. Simbule had in the meantime arrived in this country and was now seeking to present his credentials to The Queen and to obtain our agreement to a statement which dealt with his speech. This statement did not express regret but was to the effect that he had been told that the frankness that he could normally use in talking to his fellow Africans might have hurt the feelings of some people in this country and that, if so, he regarded it as unfortunate. If we were to accept Mr. Simbule's statement, which would be published, it would mean conceding that we accepted his right to make the attack despite the special relationship which he would have to this country as High Commissioner. It was also clear that there would be strong opposition in Parliament to this, particularly against the...
background of recent attacks on our diplomatic representatives in China and of the fact that in recent months we had decided to withdraw representatives from two Commonwealth countries as a result of much less justifiable criticism of them by the Governments of those countries. We had to bear in mind that a rupture of relations with Zambia might follow if we refused to accept Mr. Simbule and that this might have serious political and economic consequences for us in view of the importance of Zambian copper and of the presence of large numbers of British subjects in Zambia; there was moreover a risk that President Kaunda might lose his power to the Foreign Minister, Mr. Kapwepwe. Nevertheless, he believed that we must insist that the draft statement which Mr. Simbule had sent should be amended to indicate his regret at having made an attack on us and that if he would not agree to this, either because he was himself unwilling or because he was under instructions not to do so, we should refuse to accept him as High Commissioner.

In discussion doubts were expressed at the wisdom of risking our economic interests in order to secure an explicit expression of regret from Mr. Simbule. The general view was, however, that the draft statement which Mr. Simbule had put forward was not satisfactory and that further attempts should be made to agree with him a modified wording expressing regret at the impression that his speech had made in this country.

The Cabinet—

(4) Invited the Commonwealth Secretary to seek to reach agreement with Mr. Simbule on a redraft of his statement on the lines indicated in their discussion.

*3. The Cabinet considered memoranda by the Minister of Power on the Arab oil situation (C (67) 112) and on petroleum prices (C (67) 113).

The Minister of Power said that the situation in respect of available supplies of oil had not altered substantially since the previous discussion by the Cabinet on this subject. Iraq had started to pump oil but Libya had not yet resumed production despite hopes that she would do so shortly. Nevertheless, the basic problem now was one of transport and cost, rather than of supply. A limited agreement had been reached in the Oil Committee of the Organisation for Economic Co-operation and Development which would ease co-operation on the equitable distribution of available supplies. Preparations for the introduction of rationing were being pursued in case this should become necessary. Rationing could begin early in September if the situation then made it necessary.

In discussion on this aspect there was general agreement that unless the situation deteriorated it would be preferable not to seek to introduce rationing during August, particularly as administrative

* Previously recorded in a Confidential Annex
difficulties made it impracticable to bring the date forward by more
than a week or two. The need for rationing would be considered
further at the time. The Cabinet were also informed that
developments in Nigeria put at risk the continued availability of
Nigerian oil.

The Cabinet—

(1) Took note of the statement by the Minister of Power.

Petroleum prices

The Minister of Power said that the situation imposed extra
costs on the oil industry amounting on an average to at least
£2 a ton. The continuation of the present crisis for six months
might cost the United Kingdom between £60 and £80 million in
extra foreign exchange. The increased costs would have to be met
through surcharges which, if spread evenly as the leading companies
advocated, would be equal to 2d. a gallon on all products. It would
minimise the effect on the economy if the surcharges were such as
to bear more heavily on petrol than on other products, but the
scope for variation was not large, partly because petrol formed only
15 per cent of total sales and partly because of other difficulties of
supply and in the process of refining. The Government had no
power to order specific changes in prices, but he proposed to include
such powers in new legislation which would be required in the
near future to enable rationing to be introduced without relying on
emergency regulations. In these circumstances the best course
would be to agree to an increase of £2 per ton in respect of crude
oil and to weight the surcharge on petrol by increasing the price by
4d. a gallon. The surcharge on other main oil products would
then be about 1½d. a gallon. The leading companies would accept
a solution on these lines. It would have to be clear that the
surcharges were temporary and would be kept under review, but
we could not rule out the possibility that costs would rise still
further.

In discussion there was general agreement that an increase in
prices must be accepted. It was, however, urged that it would be
preferable to weight the surcharge on petrol more heavily than was
proposed in order to lessen the burden upon industrial costs and to
discourage private consumption and therefore the total level of
imports and expenditure in foreign exchange. On the other hand,
it was argued that there were serious technical objections to making
such a relatively large increase in the price of petrol. In any event,
it was questionable whether an increase of the order which would
be involved of about 6d. a gallon would have any substantial effect
on the level of consumption in the summer months. It would,
however, have the undesirable consequence of increasing the cost
of public road transport and the pressure for higher fares.

The Prime Minister, summing up this part of the discussion,
said that the Cabinet on balance took the view that, since the
increase of prices was designed to meet a temporary situation and
in view of the possible effect of the increased price of petrol on the level of fares in road transport, the best course would be to accept an even surcharge on all oil products of 2d. a gallon. This would, however, require further examination if the situation continued for any length of time and in particular if it proved necessary to introduce rationing. The increase should be announced as soon as the Minister of Power found it practicable to do so and in any event not later than the following day.

The Cabinet—

(2) Agreed that there should be an increase of £2 per ton in the price of crude oil.

(3) Agreed that there should be surcharge on all oil products of 2d. a gallon, on the understanding that this was temporary and would be kept under review.

(4) Invited the Minister of Power to announce the increases covered by Conclusions (2) and (3) as soon as possible.

(5) Agreed that legislation should be introduced before the Summer Recess to provide powers in respect of oil prices and rationing on the lines proposed by the Minister of Power.

Russian oil

The Minister of Power said that there had been three main reasons for the embargo which had been imposed in 1959 on imports from the Soviet Union of crude oil and major products. The import of Russian oil offered no advantages to our balance of payments; our oil industry already had its own sources of supply and the import of Russian fuel oil, which was the product most readily marketable in this country, would have increased the problems of the National Coal Board. In considering the possibility of removing the embargo, we should distinguish between supplies in the short and long term. The short-term oil supply problem that had arisen as a result of hostilities in the Middle East was primarily one of tanker shortage; because of the short haul from the Black Sea ports, any supplies of Russian oil or major products that we could obtain would ease the situation and, although it was unlikely that in present circumstances the Russians would make any large quantities of either available to us, we should relax the embargo so that these could be purchased either by industry or for Government stocks; publicity for such purchases should be considered. It was not yet clear what the effects on the balance of payments of the purchase of Russian rather than Venezuelan oil or oil from the Persian Gulf by the Cape route would be, since this would depend on the prices which the Soviet Union charged for it; Russian refined products would be more expensive for the balance of payments than those refined in this country.

For the long term, the possibility of obtaining supplies of oil from the Soviet Union was one of a number of aspects of our energy policy which required examination. The work which had so far been done did not indicate that recent events should lead
us to discriminate further against oil but the diversification of our sources of oil supply in order to safeguard ourselves against instability in the Middle East, the holding of larger stocks in this country and an increase in the tanker fleet, especially for use round the Cape, were being examined. We had to keep in mind the large stake that we had through our major oil companies in the Middle East; the reserves of crude oil to which they had rights equalled the total reserves in North and South America together. As regards the balance of payments, Middle East oil supplies to this country benefited us by £60 million a year and sales overseas by British Petroleum and Shell had been worth £160 million to our balance of payments in 1965. Perhaps a third of this total of £200 million was in respect of Arab oil.

In discussion there was general agreement with the Minister’s proposals. There was also agreement that the embargo on imports of Rumanian oil should be lifted. It was however pointed out that in considering the longer-term issue of import of Russian oil it would be necessary to consider the effect on the existing unfavourable balance of our trade with the Soviet Union.

The Prime Minister, summing up this part of the discussion, said that the Cabinet were in general agreement with the Minister’s proposals, which should be extended to include Rumanian oil. It was clear that in the immediate future we should not be able to obtain supplies of oil from the Soviet bloc on the open market, but the oil companies and Imperial Chemical Industries should be encouraged to import Russian and Rumanian oil products if they could obtain them. It was essential that this course should be kept strictly secret at the present stage, but if we succeeded in obtaining supplies the Foreign Secretary would wish to consider what publicity should be given to this. The longer-term issues in respect of imports of Russian and Rumanian oil should now be studied interdepartmentally, as proposed by the Minister of Power, as a matter of urgency.

The Cabinet—

(6) Approved C (67) 112.

(7) Invited the Minister of Power to take similar action in respect of the import of Rumanian oil.

CONFIDENTIAL

4. The Cabinet had before them a note by the Secretary of State for Wales (C (67) 110) to which was annexed the draft of a White Paper on Local Government in Wales.

The Secretary of State for Wales recalled that the Cabinet had agreed that work on the reorganisation of local government in Wales should be continued separately from the reorganisation under consideration in respect of England and Scotland. His predecessor had undertaken to publish a White Paper on the subject and he was anxious to redeem this pledge as soon as possible. The first
four chapters of the draft annexed to C (67) 110, which had been
approved by the Home Affairs Committee, discussed the
Government's proposals for the reorganisation of local government
in Wales, presenting them as a means of meeting the urgent and
special needs of Wales for a reduction in the number, and an
increase in the strength of local authorities. Chapter V dealt with
the proposals for a Council for Wales. He had originally envisaged
an elected Council with some executive functions but, in deference
to the views of his colleagues, now proposed that the question
should be handled in two stages. At the first, the existing machinery
for advisory and promotional work would be improved by creating
a nominated council with wider advisory powers than the existing
Welsh Economic Council and with freedom to appoint its own
chairman and publish its reports; and at the second, consideration
would be given in the light of the reports of the Royal Commissions
on Local Government in England and in Scotland to the possibility
of giving the Council additional powers and responsibility and
making appropriate changes in its membership and constitution.
These proposals had, by agreement with the Home Affairs
Committee, been considered by the Environmental Planning
Committee and approved. He would personally have preferred to
be able to go further, but he recognised the need to study the
Welsh situation in relation to proposals for the reorganisation of
local government in England and Scotland and he believed that the
proposals now put forward would strengthen the existing machinery.
He intended to consult the local authorities before preparing
legislation and estimated that the considerable amount of
preparatory work involved would take about two years, leading to
the introduction of a Bill early in 1970.

In discussion it was suggested that a substantial body of Welsh
opinion in the House of Commons would be opposed to the
proposals in the White Paper, on the ground there was no need
to create a Council for Wales with co-ordinating functions in view
of those already exercised by the Welsh Office. The Council would
be likely to rival the authority of the Secretary of State and its
creation, far from satisfying nationalist opinion, would merely
encourage demands for an elected body. A more satisfactory
solution of the problem would be the appointment of a Select
Committee on Welsh affairs. On the other hand it was recognised
that the Secretary of State was committed to publishing a White
Paper. It would hardly be practicable to ignore the question of a
Council for Wales and while it might be preferable, had it been
possible, to say nothing on the subject until the Government had
been able to form a view on the appropriate size and nature of the
new major units of local government in England, the proposals now
put forward represented a reasonable compromise and would be
unlikely to prejudice future decisions. In particular the respects
in which the Council for Wales differed from regional planning
boards in England could be justified by reference to differences in
the Welsh situation. The publication of the White Paper early in
July might stimulate demand for a debate, but this could take place
if necessary in the Welsh Grand Committee.
The Prime Minister, summing up the discussion, said that the Cabinet approved the proposals in the White Paper in respect of local government reorganisation and agreed that the two stage approach to the problem of a Council for Wales as set out in Chapter V was an acceptable compromise. The Secretary of State for Wales should consult the Lord President on the timing of publication and on a form of words to be used, should he be pressed to indicate when legislation would be introduced. On this he should avoid commitment but could proceed with preparatory work.

The Cabinet—

(1) Approved the draft White Paper annexed to C(67) 110.

(2) Invited the Secretary of State for Wales to consult the Lord President of the Council on the timing of its publication and on the form of words to be used in response to enquiries about the introduction of legislation.

5. The Cabinet considered a memorandum by the Minister of Transport (C(67) 111) to which was annexed a draft White Paper on "Road Safety—A Fresh Approach".

The Minister of Transport said that the White Paper described new proposals for dealing with road safety which had been forecast in the previous year's White Paper on Transport Policy. The White Paper described a new scientific approach to the problem through fact finding research and cost effectiveness analysis. It indicated how central and local machinery on road safety was to be strengthened and described particular measures which it was proposed to take in relation to the public, to vehicles and to the road user's environment. The White Paper had been approved by the Home Affairs Committee, subject to further consideration of two principal points. She had earlier contemplated the addition of an annex on the application of cost effectiveness analysis in identifying the most worthwhile road safety measures, but had concluded that the work was, as yet, at too early a stage to make it worthwhile or wise to describe it in detail. She had, however, expanded paragraphs 11 and 12 of the White Paper to give a fuller description of what had been done so far. Some concern had also been expressed in the Home Affairs Committee that the proposed increase from 16 to 17 in the minimum age at which juveniles might ride motor cycles and motor scooters would result in more of them riding illegally and coming before the courts for this and other offences. However, she had concluded that the case, on road safety grounds, for raising the age to 17 was overwhelming. The proposals in the White Paper would involve some additional Exchequer expenditure, mainly on publicity; this would be considered in the context of the current
review of public expenditure and could, if necessary, be met from within her Department's existing provision. If the White Paper were approved, it was proposed to publish it on 4th July.

In discussion it was suggested that the proposal to raise the minimum age for riding motor cycles would be criticised by the motor cycle industry because of the consequent reduction in the home market; but there would be some saving in imports also. Raising the age limit would have the undesirable result that more juveniles would be brought before the courts for offences concerned with illegal riding of motor cycles and motor scooters; and there might be a case for retaining the present age limit for riding motor scooters, which were less dangerous in relation both to the number and the seriousness of accidents. On the other hand, it was pointed out that, while motor scooters were rather less dangerous than motor cycles, they were still so much more dangerous than cars that, on any ground of road safety, it would not be possible to justify a lower age limit for them. The raising of the age limit would be popular with parents. Existing licence holders under 17 would not, however, be deprived of their licences.

The Prime Minister, summing up the discussion, said that the Cabinet approved the White Paper on Road Safety. In particular, they agreed on balance that the age limit for riding motor cycles and motor scooters should be raised to 17. In deciding the timing of publication of future White Papers, Ministers should bear in mind the introduction by the Independent Television Authority of a full half hour's news programme at 9 p.m. There might be advantages in timing the publication of White Papers with a view to publicity in this programme and in the morning Press rather than in the evening Press as at present. Where, however, publication of a White Paper was to be accompanied by a statement in the House, it would be necessary to continue the present practice.

The Cabinet—

(1) Approved the draft White Paper on Road Safety—A Fresh Approach, annexed to C (67) 111.

(2) Invited the Minister of Transport to arrange for its publication in consultation with the Lord President of the Council.

Cabinet Office, S.W.1.
29th June, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Monday, 3rd July, 1967, 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. ROY JENKINS, M P, Secretary of State for the Home Department

The Right Hon. PATRICK GORDON WALKER, 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. 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

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. ANTHONY WEDGWOOD BENN, M P, Minister of Technology

The following were also present:

The Right Hon. JOHN DIAMOND, M P, Chief Secretary, Treasury

The Right Hon. SIR ELWYN JONES, Q C, M P, Attorney-General

The Right Hon. LORD CHALFONT, M P, Minister of State for Foreign Affairs

The Right Hon. JOHN SILKIN, M P, Parliamentary Secretary, Treasury

Secretariat:

Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. P. E. THORNTON
Subject

APPROACH TO EUROPE

Draft Opening Statement to the Ministerial Council of the Western European Union
The Cabinet had before them a memorandum by the Secretary of State for Foreign Affairs (C (67) 114), to which was attached the draft of a statement which he proposed to make to the Ministerial Council of the Western European Union on Tuesday, 4th July.

The Foreign Secretary said that a large part of the draft had been agreed interdepartmentally by officials. The paragraphs shown in square brackets represented issues on which agreement had not yet been reached.

In discussion it was argued that the general tone of the statement implied that the Government had gone further than hitherto in the approach to Europe towards accepting that political considerations were overriding, that those political considerations were wholly in favour of our joining the European Communities and that we were prepared to accept in negotiation almost any economic price in order to succeed. It was, however, the general view that since the speech must be adapted to its audience and to the immediate purpose of seeking to ensure that negotiations actually began, it was necessary to highlight the considerations which particularly appealed to the Six. Read in this light, the speech as a whole did not go beyond the terms of the White Paper on Membership of the European Communities (Cmnd. 3269) and the Ministerial speeches which had been made in Parliament; and it would be sufficient if particular passages were amended in recognition of the fact that the speech would also be published as a White Paper.

In further discussion of the text of the draft, a number of amendments were agreed and the following main points were made—

(a) Paragraph 4. It was agreed to amend the final sentence in the light of earlier Ministerial statements that the economic arguments for the United Kingdom were finely balanced. In terms both of presentation and of our negotiating position it would be preferable not to minimise the extent to which the economic issues were of importance to us.

(b) Paragraph 6(b). It was urged that there should be an addition to the draft to recognise that institutional changes in a wider European market would be necessary in order to provide for adequate political control of international companies which might otherwise operate in disregard of governmental considerations. It was, however, the general view that, important though these considerations might be, it would not be appropriate to develop them on the occasion of the speech.

(c) Paragraph 13. It was suggested that the draft as it stood paid inadequate regard to the extent to which our joining the European Communities would involve not merely a change of dimension, but also an enrichment of the Communities through diversity. The point could best be made in an amended conflation of paragraphs 12 and 13.

(d) Paragraph 20. It was urged that defence aspects should not be mentioned in the context of our application to join the
European Communities: not only was the North Atlantic Treaty Organisation the forum in which we played our part in European defence, but also a reference in the terms used in the draft might be misunderstood as implying the development of a European nuclear capability. It was, however, the general view that a reference to defence aspects should be retained, though amendments were agreed in order to lay slightly less emphasis on the extent of European unity in political and defence matters which would be involved.

(e) Paragraph 23. It was questioned whether this paragraph was in accord with the agreement which we had reached with the other members of the European Free Trade Association (EFTA), but it proved to be the general view that the draft fully met our undertakings to them. It was agreed that it would be important that the text of the Foreign Secretary's speech should be made available to other members of EFTA and also to other members of the Commonwealth shortly before it was delivered.

(f) Paragraph 24. The Minister of Power said that the position in the European Coal and Steel Community (ECSC) was confused and it might well not accord with our interests to join with no more than a 12-month initial period of standstill. It was, however, argued that since in any event it appeared that the Six would require a longer period in their own interests, in that their position in these fields was weak relative to our own, it would be advantageous to us in negotiation to put them in a position of seeking from us a longer transitional period than we found necessary ourselves in this regard. It was agreed that the point could be met by reference to a limited, instead of a 12-month, initial period for our acceptance of ECSC obligations.

(g) Paragraph 31. The Foreign Secretary urged that this paragraph, referring to special aid to the hill farmers in the hill areas of the United Kingdom, should be deleted. He pointed out that this aid was fully comparable with other regional state aids provided by the Government and it had been accepted that these need not be mentioned in negotiations, since they were in accord with the practice of the Community. Furthermore, special mention of hill farmers might be positively disadvantageous in that a discussion of this aspect in negotiation might later make it more difficult for us to seek assistance for them from the Community's Agricultural Guidance and Guarantee Fund. It was, however, urged that it was of considerable political importance in the United Kingdom that this issue should be mentioned in the opening statement in view of its unique and sensitive nature. In further discussion it was agreed that mention should be made of the issue in modified form by the deletion of paragraph 31 and the insertion in paragraph 32 of a reference to the problem in the context of the negotiation of the agricultural finance arrangements for the period after the end of 1969.

(h) Paragraph 32. It was suggested that it would be incompatible with the Government's earlier statements on the approach to Europe that we should leave discussion of levy payments under the common agricultural policy for settlement after we had joined the Communities. It was, however, pointed out that, if we were...
to join before the end of 1969, when the agricultural finance arrangements were due to be renegotiated, we should then be in a position of negotiating as a full member with the right of veto. It was also clear politically that, if the Six were to wish to start discussions about that renegotiation before the end of 1969, they would in their own interests wish us to partake in discussion and our interests were therefore fully protected by the terms of the paragraph.

(i) Paragraph 34. It was agreed that the final sentence (in square brackets), relating to the interests of United Kingdom beet growers and sugar refiners, should be deleted.

(i) Paragraph 37. It was agreed that the final sentence (in square brackets), which related mainly to Hong Kong, should be retained.

(k) Paragraph 43. The President of the Board of Trade said that it was of considerable importance to United Kingdom industry that we should negotiate for nil tariffs or tariff quotas in respect of a limited number of raw materials. It was, however, urged that this would be incompatible with the Government’s statement that they sought no exemptions in respect of the Community’s Common External Tariff, that the Confederation of British Industry had stated that they fully accepted this position and that to raise the issue at this stage would do grave damage to the prospect of our success in achieving negotiations. The deletion of a direct reference in the opening statement did not preclude the possibility of it being decided subsequently to raise the matter in negotiations, though it might still remain the case that there would be substantial objections to our doing so. In further discussion it was agreed that the reference in paragraph 43 should be deleted, but that it should be open to Ministers subsequently, in the Ministerial Committee on the Approach to Europe, to seek a reconsideration of the extent, if any, to which this issue should be raised at some stage of the negotiations.

(l) Paragraph 44. The Commonwealth Secretary suggested that the first sentence of this paragraph, regarding the limited number of other points which would have to be considered, should include a reference to “a few problems relating to other Commonwealth commodities”. In discussion there was some support for this view, particularly in view of the absence of any reference in the statement which could otherwise be taken as covering the needs of India. It was, however, the general view that the needs of the Commonwealth were adequately covered by paragraphs 30-40 and in particular that the reference to the Yaounde Convention in paragraph 39 sufficiently covered aspects not specifically mentioned.

(m) Paragraph 45. It was agreed that there was no need specifically to mention fiscal harmonisation in this paragraph.

(n) It was suggested that there should be a reference to the free movement of labour, in the interest of Commonwealth immigrants to the United Kingdom being allowed freedom of entry into Europe. It was, however, the general view that it was unnecessary to raise this aspect in the opening statement, since it appeared that the
interests of Commonwealth immigrants were adequately covered by the existing Community arrangements, though it might well prove to be the case that the Six would themselves wish to raise the problem with us.

In further discussion there was general agreement that the statement should be published as a White Paper on the evening of Tuesday, 4th July, as soon as the speech had been made in The Hague.

The Cabinet—
(1) Approved the draft statement appended to C (67) 114, subject to the amendments agreed in discussion.
(2) Invited the Foreign and Commonwealth Secretaries to arrange for copies of the speech, as amended, to be delivered to other member Governments of the European Free Trade Association and of the Commonwealth shortly before the speech was made.
(3) Agreed that the speech, as amended, should be published as a White Paper immediately after it had been delivered, on the evening of Tuesday, 4th July.

Cabinet Office, S.W.1,
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 6th July, 1967, at 9.30 am.

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 (Items 3 and 4)
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. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:
The Right Hon. ARTHUR BOTTOMLEY, M.P., Minister of Overseas Development (Items 3 and 4)
The Right Hon. MARGARET HERBISON, M.P., Minister of Social Security (Item 4)
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Item 4)
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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, despite the provision of additional time by the Government for the debate of Mr. Steel's Medical Termination of Pregnancy Bill, the House of Commons had failed to reach a conclusion on it. It was for consideration whether further Parliamentary time should be provided by the Government to enable the House to reach a decision on the Bill before the Summer Recess. It was clear from the amount of support which the Bill received that if it failed in this Session it would be revived in subsequent Sessions until the House reached a decision and from the point of view of Parliamentary business there was therefore a strong argument in favour of allowing finality to be reached this time. Furthermore, it was arguable that, in the case of a Bill which attracted this degree of support, time should as a matter of principle be provided to enable Parliament to reach a conclusion. In these circumstances the balance of advantage appeared to lie in providing further limited time for debate on the Bill.

In discussion it was urged that for the Government to allow yet further time for this Bill would be taken by the public as implying a degree of governmental support for it. The Cabinet had not debated the Bill on merits and in view of its highly controversial nature it would be unfortunate if without such discussion the Government were publicly assumed to have taken a decision to support it. It was, however, the general view that the question of governmental support was neither at issue nor would be seen to be implied. The basic principle was that of enabling Parliament to reach a conclusion on a measure which attracted such a wide measure of support. The Government's neutrality on the merits of the Bill could be demonstrated, more particularly if in the event some Ministers were to vote in favour of the Bill and some against it. In these circumstances, further Parliamentary time should be allowed and it was indeed questionable whether it should not be made clear, in order to forestall further filibustering, that the additional time would not be limited, but would be sufficient to enable Parliament to reach a decision one way or another. This could be achieved by making it clear that the debate could continue over the night of Thursday, 13th July and throughout the following Friday (or indeed Saturday) if necessary. This course was, however, open to the objection that it would involve the sacrifice of Government business on the Friday and though on this occasion the business in question was only of minor importance, its sacrifice might be taken as prejudicing the Government's neutrality on the substance of the Bill.

In further discussion it was urged that consideration should be given to the possibility of changes in Parliamentary procedure which would provide better opportunity for Parliament to reach
conclusions on Bills of this nature. This might involve the appointment of a Standing Committee for the preparation of legislation. This and other suggestions could well be considered by the Ministerial Committee on Parliamentary Procedure.

The Cabinet—

(1) Agreed that further Parliamentary time should be provided by the Government for the Termination of Pregnancy Bill, on the basis that this time was allowed solely in order to enable Parliament to reach a conclusion on a Bill which had attracted considerable Parliamentary support.

(2) Invited the Lord President of the Council to consider in the light of the discussion the extent to which the statement of the Government's intention to provide further Parliamentary time for this purpose should indicate that the time would be limited.

(3) Invited the Lord President of the Council to arrange for the Ministerial Committee on Parliamentary Procedure to consider, in the light of their discussion, Parliamentary arrangements for facilitating Private Members' Bills.

2. The Foreign Secretary said that the resolution on the Middle East introduced in the Special Session of the United Nations General Assembly by the non-aligned nations had achieved only a bare majority of the total votes cast, substantially short of the two-thirds majority which was necessary to give it effect. The alternative resolution sponsored by the Latin American nations, which was acceptable to us in its broad sense though not in all its details, had just failed to achieve a two-thirds majority. The only resolutions which had been passed were one limited to humanitarian considerations and one in respect of the status of Jerusalem. Attempts were now being made to achieve a consensus on a resolution which would balance a recall for the withdrawal of Israeli forces on the one hand with the need on the other for agreement on conditions which would make possible the continued security of Israel and a peaceful settlement in the Middle East. If such a resolution could be achieved it would be worthwhile the Special Session of the General Assembly continuing, but if these attempts failed in the course of the next two days or so, it might be preferable for the Special Session to come to an end and for the issue to be taken back to the Security Council. The United Kingdom vote had been cast in favour of the Latin American resolution, but a great effort had been made both in New York and in all the capitals concerned to minimise the effect of that vote on Arab opinion and it appeared that these efforts had been largely successful.

The Permanent United Kingdom Representative at the United Nations and Minister of State for Foreign Affairs (Lord Caradon) deserved great credit for his achievement in maintaining British
interests during the highly charged atmosphere of the recent debates in the General Assembly.

In discussion the question was raised of the prospect of re-opening the Suez Canal, particularly in view of the effect of its continued closure on our own balance of payments. The Cabinet were informed that at the present time it did not appear practicable for us to take any specific action to achieve the re-opening of the Canal, but a relaxation of tension in the Middle East, to which our efforts were primarily directed, might then open the way for a specific approach on this issue.

The Foreign Secretary said that his statement to the Ministerial Council of the Western European Union (WEU) at The Hague on Tuesday, 4th July, about the United Kingdom's applications for membership of the European Communities had been very well received. Our friends on the Council had been agreeably surprised by its European tone and had responded with firm declarations of support. The representative of France, M. Bettencourt, had spoken in friendly terms in stating his Government's position, though in the session the following morning he had, perhaps after instructions overnight from Paris, objected to the statement being regarded as having the status of an official document of the European Communities. But copies of it had been asked for in their speeches responding to the statement on Tuesday afternoon, 4th July, by Herr Brandt, the Chairman of the Ministerial Council of the Community, and by M. Rey, the President of the unified Commission, who had made a particularly helpful speech, including a reference to the usefulness of the statement in the Commission's task of giving an opinion on the British application. In replying to the speeches made in response to his statement, he himself had said that he was formally conveying the text of his statement to the Chairman of the Ministerial Council and the President of the Commission and had done so. M. Luns, the Chairman of the Ministerial Council of the WEU, had ruled in reply to the French objection in the session of Wednesday morning, 5th July, that the Six were seized of the statement and that it was impossible to deny that it had become a document of the European Communities or to prevent any country from submitting documents to them, as indeed often happened.

The Foreign Secretary said that renewed hostilities had broken out in the Congo but the situation was highly confused: we were seeking to obtain clearer information. Meanwhile, it appeared that few if any of the foreign mercenaries involved were British, nor were British subjects otherwise specifically concerned.

The Foreign Secretary said that British forces had planned and timed their operation to regain control of the Crater area of the town of Aden with great care and skill. They had re-occupied the area without provoking mutiny or open opposition by the armed Arab police, who were now co-operating with our forces in maintaining control.
The Commonwealth Secretary said that Shell/BP had given to Colonel Ojukwu, the military Governor of the Eastern Region of Nigeria, which had recently declared its independence, a letter of intent, by which they undertook to make an advance payment of royalties in respect of oil shipments. This had provoked Major-General Gowon, the Head of the Federal Military Government of Nigeria, to institute a complete blockade of the Eastern Region and no oil was now being shipped in consequence. We had advised Shell/BP not to make a payment, but it was understandable that they had felt constrained to do so, under protest, in view of the threats to their installations and to the safety of their staff in Nigeria. Major-General Gowon had requested the United States Government and ourselves to provide arms for the Federal forces. We had refused the request to ourselves, save that we were considering the possibility of providing anti-aircraft guns. The Minister of State for Commonwealth Affairs was flying to Nigeria that day and would make every effort to obtain agreement that oil shipments should be resumed.

The Commonwealth Secretary recalled that the Cabinet had previously taken the view that Mr. Simbule, the Zambian High Commissioner designate in the United Kingdom, should be asked to give a formal expression of regret in respect of his derogatory statements about this country before he could be accepted as High Commissioner. Mr. Simbule had subsequently expressed regret at his statement in terms which sufficiently met our requirements and he would now be accepted as High Commissioner.

The Cabinet—

(1) Took note of the statements by the Foreign and Commonwealth Secretaries.

(2) Invited the Foreign Secretary to convey to the Minister of State for Foreign Affairs (Lord Caradon) an expression of their appreciation of the work which he had carried out during the current debates on the Middle East in the United Nations General Assembly.

*3. The Cabinet had before them memoranda by the Defence Secretary (C (67) 117) covering a draft White Paper on Defence, by the Lord President of the Council (C (67) 116) on defence withdrawals and by the Commonwealth Secretary (C (67) 119) on consultations with Allied Governments on Far East defence. They also had before them notes by the Secretary of the Cabinet covering memorandum on defence and the balance of payments (C (67) 120), aid and the balance of payments (C (67) 120) and the defence expenditure studies (C (67) 118).

* Previously recorded in a Confidential Annex.
The Defence Secretary said that the background to the decisions of policy to be announced in the White Paper before the Cabinet was very different from that of the earlier Defence Review. Then it had been possible to find £300 million out of the saving of £400 million (at 1964 prices) in the defence expenditure for 1969-70 involved by the plans of the previous Administration mainly by obtaining better value for money, leaving something under £100 million to be saved by changes in policy and commitments and in the size of the forces following the end of confrontation with Indonesia. There was now no further scope for savings without cutting the capability of the forces and the proposals before the Cabinet to reduce defence expenditure in 1970-71 by a further £200 million, rising by 1975-76 to £300 million, would have to come entirely from reductions in our military capability, with consequent reductions in our commitments and changes in our overseas policy.

Over the decade 1965-75 the uniformed strengths of the forces would on these proposals have declined by 110,000, consisting of 80,000 in the strength of the British forces themselves and 30,000 Gurkhas and local forces; and civilian backing for the forces would have dropped by a total of 100,000, 45,000 of which was in United Kingdom manpower and 55,000 in locally engaged personnel. By 1975-76 the Royal Navy would cease to have any aircraft carriers and there would have been a reduction of 20 per cent in its number of ships, which would also, on average, be smaller. The Army would have lost 25 per cent of its major units and there would have been a reduction of 35 per cent in the frontline strength of combat aircraft of the Royal Air Force. Overall, the volunteer regular strength of the three Services would have dropped by 20 per cent and, after allowing for wastage, between 19,000 and 25,000 officers and men would be made redundant. It would be very apparent to the Services that they were making big sacrifices. Civilian employment as well as uniformed manpower and equipment was affected.

About two-thirds of the reduction in expenditure now being proposed would flow directly from a decision to withdraw from Singapore and Malaysia; by 1975 we were planning also to have withdrawn from the Persian Gulf, and apart from Hong Kong, which was being considered separately, and certain staging posts, we should then have no forces permanently stationed abroad outside Europe; we should however retain the ability to discharge our responsibilities for the defence of our remaining dependent territories, to British communities abroad and to make a contribution to peace-keeping. We should not decide now whether the naval and amphibious element of the military capability that it was proposed should be available for use in the Far East after we had withdrawn from Singapore/Malaysia should be based on locally provided facilities in Australia, or possibly Singapore, or on this country; but, in any event, these forces would be part of those earmarked for assignment to the North Atlantic Treaty Organisation (NATO).
and not additional to them. If we were to be able to justify these reductions in the size of our forces and changes in their deployment, it was essential that the tasks of the forces should be reduced in step with them; in particular it would be necessary to scale down progressively our force declarations under the South-East Asia Treaty Organisation (SEATO) and to change drastically the scale and timing of the military assistance that we would provide to Malaysia and Singapore.

Defence expenditure would fall from 7 per cent of the Gross National Product (GNP) under the previous Administration to 5 per cent and, by 1975, it was estimated that the level would be about £800 million less than under the plans of the previous Administration; between 1964-65 and 1970-71 we should have cut defence expenditure by 5 per cent while, even with the reductions proposed to the Cabinet by the Chancellor of the Exchequer, civil expenditure would have risen by 25 per cent. Although the proposed saving of £200 million in defence expenditure was lower than had been hoped for when the defence expenditure studies were initiated, it was still the higher figure of the range of saving which the Cabinet had envisaged when they last considered the matter. This had been achieved despite the fact that there would be a peak in expenditure on equipment about the end of this decade; allowance was also included for £40 million on the Harrier (P-1127) aircraft which had been included in the programme for non-military reasons, £13 million of expenditure hitherto financed outside the defence budget for service housing and £2 million on account of the decision taken on political grounds to delay our rundown in Malta. If allowance was made for these items the saving in the defence programme in 1970-71 was about £255 million and if it were decided not to replace the Anglo-French variable geometry aircraft project with another involving expenditure on research and development in that year a further £17 million could be saved. The gross stationing costs of our forces overseas would fall from £252 million currently, to £191 million in 1970-71 and £130 million in 1975-76. This made no allowance for various foreign exchange receipts that could be set against the gross figures and, although the detailed calculations were to be discussed further by the Ministers concerned, it could be claimed that by 1975-76 the overseas costs in the defence budget would not be significant for our balance of payments. This in no way suggested however that the savings were not important or that it was not right on other grounds to plan for the force withdrawals that were proposed.

The Lord President said that, although he recognised that the policies that had emerged from the defence expenditure studies were less inadequate than those which had resulted from the earlier Defence Review, the new proposals would not stand the test of time. It had been his understanding that it would be open to the Cabinet on this occasion to adopt more radical proposals than those before them, but it appeared to be claimed that in consulting our Allies we had already committed ourselves too far to allow of this. Nevertheless it would not be credible either in this country or
abroad to announce a plan to withdraw slowly from the Middle and Far East over a period of eight to ten years, during which time our military strength would steadily and obviously diminish. Events would overtake us and we should be forced to withdraw more quickly; it would therefore be better to decide now on a plan for as rapid a withdrawal as possible. Recent events in the Middle East had shown that our military presence there was an embarrassment to our friends in the area and harmful to our political and oil interests; we should withdraw from the area quickly and from Cyprus also as soon as we could. As regards the Far East, there were special considerations affecting Hong Kong and strong social and political arguments for a withdrawal from Singapore carefully calculated to maintain political stability there. We should not commit ourselves to maintain large and expensive amphibious and air forces in the Far East after 1970; it would be wrong, particularly in view of recent events in the Middle East, for us to have as part of our role the provision of sophisticated forces which the local Governments could not afford. There should be a study of a revised timetable envisaging complete evacuation of the mainland within five years. Our attitude to aid for Singapore and Malaysia should not be that we had a responsibility for making good the damage to the economies of these two countries which the withdrawal of our forces would cause, since this would involve us in heavy and increasing expenditure on aid; instead we should adopt the principle that we were prepared to pay somewhat higher amounts of aid if the Governments concerned co-operated with us in a rapid withdrawal of our forces and that these would be reduced if the rundown went more slowly.

In discussion there was some support for the view that we should plan to withdraw more rapidly from the Middle and Far East than was envisaged in the proposals before the Cabinet and make the additional saving of some £100 million in defence expenditure by 1970–71 that it was estimated would result from this. It was argued that, since we had declared our intention to withdraw, we should effectively have destroyed any influence based on military strength in the areas concerned. The general view was however in favour of the proposals outlined by the Defence Secretary: to plan on the basis of a faster withdrawal would not be realistic. There was general acceptance that if, as might happen, events made it possible for us to withdraw more rapidly we should welcome it; but the Cabinet had agreed that consultations with our Allies should take place on the basis of obtaining their acquiescence in plans to reduce our force levels in Singapore by about half by 1970–71 and to withdraw from Singapore and Malaysia by 1975–76. Our Allies had accepted the plan for 1970–71 but were much concerned at our proposal for final withdrawal and in particular unanimously opposed to any announcement of a date for that withdrawal. On this ground alone, we could not now contemplate going back to our Allies with proposals for an earlier final withdrawal. In any event, on practical grounds also we
could not usefully plan for an earlier withdrawal, particularly from Singapore where employment was very heavily dependent on the presence of British forces; if in present circumstances we were to withdraw substantially more rapidly than was proposed the decline in confidence and the extent of local unemployment which would inevitably be involved would result in economic and social chaos. We would be faced with the collapse of the present Government in Singapore, on whom we were relying to enable us to make an orderly withdrawal, the lives of British civilians might well be heavily at risk and we should probably lose some £700 million of British assets in the Far East.

In further discussion the Cabinet considered the advantages and disadvantages of including in the Defence White Paper specific dates for our withdrawal from the Middle and Far East. As regards the Middle East there was general agreement that no date should be given. Withdrawal from this area did not involve serious logistic problems for the forces, nor lengthy planning and preparation such as were involved in the Far East. There was therefore no requirement to take a decision on withdrawal until events made it in accord with our interests to do so; and such a decision could be supplemented quickly. As regards the Far East it was argued that in view both of the strongly expressed views of our Allies and of the desirability of leaving ourselves room for manoeuvre it would be better not to publish any date for withdrawal. On the other hand it was strongly urged that unless a date was indicated our position would be open to damaging misconstruction, the basis of our planning and consequently the achievement in practice of these savings would progressively be eroded, nor could we publish the financial and manpower savings that were to be made by 1975. On balance there was agreement that we should announce in the forthcoming Defence White Paper that we were planning to withdraw from Singapore and Malaysia in the middle 1970s.

The Cabinet then turned to discussion of the text of the draft White Paper.

A number of amendments were agreed and the following main points were made.

**Paragraph 2**

The final sentence should be re-ordered to deal first with the political aspect.

**Paragraph 4**

The final sentence should be amended to avoid any implication that new defence arrangements in Europe were involved if we should enter the European Economic Community.

**Paragraph 8**

Further consideration should be given by the Foreign Secretary, the Chancellor of the Exchequer and the Defence Secretary to the terms of the reference to the offset costs of our forces in Germany.
Paragraph 10
The Defence Secretary should consider, in consultation with the Chancellor of the Exchequer, whether the final sentence might be redrafted to lay greater emphasis on the extent to which our influence in the world would depend on our economic strength.

Paragraph 11
The middle section should be revised to remove any implication that it committed us to maintain a continuing presence in the Far East, as distinct from a military capability for use there.

Paragraph 13
The Cabinet were informed that, although the King of Libya had requested us to leave our bases there, it appeared that this was mainly a gesture of Arab solidarity; and we were not at present being pressed to withdraw. It would not necessarily accord with our interests to do so.

Paragraph 15
Further consideration would be given by the Defence Secretary to the reference to the Commonwealth Brigade, in consultation with the Commonwealth Secretary.

Paragraph 24
The Defence Secretary said that he was considering the addition of an annex to the White Paper listing the infantry battalions that would be disbanded as a result of the proposed cut in the strength of the Army.

Paragraphs 25 and 26
The Defence Secretary said that the types of aircraft required by the Royal Air Force between now and 1975 were not dependent on the point between 1970 and 1975 at which we withdrew from the Far East, nor had the defence expenditure studies altered the roles of the RAF as distinct from the types and numbers of aircraft required to carry these out. The case for proceeding with the development of an aircraft similar to the Anglo-French variable geometry aircraft had however been much weakened by the reduction in our role East of Suez. He would redraft paragraph 26 of the White Paper on the lines of the statement that he had made in Parliament on the previous day.

Paragraph 28
The Cabinet were informed that a reduction worldwide of 25 per cent in the supporting services of the forces was planned; it would probably be necessary to close one dockyard in this country.

Paragraph 37
The presentation of the figures of costs and savings would be revised in consultation between the Chancellor of the Exchequer and the Defence Secretary.
Paragraph 40

The reference to our role in the maintenance of peace should be revised, or suitably transposed to paragraph 41, after consultation between the Foreign, Commonwealth and Defence Secretaries.

The Prime Minister, summing up the discussion, said that the Cabinet approved the draft Defence White Paper, subject to the amendments agreed in discussion, to further consultation by the Defence Secretary with the Ministers concerned in respect of particular passages which it had been agreed to amend and to such further changes of a purely drafting nature as the Defence Secretary might subsequently wish to make. The defence expenditure studies had involved an immense amount of work, on the outcome of which the Defence Secretary was to be congratulated.

The Cabinet—

(1) Invited the Defence Secretary to amend the draft of the White Paper on the lines agreed in discussion, in consultation as necessary with the Ministers concerned.

(2) Subject to Conclusion (1), approved the draft of the Defence White Paper attached to C (67) 117.

(3) Invited the Defence Secretary, in consultation with the Foreign and Commonwealth Secretaries, the Chancellor of the Exchequer and the Lord President of the Council, to arrange for its publication.

4. The Cabinet resumed their discussion of the public expenditure programme to 1970–71. They had before them the following memoranda by the Chancellor of the Exchequer:

C (67) 97—Public Expenditure: Civil Reviews: Health and Welfare

C (67) 98—Public Expenditure: Civil Reviews: Social Security

C (67) 99—Public Expenditure: Civil Reviews: Housing

C (67) 100—Public Expenditure: Civil Reviews: Education and Science

C (67) 101—Public Expenditure: Civil Reviews: Roads

C (67) 102—Public Expenditure: Areas of Choice

C (67) 103—Public Expenditure: Continuation of Existing Policies

C (67) 104—Public Expenditure

C (67) 105—The Economic Implications of Public Expenditure (covering a note by officials)

C (67) 109—The Economic Implications of Public Expenditure and a Memorandum by the First Secretary of State (C (67) 108) on the Economic Outlook to 1972.

In discussion support was expressed for the argument advanced in the Cabinet's previous discussion that the reduction to be sought in the total programme of public expenditure for 1970–71 should be
in the region of £300-£350 million rather than the £500 million which had been proposed by the Chancellor of the Exchequer. It was argued that the Government's basic policy involved a transfer of resources from private consumption to the public sector; yet some of the main social programmes such as those for education and health were expanding more slowly than had been envisaged in the National Plan and any further slowing down of these programmes would be unacceptable. A reduction of £300-£350 million would imply over the period to 1970-71 an average annual increase in personal consumption per head of 2 per cent as compared with an average increase of 2-2 per cent which would be possible if a reduction of £500 million were secured; the lower reduction would also imply an increase in taxation. But these consequences would be more acceptable to the public and to the Government's supporters than damaging reductions in provision for the social services, which would have a direct impact on the ordinary citizen and would in many fields bear heavily on people of modest means. The yield of existing rates of taxation would rise automatically as the national income rose, particularly if tax allowances were held at their present levels; but in any case some increase in rates of taxation would be tolerable, bearing in mind that the country was by no means over-taxed compared with other comparable countries. A major difficulty confronting the Government arose from the exceptionally steep increase in public expenditure which was expected in 1968-69, although to the extent that some slack in the economy persisted during that year a substantial rise in public expenditure would have beneficial effects. But it would be wrong to impose reductions in expenditure affecting the whole period to 1970-71 on a scale which was related primarily to the special difficulties in 1968-69. With many categories of capital expenditure in the public sector, once reductions were imposed it would not be practicable, because of the inflexible nature of the programmes concerned, to restore them before 1970-71, if the general economic situation should warrant this: any subsequent upward revision of public expenditure could only be effected by increasing other kinds of programme which could be quickly adjusted, such as the provision of cash benefits, and this would itself involve a switch of expenditure from investment to consumption which had not been planned and might not be desirable.

On the other hand, it was argued that it would be unwise to seek a reduction in the programme for 1970-71 of less than £500 million. The Government had already made dramatic progress in expanding the social services, as could be demonstrated by comparing the record during their first three years of office with the record during the three preceding years. But the point had now been reached where some action was needed to maintain a reasonable balance between further expansion of these services, involving higher taxes, and the growth of personal consumption. The proposal for a reduction of £500 million was in no way a proposal for a standstill in the growth of public expenditure and
public services. Even with such a reduction, the burden of taxes and other public levies would still increase substantially: household rates were expected to increase by an average of 5 per cent per annum up to 1970; besides the increase in national insurance contributions in October 1967 there would have to be a further increase before 1970; there were also bound to be increases during this period in the prices charged by the nationalised industries, including fares and fuel costs. There was growing resistance, not only among the higher income groups but also among people of modest means, to making further inroads on disposable incomes, and there was evidence of a considerable shift of opinion among the Government's supporters in favour of a more moderate increase in the social services coupled with some relief from taxation. A reduction in the programme of only £300-£350 million would leave insufficient margin against unforeseen contingencies and would entail increases in rates of taxation, certainly in 1969–70 and possibly in 1968–69, on a scale which would alienate wide sections of the public. The right course therefore was to plan for a reduction of £500 million and if our economic progress warranted it subsequently to expand spending programmes, rather than to risk incurring the consequences of a rate of spending that was currently excessive and to hope to be able to reduce spending when those consequences materialised. It was true that any subsequent easing would have to be concentrated on those programmes which could be adjusted quickly, but increases in social security benefits, which were the main item in this category, would themselves involve some increase in personal consumption and thus help to redress the balance with the demands of the public sector.

In further discussion it was suggested that, in determining the size of reduction in the programme of public expenditure which should be sought, account should be taken of the investment programmes of the nationalised industries. While these programmes were to a large extent directly relevant to increasing the productive potential of the economy, this could be argued equally in relation to some elements of public expenditure as conventionally defined. The Cabinet were informed, however, that a searching scrutiny of the nationalised industries' programmes was now proceeding, that it was clear that a reduction in these programmes of the order of £100 million could probably be secured by 1970–71 and that this had been taken into account in the considerations which had led up to the proposal for a reduction in the programme of public expenditure (excluding expenditure by the nationalised industries) of £500 million. It was also suggested that the discussion had made clear that a decision on the total reduction to be made in public expenditure as between a cut of some £500 million and one of some £300–£350 million could not be made without consideration of the constituent elements of the reductions, since in many cases the relative weight to be attached to the political, economic and social factors involved needed to be assessed for each item separately. It was not possible to make any decisive overall assessment of priorities.
The Prime Minister, summing up the discussion, said that after the Cabinet's general discussion of the considerations affecting the order of magnitude of the reduction in the programme of public expenditure at which we should aim, there was general agreement that it was necessary to have a clearer idea of the reductions which might be secured in particular fields before a decision could be taken on the size of the reduction in total. The Ministerial Steering Committee on Economic Policy had been considering possible reductions in particular fields, but this would in no way prejudice the Cabinet's final decision. The Chancellor of the Exchequer should now circulate a memorandum to the Cabinet making proposals for specific adjustments in the programme up to 1970–71, on the basis of which it should be possible for the Cabinet to take their decisions during the next two weeks. It would also be useful if the Chancellor could circulate to the Cabinet a memorandum comparing achievements in the social services and related fields during the first three years of the present Government with the record during the preceding three years.

The Cabinet—

Invited the Chancellor of the Exchequer to circulate memoranda to the Cabinet:

(i) making proposals for adjustments in the public expenditure programme to 1970–71; and

(ii) comparing achievements in the social services and related fields during the first three years of the present Government and the three preceding years.

Cabinet Office, S.W.1,
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 11th July, 1967, 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. PATRICK GORDON WALKER, 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 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 (Items 1 and 3-4)
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 following were also present:
Dr. J. DICKSON MABON, M.P., Minister of State, Scottish Office (Items 2-4)
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. H. L. LAWRENCE-WILSON
Mr. K. BARNES
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CC 46 (67)

SECRET

1. The Foreign Secretary said that after considerable dissension in the Security Council it had been unanimously agreed that observers from the United Nations Truce Supervision Organisation should be sent to the Suez Canal and the Gaza Strip. The observers would not constitute a military force, but there would be a substantial number of them and it was hoped that their presence would prevent further outbreaks of fighting and help to produce a more favourable climate for the re-opening of the Canal. Attempts were being made to organise a meeting of Heads of Arab States in Cairo and much would turn on the outcome. Meanwhile, Saudi Arabia was seeking to resume oil supplies to the United States and ourselves and in a number of respects the atmosphere in the Middle East showed some improvement. In these circumstances, we should refrain from taking any major initiative for the time being.

The British charter aircraft carrying Mr. Tshombe, the exiled Congolese leader, on a private journey had been taken over by force and brought down in Algeria, where all the crew as well as Mr. Tshombe himself had been imprisoned. We had sought to make contact with the British pilots through the Swiss Embassy, which represented our interests while we were not in diplomatic relations with Algeria and we had also sought the good offices of France. It appeared that the French approach might be successful and there was reason to hope that we should be able to make contact with the pilots during the course of the week.

The course of events in the Congo was still highly uncertain though it now seemed clear that the outbreak of violence resulted from a mutiny by some of the mercenaries and was not instigated by any foreign Power or organisation. We were seeking to bring together for evacuation all British subjects in the Eastern province of the Congo, but they were widely scattered and it was difficult to do so. Meanwhile we had no information that any British subjects had suffered harm.

The French Foreign Minister, M. Couve de Murville, had taken an uncompromising position in discussions in the European Economic Community about our application to join the European Communities. The Five had, however, been robust in supporting the opening of negotiations on our application. The meeting had adjourned and it had been agreed that the Commission itself should produce a report for the consideration of the Ministerial Council in early September. We had arranged with M. Rey, the President of the Commission, to keep in contact at official level in order to seek to influence the Commission's report on lines favourable to our application. There would be no formal meetings, but our Ambassador to the EEC would hold a series of lunches at which there could be informal discussions between one or two members of the Official Committee on the Approach to Europe and representatives of the Commission. It would of course be clear that there was no question of negotiations at this stage.
The Chancellor of the Exchequer said that the following week he would be meeting the Finance Ministers of the Six. In discussions with them he would take the view, with particular reference to criticisms by the French Government of the impediment posed by the position of sterling to our joining the Communities, that we saw no ideological difficulty in discussing the future of the sterling area and the sterling reserves. We recognised that there would be considerable advantage in securing a different relationship between our assets and our liabilities, whether by some long-term funding of the sterling balances or in other ways. Although it must be borne in mind that some countries at least had stated specifically that they did not wish their sterling balances to be repaid in current circumstances, he would make it clear in the discussions that we had no intention of adopting a rigid position on these issues.

In discussion it was argued that it would be preferable not to have contacts with the Commission at official level at the present stage and until United Kingdom Ministers had completed their discussions and taken decisions on the outstanding points relating to the aims we should seek to achieve in negotiation. It was also suggested that the Government's interest as a whole would not be adequately represented unless officials of the main Departments concerned were to take part in the informal talks in Brussels. It was, however, the general view that it would be contrary to our interests for discussions to be known to be taking place in Brussels between a British official delegation of some size on the one hand and the Commission on the other. This might indeed produce the impression that negotiations had been started. On the other hand, it was also the general view that it was greatly to our interest to maintain informal contacts with the Commission in an effort to influence their report on the lines proposed by the Foreign Secretary.

The Prime Minister, summing up this part of the discussion, said that the Cabinet on balance agreed that arrangements should be made for one or two members of the Official Committee on the Approach to Europe to visit Brussels during the summer from time to time for informal talks with members of the European Economic Commission in order to explain and answer questions on the Government's application to join the European Communities. Those officials would of course not be free to go beyond the White Paper approved by the Cabinet (Cmnd. 3345), containing the text of the Foreign Secretary's speech at the meeting of the Western European Union the previous week. Notes would be taken of all discussions of this kind with the Commission and it would be open to Departments and to Ministers to seek further discussion of any items of difficulty arising from the notes of discussions or in the light of the periodical reports of the officials concerned.

The Cabinet—

(1) Agreed that there should be informal discussions between United Kingdom officials and members of the European Economic Commission in respect of our application to join the European Communities on the lines indicated by the Prime Minister in his summing up of the discussion.
The Foreign Secretary said that the Federal Council of the Government of South Arabia had agreed that one of their members, Mr. Bayoomi, should be nominated as Prime Minister designate under the new Constitution. Mr. Bayoomi was now seeking to form a government in which the three main nationalist parties in South Arabia might take part as well as representatives of the Federal Rulers. Discussions were also taking place elsewhere with one or two leading representatives of some of these parties in an endeavour to persuade them to participate.

The Commonwealth Secretary said that our further discussions with the Nigerians about the export of oil had failed to achieve agreement that the blockade imposed by the naval forces of the Federal Military Government should be lifted. Hostilities had now broken out between the Federal Forces and the forces of the Eastern Region, which had declared its independence as the Republic of Biafra. Both sides claimed initial success but no reliable information on the course of the fighting was available; and heavy rains had begun, so inhibiting further military movements. The evacuation of British women and children from the Eastern Region had been completed, but there were still some 2,000 British subjects in this region who had elected to stay. We were seeking to avoid a commitment to either side in the hostilities and, though we had supplied arms to the Federal Military Government in respect of orders which had been accepted before recent events, we had not agreed to meet a further request from them for further substantial supplies of arms. Our current assessment was that if hostilities continued the Federal Military Forces might eventually be victorious, but only after a considerable time. Meanwhile, the so-called Republic of Biafra had received no support or recognition by any other country in Africa and it might well suffer from serious internal dissension if the Federal Military Forces achieved any initial success. In these circumstances, our best interests lay in seeking to maintain neutrality between the conflicting claims of the Federal Military Government and the Government of the Eastern Region.

The Cabinet—
(2) Took note of the statements by the Foreign and Commonwealth Secretaries.

The Commonwealth Secretary reported on the position in Hong Kong. His statement and the Cabinet’s discussion and conclusions reached were recorded separately.*

The Prime Minister, summing up this part of the discussion, said that the report by officials should be circulated to Ministers as quickly as possible. He would consider what arrangements should be made to enable the Ministers primarily concerned to keep the situation under constant review and to take immediate decisions as events might require.

* The record was only distributed to The Queen, the Prime Minister and those Ministers who had to take action on the conclusions. The record is kept in the Secretary’s Standard File.
The Cabinet—

Took note that the Prime Minister would consider what action should be taken to facilitate collective Ministerial consideration of the situation in Hong Kong and in particular to consider urgently the report now being prepared by officials on the action which should be taken if our position in Hong Kong became untenable.

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2. The Cabinet considered a Memorandum by the Foreign Secretary on Arab Attitudes and British Economic Interests in the Middle East (C (67) 123).

The Foreign Secretary said that our large interests in the Arab States in the Middle East limited narrowly our freedom of action in the area generally; we were heavily dependent on Arab oil and on freedom of passage through the Suez Canal, we had large export markets in these countries; and they held large sterling balances. Despite the fact that we had not been involved in the recent conflict we faced great difficulty in attempting to preserve these interests; if we were to do so, it was essential that we should re-establish good relations with the Arab States or at least that there should not be a common front against us on the part of both the moderate and the revolutionary governments in the Arab world. There was little that we ourselves could now do to influence the way in which events moved in the Middle East. Apart from the attitude of the Arab States themselves, and in particular the future of President Nasser of the United Arab Republic (UAR) which was difficult to predict, the main factor in the situation would be the extent to which the Soviet Union would be willing to look beyond her short-term tactical aim of re-establishing her credit with the Arabs and to recognise the need to agree with the United States on terms for a settlement which could be pressed on both Israel and the Arab States. Israel must be expected to pursue a firm policy and refuse to make, substantial concessions without peace negotiations or acceptance of her right to exist. Among the Arab States the hope lay in a willingness and ability on the part of the more moderate governments to take a greater account of their economic interests as time passed. A decline in the position of President Nasser would facilitate this and reduce the likelihood that the moderate governments would be prevented by popular pressure, stimulated by UAR propaganda, from adopting a more reasonable attitude.

Any settlement of the Middle East situation would necessarily be unpalatable in some respects to both the Arab countries and to Israel. Since we could not expect to have more than a marginal influence on its terms and since our position was highly vulnerable, we should seek to disengage ourselves so far as possible from it. But we must recognise that public feeling in this country on the merits of the Arab/Israeli dispute and the need to play our part in the United Nations limited our freedom of action. We had continued to supply arms and spare parts to Israel during the recent conflict to fulfil...
existing orders and were continuing to do so. Although no formal approaches had yet been made, it was understood that Israel would be seeking replacements for the tanks that she had lost during the fighting and that, in view of the French attitude, she was reconsidering her source of supply for military aircraft (which she had previously obtained from France).

In discussion there was general agreement that, in view of our dependence on oil supplies from the Arab States, there was no real alternative for us to the policy proposed by the Foreign Secretary, although we had to recognise that, however careful we might be in maintaining a neutral attitude, we could not expect to receive credit for it. It might be however that the meeting currently taking place between Arab leaders in Cairo would lead to disillusion with the extreme policies of President Nasser, which had led to the recent defeat of the Arabs, and thus open the way to a reasonable settlement in the Middle East. The view was expressed that recent events in the Middle East had illustrated clearly that our military presence there was of no value to our economic interests and that this presence should be withdrawn as quickly as possible; and that these events cast doubt also on the wisdom of allowing a decline in the output of oil in Iran in order to permit a growth of output in Saudi Arabia.

As regards the longer term there was general agreement that we should re-examine our dependence on Middle East oil, having regard to the limitations which this dependence placed on our overseas policy and to the fact that on three occasions in the last 10 years interference with supplies had put our industry at risk. In that re-examination we must however also have in mind the great advantage we obtained from the cheapness of Middle East oil and that the large investments that we had in the area were of great importance to industry and to our balance of payments.

The Cabinet—
(1) Took note of C (67) 123.

The Cabinet then considered a memorandum by the Minister of Power on the Oil Supply Situation and the United Kingdom (C (67) 126).

The Minister of Power said that the interruptions in oil supplies as a result of the Middle East conflict had reduced supplies to Western Europe by about 30 per cent in June; in July the shortfall would not be far short of this but it should reduce to 10 to 15 per cent in August and revert to about the normal level in September. This would be achieved, despite the closing of the Suez Canal and the ban on oil supplies to ourselves and the United States from the Arab countries, by rerouting supplies from other sources to us and by obtaining larger supplies from Venezuela and the United States. This rerouting, together with the long haul round the Cape owing to the closure of the Suez Canal, had led to a shortage of tankers and it was this, not a shortage of supplies, that was the main problem. The recent stoppage of supplies from Nigeria was now adding to the...
problem, but Iranian production had been increased by 20 per cent and a small, though useful, output from Oman should provide about 10 per cent of our supplies by the middle of September. A recent assessment by the Oil Industry Emergency Committee of the prospective stock situation over the next three months showed that by the end of September our stocks were likely to decline from 11-3 weeks to 7-2 weeks' supplies. When stocks dropped below 7 to 8 weeks, these were difficulties of local supply and with particular products; and the situation in September would become difficult as the total stock then would be 6½ million tons below what was normal for that time of year. The supply of naphtha, which was a vital feedstock for the chemical and gas industries and which was in short supply world-wide even before the present crisis, was a particular difficulty. Nevertheless the prospective situation was not such as to call for petrol rationing on supply grounds though regard had also to be paid to the adverse effects of the situation on our balance of payments.

The possibility of obtaining supplies of oil or products from the Soviet Union and Rumania was being investigated and we might be able to purchase 40,000 tons of oil products, including 20,000 tons of naphtha, from the Soviet Union through a third party; but it was not as yet clear that either country in fact had substantial amounts of oil available for sale. Any arrangements that were made for supplies from Rumania would have to take account of the large compensation claims which were outstanding against the Government of that country in respect of the expropriation of foreign oil companies, including Shell. As regards supplies from other sources, despite the alleged surplus of oil in various countries and the fact that it was well-known that we were willing to purchase supplies, no offers had been made.

In discussion there was general agreement that we should seek to obtain oil and those oil products that we needed from the Soviet Union and Rumania. Such purchases would, for the present at any rate, have to be arranged without publicity and, as regards Rumania, the question of the compensation claims outstanding against her should be left aside in any arrangements made for supplies during the present crisis; and it would have to be made clear that in doing so, we did not thereby create a precedent or abandon our claims. It might be that, as a result of the meeting of the Heads of the Arab States currently taking place in Cairo, supplies to us from some of them would be resumed, though if this were attempted there might be sabotage of pipelines and installations. Officials were carrying out a fresh examination of the effect on the balance of payments of the interruption of our oil supplies and of its relevance to the stock situation and to the need for petrol rationing.

The Prime Minister, summing up the discussion, said that in present circumstances the Cabinet would find it helpful to have a weekly report by the Minister of Power on the oil supply situation. A full examination was needed, in the light of the current crisis, of the implications for the longer term both of our dependence on oil in general and of the extent to which we could avoid depending as

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heavily as at present on particular areas for our oil supplies. As a first step the Minister of Power should discuss with the First Secretary of State how best to arrange for Ministerial consideration of the work that had already been done by officials on this problem.

The Cabinet—
(1) Took note of C (67) 126.
(2) Invited the Minister of Power to discuss with the First Secretary of State the arrangements for Ministerial consideration of the work which had been done by officials on the implications of our dependence on oil and on particular sources of oil supply.

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2. The Foreign Secretary recalled that in November 1966 the Ministerial Committee on Science and Technology had agreed that the Government should not participate in the proposed technological programme of the European Conference on Satellite Communications (CETS), but that in principle the United Kingdom national programme on space technology involving the development of BLACK ARROW should be approved. The Cabinet had subsequently agreed that the BLACK ARROW programme should continue through 1967-68, subject to an evaluation during the course of that year of its priority in relation to other research and development projects. Ministers had subsequently agreed that we should defer the public announcement of the Government's decision not to participate in the CETS programme, in view of current political circumstances, and that we should accept the continuation of certain further technical studies. At their meeting the previous week to discuss the attitude which the Government should adopt at the forthcoming Conference in Rome on a European space policy, at which decisions would be sought on the future of the CETS programme, the Ministerial Committee had agreed on balance that we should then make it clear that we would not participate in that further programme, and that we should explain to our allies our doubts about the desirability of the project on economic and technological grounds and our difficulties about the question of our entry into the European Communities remained unsettled. On this basis, we would confine ourselves at the Rome meeting to proposing an objective study of the costs and benefits of potential European space programmes. Since the Committee had met, it had emerged that it was not essential to take a decision on the future CETS programme at the Rome meeting, but that we could keep the CETS design team for the project in being for a further period, up to the end of this year, in order to participate in a technical study, at a cost to the United Kingdom of only £17,500. Since an announcement at the Rome meeting of a decision not to participate further in the CETS programme would undoubtedly seriously damage our relations with
our closest supporters in the Six, it would be particularly inopportune in relation to our application to join the European Communities. In these circumstances, he had consulted the Chancellor of the Exchequer and they had agreed that, subject to the Cabinet’s approval, the United Kingdom Delegation should agree at the Rome meeting to a technical study by the CETS design team on this basis, provided that it was made clear that no further commitment was involved.

In discussion it was suggested that the postponement of an announcement of a decision not to participate in the CETS programme for the development of communication satellites would not ease the political embarrassment which would inevitably arise in making such an announcement at a later date. At that stage it might reasonably be hoped that we would then be engaged in negotiations in respect of our entry into the Communities and it would no doubt be urged again on grounds of our foreign policy that we should not withdraw from participation in the programme. It was, however, the general view that at that stage the political difficulties of withdrawal would be substantially less than at the present time, when our application was still being considered by the Six and we had not yet entered into negotiations. In these circumstances there was general agreement with the course proposed by the Foreign Secretary.

The Cabinet—

Agreed that, while the Government’s decision not to participate in a further CETS programme for the development of communication satellites should be maintained, on the lines previously agreed by the Ministerial Committee on Science and Technology, the announcement of such a decision should be postponed and that we should agree to participate, at a cost to the United Kingdom of £17,500, in a technical study by the design team for the CETS project which would last up to about the end of 1967.

4. The Cabinet considered memoranda by the Minister of Transport (C (67) 122) and by the President of the Board of Trade (C (67) 127) on the revision of the present road haulage carriers’ licensing system.

The Prime Minister said that it might not be possible to complete consideration of this item of their agenda since a number of members of the Cabinet would shortly have to leave to attend the memorial service for the former Secretary of the Cabinet, Lord Normanbrook. In that case the Cabinet would resume their discussion on Thursday, 13th July.

The Minister of Transport said that reform of the present carriers’ licensing system was an essential part of the Government’s transport policy. In the White Paper on Transport Policy (Cmd. 3057), published in 1966, the Government had accepted the view that the present system of licensing for goods vehicles was
ineffective for purposes of improving road safety and co-ordinating transport resources and had stated that it was necessary to devise a licensing system which would be “an effective instrument of a modern, national freight policy”. The proposals contained in her memorandum were designed to carry this into effect. She had received representations from the Trades Union Congress (TUC) for re-establishment of the British Transport Commission to operate public transport and also to exercise licensing functions in relation to privately-operated road transport. The TUC had emphasised that the present licensing system had led to a proliferation of road vehicle operators carrying their own goods in their own vehicles (“own-account” operators) and that there was no economic justification for this. It would, however, be unacceptable for a body such as the British Transport Commission to have the function of licensing its competitors. Instead she proposed to institute a licensing system which would represent a considerable degree of liberalisation as compared with the present system. Of the 1,500,000 vehicles subject to licensing under the present system, her proposals would completely exempt some 900,000.

She proposed that there should be two types of licensing control. The first would be a quality control applying to all vehicles of unladen weight of 30 cwts. or over, of which there were 600,000. Operators of such vehicles would have to satisfy a number of stringent tests before they were granted a licence. The tests would relate to the applicant’s ability to provide adequate maintenance facilities for his vehicles and to keep proper control over their loads and the hours worked by their drivers and to the financial resources of the applicant, which would have to be commensurate with his proposed scale of operation. The applicant would also have to hold a new type of personal licence (a “transport manager’s” licence) entitling him to manage a transport undertaking; or would have to employ the holder of such a licence in a position of responsibility. When these proposals had been discussed by the Ministerial Committee on Economic Policy, some doubts had been expressed about the feasibility of assessing an applicant’s financial resources and prospective business. It had been suggested that it might be preferable for quality licences to be granted automatically on application, but to be subject to revocation in case of subsequent offences against road safety provisions or other malpractices. It would, however, be contrary to the Government’s general policy on road safety to allow on the roads vehicles which might well be dangerous, on the basis that licences could be revoked only after offences had been committed. She was satisfied that there would be no serious difficulty for the licensing authorities in making a proper assessment of an applicant’s financial standing. The inquiries which would be necessary for this purpose were similar to inquiries about the reliability and efficiency of applicants for licences which were already made under the existing system. She proposed, however, that licensing authorities should not be obliged to make such inquiries in every case: in some cases there would be no need for inquiries and licensing authorities
would have discretion to omit them. A different approach to quality licensing had been suggested by the Transport and General Workers Union, who had proposed that no licence should be granted to an applicant who operated less than a specified number of vehicles. This, however, would be too arbitrary. Her proposals would be effective in upholding proper operating standards in the industry and in protecting public safety. They would be welcomed by the industry and were in line with present practice in a number of countries in the European Economic Community.

The second type of control could be described as quantity licensing. The object here would be to secure the diversion from road to rail, and in particular to the new freightliner services, of all traffic which could be more economically carried in this way. Quantity licensing would apply to vehicles of over 5 tons unladen weight which were engaged either on hauls of 100 miles or on shorter hauls of certain types of bulk cargo such as coal which were especially suitable for carriage by rail. A total of 70,000 vehicles would be affected, of which 30,000 were operated on own-account; this contrasted with a total of 180,000 vehicles subject to quantity licensing under the existing system. Where an operator of vehicles in these categories applied for a quantity licence, the application would be open to objection by railway operators on the ground that they could offer a service which was equally satisfactory in terms of speed, cost and reliability. A licence would only be granted if the applicant could satisfy the licensing authority that any such objection was invalid. The British Railways Board estimated that there were some 30 million tons of traffic carried annually on the roads which were suitable for diversion to freightliner services. If all this traffic could be diverted to rail, the railway deficit would be reduced by some £14 million. The Board estimated that they would be able to secure about half of this traffic by ordinary promotional methods, but because of the long-standing prejudice against the railways on the part of many firms, a licensing system would be necessary if they were to secure the remainder. The controversial feature of the proposals was their extension to own-account operators. These operators, however, were responsible for about one-third of the traffic suitable for diversion to rail. If they were excluded from the licensing provisions, this would lead to an uneconomic increase in the use of own-account vehicles and to under-use of rail capacity.

The Cabinet—
Agreed to resume their discussion on Thursday, 13th July.

Cabinet Office, S.W.1,
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Wednesday, 12th July, 1967, 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. 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 CROSMAN, M.P., Lord President of the Council
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. PATRICK GORDON WALKER, 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. ANTHONY WEEDWOOD BENN, M.P., Minister of Technology

The following were also present:
The Right Hon. ARTHUR BOTTOMLEY, M.P., Minister of Overseas Development
The Right Hon. MARGARET HERBISON, M.P., Minister of Social Security
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. K. BARNES
SUBJECT
PUBLIC EXPENDITURE
Civil Reviews and Economic Outlook to 1972
Transport
Housing
Education
Health
Local Environmental Services
Remaining Expenditure
Aid
The Cabinet had before them the following memoranda:

C (67) 125 Public Expenditure: Proposed Adjustments: by the Chancellor of the Exchequer

C (67) 129 Public Expenditure: Education: by the Secretary of State for Education and Science

C (67) 130 Public Expenditure: Proposed Adjustments: Aid Programme: by the Minister of Overseas Development

C (67) 97 Public Expenditure: Civil Reviews: Health and Welfare

C (67) 98 Public Expenditure: Civil Reviews: Social Security

C (67) 99 Public Expenditure: Civil Reviews: Housing

C (67) 100 Public Expenditure: Civil Reviews: Education and Science

C (67) 101 Public Expenditure: Civil Reviews: Roads

C (67) 102 Public Expenditure: Areas of Choice

C (67) 103 Public Expenditure: Continuation of Existing Policies

C (67) 105 The Economic Implications of Public Expenditure (covering a note by officials)

C (67) 109 The Economic Implications of Public Expenditure

C (67) 120 Defence: Aid and the Balance of Payments

C (67) 124 Government Achievements

and a memorandum by the First Secretary of State:

C (67) 108 Economic Outlook to 1972.

The Prime Minister said that the best procedure for the present meeting would be for the Cabinet, before coming to decisions, to discuss the complete range of problems before them so as to achieve a conspectus of the public expenditure position as a whole. Ministers would then be in a position, probably at the meeting of the Cabinet on Thursday, 20th July, to take decisions on the reductions which should be made, both in total and on individual items. It would be for consideration in the light of their present discussion whether it would be helpful for the Chancellor of the Exchequer to circulate a further paper on which the definitive discussion at the further meeting might be based.

The Chancellor of the Exchequer said that in his memorandum C (67) 125 he had sought to set out the broad plan of the way in which the necessarily considerable savings in public expenditure could be made, whilst allowing the Government's social and economic programmes to go forward at a substantial rate. He had assumed that the proposed saving of £200 million a year on defence expenditure would be made; indeed it was to be hoped that more might be saved, but it would be premature to count on it.

As regards his proposals for savings on particular blocks of expenditure, he had discussed with the Minister of Transport the
proposal that a saving of £50 million should be achieved on the estimated expenditure in 1970-71 on roads and other expenditure on transport, other than the railways deficit, and had invited her to consider how this could best be achieved. The proposed saving would be in respect of the total estimated expenditure on these items, i.e., on the basic programme of £844 million plus the £50 million of additional expenditure on the new proposals put forward by the Minister which had not been included in the basic programme. The Minister might make the proposed saving partly by scaling down the additional expenditure of £50 million, partly by making new charges for the use of roads and partly by reductions in the road programme. In considering the possibility of charges for the use of roads it would be important that the Minister should distinguish between charges directly related to road usage, e.g., in respect of excessive wear and tear caused by heavy lorries, and revenue charges proper, e.g., for road licences, since this was too important a field to admit the principle of hypothecation of revenue proper. He also proposed that there should be a saving of a further £30 million by reduction of the railway deficit, on which the Joint Steering Group of representatives of British Railways, the Ministry of Transport and certain industrialists, who were evolving a new financial structure for the railways, had submitted a report containing useful proposals for savings, including also however proposals for the writing-off of capital. The proposed saving was somewhat uncertain in that the out-turn of British Railways on current account was liable to fluctuate for many reasons outside their control, e.g., the state of the economy, changes in demand for particular traffics and the timing of price and wage changes. Nevertheless, if determined efforts were made to improve productivity and efficiency he was satisfied that a reduction in the expected deficit for 1970-71 of £30 million could be achieved; and this should certainly be made an aim of policy.

As regards housing, he had proposed a saving of about 3 per cent (£33 million) in 1970-71 on the programme for Great Britain; this would imply a reduction in housing starts in the public sector in 1970 from 242,000 to 232,000. There would need to be some reduction in starts in the intervening years. He proposed that the Minister of Housing should advise what measures might be taken to stimulate private sector housing so as to offset the reduction in the public sector programme as far as possible. The performance of the private sector should be greatly helped by the introduction of the Government's scheme for option mortgages in April 1968. The calls on the funds available to the building societies for mortgage lending would increase when the Leasehold Reform Bill came into effect. He was however examining both public sector borrowing arrangements and suggestions for increasing the volume of funds available for mortgage lending. It might be necessary to accept that the achievement of the target of 500,000 houses would have to be deferred for a short time beyond 1970; however, if we could secure a change of emphasis from public to private housing, it should still be possible to come near to the original objective in that year. As regards Scotland, he did not propose any formal cut, as it seemed likely that the Scottish housing target would not be achieved.
Public expenditure on education presented particularly difficult problems, as the Secretary of State's memorandum (C (67) 129) made clear, and he was prepared to look at alternative proposals to the postponement of the raising of the school-leaving age and the substitution of loans for part of student grants, as a means of achieving the net saving of £45 million in 1970–71 which he had proposed. The Cabinet should bear in mind, in considering expenditure on education and also on health, the considerable demands on manpower which these programmes involved. On present plans, increased employment in the public services would take some 500,000 employees out of the labour market by 1970–71, which, taken together with the expected reduction of some 400,000 consequent on the raising of the school-leaving age, would leave the private sector of the economy with a labour force almost 1 million smaller by that year. Thus, other things being equal, there was a prospect of a manpower shortage over the next few years.

As regards local and environmental services, a reduction of approximately £20 million in 1970–71 should be the aim; it should be sought mainly in reducing the capital element on the lines suggested in C (67) 102.

As regards the large number of lesser blocks of remaining expenditure set out in paragraph 13 of C (67) 125, on which spending was rising fast, officials should be instructed to examine the possibilities of making net savings, which he would put to his colleagues for approval before the end of October, totalling £50 million after making any necessary allowance for new proposals.

As regards social security, on the assumption that the next uprating after October 1967 would be in October 1969, and that in those two years real earnings would increase at 3 per cent per annum, the compensation provided by the uprating should be given half-way between the estimated increase in prices and that in earnings, rather than equated with the rise in earnings. This would give a saving of some £70 million in 1970–71; but this would be partly offset by additional expenditure on new measures for family endowment; and if changes in the cost of school meals were also taken into account, the net saving would be between £20 million and £60 million, dependent on the precise decisions which were taken.

As regards the aid programme, the aim for 1970–71 should be to continue the normal aid programme of some £205 million in cash terms, together with some £20–£25 million mitigating aid to Singapore and Malaysia in consequence of defence cuts there and a further £5 million to which we were committed as part of the cereals agreement in the Kennedy Round. Total aid expenditure on the "existing policy" figure of £225 million would therefore be increased in 1970–71 by some £5–£10 million.

The total reduction in public expenditure he was proposing for 1970–71 would be between £425 million and £475 million, dependent on the net saving achieved in respect of social security and on the possibilities of saving by means of additional charges, on which a paper was about to be circulated.
The Minister of Transport said that she was prepared to accept the Chancellor's target for a reduction of £30 million in the railway deficit on the understanding that public policy in other fields did not hinder the achievement of this target. In addition to the uncertain factors which the Chancellor mentioned, there were other imponderables, such as future fuel policy (and its effect on rail freightage of coal), which might affect the achievement of this target. In this connection, for example, it should be remembered that proposals she had previously put forward for reducing the deficit by increasing fares and charges had not been approved. Nevertheless the report of the Joint Steering Group offered a fair prospect of a much needed tightening of financial control over the railways as well as progress with the problem of capitalisation: the best hope for savings lay in track rationalisation. For transport items other than the railway deficit, the suggestion had been made that the proposal in effect to absorb the £50 million of additional expenditure she had proposed within the existing programme of £844 million would unduly reduce the share of the total reduction of expenditure to be borne by transport services. This was not so, since all this expenditure had been approved in principle and a large part of it appeared in its present classification solely as a book-keeping transfer of items previously classified as investment by the nationalised industries. It would in any event be an extremely serious matter to attempt to reduce expenditure on roads by as much as £50 million, save perhaps in so far as this could be done by making new charges. The roads programme had to be considered in the light of the considerable increase in the volume of traffic which would complicate an already difficult situation. It was clearly not possible substantially to reduce the likely increase in traffic without grave consequences for the motor vehicle industry. A substantial saving could however be achieved by the introduction of new types of charges, while avoiding the pre-emption of normal sources of revenue; and two of these charges could be incorporated in the Transport Bill. First, there could be a "wear and tear" supplement to the fees charged for carriers' licences for heavy lorries, which might produce a saving of some £25-£30 million and would be distinct from the excise revenue from the normal vehicle licence duty. The incidence of these charges should be graduated according to the wear and tear likely to be caused by particular types of vehicle, which had been costed. There was a further justification for such a supplementary charge in that heavy lorries were not at present paying a share of the road charges proportionate to that of other road users (though all users taken together were currently paying in charges some three times their established track cost). The incidence of the charge per ton mile would vary with the graduated scale of charges, but would be no more than between one-fifth and one-tenth of a farthing per ton mile. The second type of charge she had in mind was also eminently justifiable, i.e., a special charge for the movement of abnormal loads, which had to be escorted and, apart from wear and tear, did not pay the full cost of their transit. There were approximately 30,000 such loads a year and a suitable levy on them might raise some £3 million. There might well be an indirect benefit in the pressure such a charge
would exert on suppliers to consider assembly of the load on the site to which it had to be delivered instead of, as at present, at the factory. The third type of charge was road pricing: but this was a complex problem, the report on it would not be ready for some 18 months. Any significant proposals would involve controversial legislation and any additional revenue resulting could therefore hardly be obtained in the period under review to 1970-71. In sum, while it was accepted that savings must be made, it should be recognised that the foreseeable increase in the volume of traffic would require the road programme to be maintained; and indeed it was only on that basis that further and inevitably controversial charges could be justified.

In discussion it was suggested that the principle of charges for use which underlay the Minister of Transport's three proposals should be applied comprehensively, perhaps through the petrol duty, in substitution for, and not as a supplement to, the present basic taxes on vehicle ownership. It was also suggested that in any event the vehicle duty on lorries needed to be raised—in many cases it was only 50 per cent higher than the rate established in 1933. It was, however, pointed out that changes of this nature fell to be considered as part of taxation policy; and that in this country there were substantial difficulties in the way of charges such as turnpike tolls because the very large number of access points to our major roads made it inevitable that the administration charges for the collection of tolls would absorb a quite disproportionate part of the receipts. The question was raised whether further road charges such as had been suggested might have a disproportionate economic effect in development areas, especially where in those areas tolls on bridges, tunnels, and ferries were already in force; but it was pointed out that the tolls levied on these facilities did not offset the fuel and other savings these facilities made possible for the vehicles using them; and that some of the charges in question were limited by existing legislation. It was also pointed out that current public investment in transport, e.g., on freight liner trains, would be of benefit to the development areas; and that in any event it was essential for those areas that the road programmes should be maintained and therefore that the financial measures necessary to that end should be taken.

The question was also raised whether the additional £50 million of expenditure over and above the £844 million programme could in fact all be disbursed within the period under review; and whether in any event some of it could not be deferred. It was however pointed out that all this expenditure had been approved in principle and that much of it appeared under its new heading as a result only of book-keeping changes, notably a large part of the £29 million in respect of "infrastructure" grants. These grants would facilitate tighter financial control; and much of the expenditure had been approved some time ago as part of nationalised industry programmes which had social as well as economic justifications. For the most part, therefore, these "additional" proposals represented either new means of financing existing schemes already approved, or important
new schemes, e.g., to save manpower on the buses, and in any event would be considered, with the items in the main programme, as part of the review of the means by which savings in public expenditure on transport could be achieved. There could be no question of hypothecation for additional expenditure on transport of any funds raised by new road charges. But in so far as such new sources of finance could be found, that would provide an additional reason for considering further expenditure on the roads. At present, on the basis that road pricing could make no contribution before 1970-71, almost half the proposed saving of £50 million was still uncertain.

**Housing**

The Minister of Housing and Local Government said that the proposal in paragraph 8 of C (67) 125 was for a reduction in the public sector housing programme for 1970 of 3 per cent. This was a greater proportionate reduction than the average 2 per cent reduction proposed for other programmes. In money terms, the reduction would amount to £33 million, and if this were accepted it would be difficult for the Government to claim that they were giving housing the priority which they had in the past undertaken to give it. It was suggested that the reduction of £33 million could be achieved by reducing the number of local authority housing starts in 1970 by 8,000 in England and Wales, on the assumption that the programme in Scotland would fall short of the target by some 2,000 houses; this would mean a total reduction for Great Britain of 10,000 starts. But in the absence of any changes in general housing policies, the saving from a reduction in starts of this order would amount to only £13.1 million in 1970-71. A saving of £33 million would only result if the assumption were made that all the houses affected by the reduction would have been begun and completed within the year 1970-71, but this was clearly impracticable. In order to save £33 million in 1970-71, there would have to be a reduction in starts of over 20,000 between the present time and March 1971. Such a reduction would almost certainly mean that the target of 500,000 houses by 1970, to which the Government were pledged, would be unobtainable. Even on the basis of existing plans, the total of completions in the public sector in 1970 would be only 237,000, compared with the 250,000 which would be required to make sure of building 500,000 houses in 1970 in the public and private sectors together. It was clear that housing needs were no less than they were when the target of 500,000 houses was fixed. Indeed a recent survey of the housing stock showed that we now had 1.8 million slums (where it had been previously supposed that there were only about 1 million) and some 3 million houses which were incapable of improvement. The latter would have to be demolished and new houses to replace them could only be provided from the programmes of the local authorities. We were devoting a smaller proportion of the national product to housing than most European countries. The limitations of the existing programme meant that we were having to restrain the local authorities in the priority areas from building to capacity and local authorities in other areas were subject to even more severe restrictions. Any reductions in the forward programme would immediately become apparent to local authorities and would undoubtedly give rise to severe criticism.
If any reduction were to be imposed on the public sector programme, the most that should be contemplated was to plan for 5,000 fewer completions in 1970 than were envisaged under the present programme. This would mean a slight reduction in the number of housing starts in the intervening years, totalling some 7,500 for the years 1969-70. There would then be a steady progression in the programme, designed to secure 232,000 completions in 1970 compared with 237,000 under the existing programme.

It had been suggested that measures could be taken to ensure that building in the private sector expanded sufficiently to offset any reduction in the public sector. But it had to be borne in mind that private sector housing did not cater for the most acute housing needs. While there were signs of recovery in the performance of the private sector, the rate of completions was still lagging and it was by no means certain that the private sector’s contribution would be such as to enable us to reach 400,000 completions this year. The private sector programme was affected by many extraneous factors and there could be no assurance that it would reach any given level. There were, however, a number of measures which might be taken to stimulate private building. First, it would greatly help to sustain housing demand if there could be some easement of the present limit on mortgage lending by local authorities. The present ceiling on such lending of £130 million had already had the effect that some local authorities had been obliged to refuse mortgages and this had given rise to widespread dissatisfaction. Bearing in mind that mortgage repayments to local authorities were already nearing the point where they would equal outgoings and that they would probably exceed outgoings by 1969-70, there was a strong case for raising the present ceiling of £130 million on lending by a further £10 million, i.e., cumulatively, in each of the years 1968, 1969 and 1970. Secondly, earlier action might be taken to bring into effect that part of the Government’s option mortgage scheme which related to guarantees. The mortgage option scheme would come into effect in April 1968. It was a part of the scheme that the Government would make arrangements with the building societies to guarantee 100 per cent mortgages to house buyers who chose to take out an option mortgage. Hitherto it had been envisaged that this guarantee element would come into operation some time after the main scheme. If, however, it could be introduced in April 1968, with the main scheme, this would help to maintain the sale of houses in the private sector. The cost over the next year would be less than £1 million. It would be necessary to consult the building societies before this action could be taken.

The Secretary of State for Scotland said that it would be quite wrong to envisage any reduction in the public sector programme in Scotland. That programme envisaged the completion of 38,000 houses in 1970 and there was indeed a case for an increase to 40,000 because of the likely shortfall in the performance of the private sector. There was no ground for assuming that it would be impossible to achieve the present programme and this should remain the Government’s objective.
In discussion, it was argued that housing should be given higher priority than the other social services since it catered for even more basic needs. The recent survey of the housing stock had shown that we were making insufficient progress in meeting housing standards, which were still unacceptably low. The housing programme had little effect on the balance of payments. The Government were fully pledged to the target of 500,000 houses in 1970 and should not retreat from this. On the other hand it was argued that it was necessary to maintain a reasonable balance between housing and the other social programmes. It was, for instance, not possible to increase housebuilding without a parallel increase in accompanying services such as roads. To complete 500,000 houses in 1970 would call for additional taxation amounting to about £100 million in order to prevent excessive pressure of demand. Bearing in mind that it was impossible to determine precisely the number of houses built by private builders, the Government could scarcely be accused of bad faith if we were to fall short of the 500,000 target by, say, 10,000 or even 20,000 houses.

In further discussion it was suggested that some reduction in the programme of local authority houses built for renting need not imply that the Government were abandoning the 500,000 target. It might well be that the private sector would make good any reduction in the local authority programme. There were now strong signs of recovery in the private sector and the introduction of the option mortgage scheme would provide a further stimulus. Moreover, the character of the housing problem was now changing. After 1970, it was clear that the overall shortage of houses would be overcome, though shortages would persist in particular areas. The emphasis would then shift to slum clearance and the improvement of the housing stock and it would probably be wise in many areas to increase the proportion of houses built for sale at the expense of those built for letting. There might be advantages in beginning this switch of emphasis before 1970. This might be done by authorising local authorities to build houses for sale to the extent necessary to offset any reduction in their programme of houses for letting. This would help to cater for the increasing demand which was evident in some areas from young people who did not want to rent a local authority house, but were not in a position to buy a privately built house. The advantage of an increase in the number of houses built for sale by local authorities over leaving the private sector to secure this increase was that there would be a definite assurance that the local authorities would complete any agreed programme, whereas there could be no such assurance as regards the private sector. A house built for sale by a local authority could be expected to involve a smaller cost to the Exchequer than a house built for letting. If the consequent saving to the Exchequer were appreciable, it might be possible to achieve adequate savings on the housing programme while still maintaining the total size of the local authority programme, with a reduction in the number of houses built for letting offset by an increase in those built for sale. It would be necessary to make an estimate of what the saving to the Exchequer would be if there were a reduction of, say, 10,000 in the programme of houses for letting.
accompanied by an increase of 10,000 houses built by the local authorities for sale.

It was suggested, however, that local authorities might not be prepared to co-operate in a major expansion of building for sale; at present they were building only some 1,500–1,800 houses per annum for sale. The private builders would be likely to oppose an expansion of local authority building for sale and might claim that this would be a breach of undertakings given by Ministers that local authorities would not enter this field on any major scale. On the other hand, the private builders should benefit from an increase in local authority building for sale since the actual construction of the houses would fall to them. Moreover, such an increase could reasonably be presented to the private builders as a measure designed to maintain continuity of demand and the momentum of the housing programme, which was their primary concern.

The following points were also made:

(a) It was suggested that the creation of a National Housing Loans Corporation to undertake mortgage lending, particularly to purchasers of old houses where the building societies would not normally be prepared to give mortgages, might be a useful means of stimulating housing in the private sector without incurring the extra cost to the Exchequer which would be involved in raising the present limit on mortgage lending by local authorities. The Lord President had circulated proposals on this matter to the Ministerial Steering Committee on Economic Policy.

(b) The dissatisfaction which had been caused by local authorities refusing mortgages because they had reached the limit imposed on their lending might be mitigated if early agreement could be reached on the limit on lending for next year and if the local authorities, instead of refusing mortgage applications outright, were to follow the practice of the building societies and place the applicants on a list for mortgages to be made available as soon as funds permitted.

The Secretary of State for Education and Science said that expenditure on education over the next few years would necessarily increase because of the increase in the number of pupils. This situation would continue until the early 1970s, when there would be some reduction in numbers. The present programme made no special provision for the extension of comprehensive schools with the result that unsatisfactory arrangements such as split schools were having to be accepted. The provision in the programme for replacement of sub-standard schools was smaller than it had been under the previous Administration and was extremely low when measured against the backlog of requirements. Only slow progress was being made in the reduction in the size of classes and we were unlikely to reduce the average size to 30 until the 1980s. In the universities, the problem was also one of increasing numbers and the estimates of student intake in the Robbins Report were being
exceeded. There was also a number of further proposals for expenditure, some of which had already been discussed by Ministers, which were not included in the basic programme but which should be taken into account. They included action to implement the recommendations of the Plowden Report on educational priority areas and other matters, at an estimated cost of £45 million, including expenditure of £11 million for which the need was urgent; proposals for the Open University; provision for new Medical Schools which would certainly be recommended by the Todd Commission due to report early in 1968; provision to enable more students to get into the universities, for research computers, educational technology and the retraining of teachers. The Government were publicly committed to implement some of these proposals. The estimate of expenditure on education in 1970–71 in the basic programme already showed a reduction of £20 million resulting from a revised forecast of the future supply of teachers. This was in contrast to the position on the programmes for transport and housing, where it was proposed that account should be taken in the current review of expenditure which had not been included in the basic programmes. The Cabinet had already agreed to an increase in the price of school meals from 1s. to 1s. 6d., conditional upon the introduction of a satisfactory scheme of family endowment. The school meals service was an integral part of the education service; it had always been considered as part of educational expenditure in previous reviews and any savings from an increase in charges here should count against the savings to be achieved on the educational programme. A saving of £5 million in 1970–71 could be achieved by the withdrawal of the free milk service from secondary schools; there was now a considerable body of opinion in favour of this. Any saving here should also count against the savings to be secured from the education programme. He was opposed to postponement of the raising of the school-leaving age beyond 1970–71. A pledge to raise the age in that year had been implicit in the 1945 Education Act and had subsequently been endorsed by the Crowther and Newsom Reports, by the previous Administration and by the present Government. It would be politically indefensible to propose postponement at this stage. He was ready to consider the feasibility of securing savings by replacing a part of the present grants to university students by loans, but legislation would be required and it would not be possible to secure any appreciable savings by 1970–71. He was also prepared to examine the possibilities of some savings on student support. Probably the best way to secure savings here would be to refrain from increasing the present level of grants and to allow their value to be eroded by rising prices. There were other possibilities of savings which could be examined, including some limit on the increase in manpower by measures to improve productivity, and a possible extension of increases in student fees beyond those which he had already introduced. He could not, however, attempt to quantify the total savings which might be achieved until he knew the views of his colleagues on the extent to which expenditure should be authorised on the further proposals he had mentioned which were not included in the present basic programme.
The Secretary of State for Scotland said he did not favour any postponement of the raising of the school-leaving age. The proportion of pupils staying at school beyond the age of 15 had been steadily increasing in Scotland so that, if the leaving age were raised in 1970–71, there was unlikely to be a large sudden increase in numbers. It would be politically indefensible to postpone the raising of the leaving age on the grounds of financial stringency. Postponement would have a particularly adverse effect on the children of poorer families since the proportion of such children who stayed voluntarily beyond the age of 15 was much smaller than the proportion of children in better-off families. Changes had already been made in the school-building programme on the assumption that the leaving age would be raised in 1970–71 and any postponement would cause considerable disruption. There was a strong case for securing savings on student support, bearing in mind particularly the considerable numbers of students who went to work in other countries soon after leaving university. Savings here would be likely to be acceptable to the general public. The minimum grant of £50 a year towards university fees which was paid irrespective of parental income was no longer justified and should be abolished. An increase of 6d. in the price of school meals would be acceptable in Scotland, quite apart from the provision for family endowment, bearing in mind that there was already remission of charges for those in need.

In discussion the following points were made:

(c) Strong opposition was expressed to any postponement of the raising of the school-leaving age. The fact that the proportion of children staying at school voluntarily beyond the age of 15 was increasing meant that the cost of raising the leaving age would be reduced and also made it more important to raise the age, because if this were not done the dwindling minority of children leaving at the age of 15 would come increasingly to constitute a separate depressed class of society; and the general effect would be to increase social divisions. Postponement would be seen as an attack on State education and could be expected to stimulate the growth of private education. If action were deferred in 1970–71, this would strengthen the hand of those who were opposed to raising the leaving age at any time; and there would be a real danger of indefinite postponement. Postponement would not help to reduce the average size of classes in the long term: the only effect would be to defer a reduction in primary schools for a few years.

(d) There was support for the view that any savings on school meals and milk should count against the savings to be achieved on the education programme. But if savings on school meals were counted in this way, they could not also be reckoned as offsetting the cost of family endowment.

(e) If the free milk service were withdrawn from secondary schools this would have an adverse effect on milk producers; the selective expansion programme in agriculture was geared to the continuance of the demand for milk in schools. There was no
consensus of medical opinion on whether the withdrawal of free milk in secondary schools would have adverse nutritional effects.

(f) It was suggested that when the Cabinet came to consider family endowment it would be worth examining the desirability of supplementing any endowment scheme by relief from charges for school meals—for example by the issue of vouchers for free meals—for those in need. It was pointed out, however, that there were already arrangements for the remission of charges for school meals for poorer and larger families.

(g) Some savings could be looked for in expenditure on the universities and this would be particularly necessary if it were decided not to postpone the raising of the school-leaving age. It was suggested however that it would be difficult to secure reductions in expenditure, though it might be possible to allow the number of university students to increase above the estimates in the Robbins Report without incurring additional expenditure.

The Minister of Health said that it would be difficult to make reductions in the staff forecast for hospitals and for local authority welfare services. It was in the nature of these services that a high proportion of expenditure was on wages and salaries and the staffs could not be cut without damaging the services themselves: it was indeed questionable whether the approved establishments were adequate to provide a satisfactory level of services. He hoped, however, that some saving could be made in the number of ancillary staff in hospitals in the light of the recommendation made by the National Board for Prices and Incomes (NBPI) that there might be a cut of the order of 10 per cent in the number of staff as part of a productivity bargain. This implied, however, that the reduction in expenditure would fall short of 10 per cent. Recruitment was in any case difficult for all the health services because of the shortage of skilled manpower and relatively low rates of pay for unskilled grades. A number of studies were being made of the way in which manpower at all levels could most economically be used and he would pursue energetically all the possibilities of savings which might emerge from the recommendations of the NBPI and from the further studies.

In discussion reference was made to the demands made upon skilled manpower by all the Government’s programmes of expenditure. It was questionable whether qualified men and women would be available in sufficient numbers to enable these programmes to be carried out.

The Minister of Housing and Local Government said that the proposals of the Chancellor of the Exchequer for a saving on this block of expenditure of £21 million amounted to a cut of 5 per cent on expenditure which had already been heavily cut in July of the previous year. The cut of 5 per cent was higher than the average which was proposed elsewhere and might have damaging consequences on the provision of water supplies, sewerage and refuse disposal, as well as restricting the Government’s policy for the development of the countryside and for encouraging sport. Expenditure on town centres would also be restricted, with particular consequences for the development areas. It was doubtful if
expenditure could be cut on all these services by more than some £8–£10 million.

In discussion it was pointed out that the proposals of the Chancellor of the Exchequer involved a relatively small cut in expenditure on sewerage and otherwise related solely to cuts in expenditure on parks and baths, planning (i.e., town centres and other redevelopment) and miscellaneous items, mainly involving local authority offices and their equipment. It was the general view that there was considerable scope for the restriction of local authority expenditure in many of these fields, though it was urged that particular care should be taken not to restrict unduly expenditure on the development of the countryside and on town centres in development areas.

*The Home Secretary* said that the largest blocks of expenditure in this field were on the Home Office Vote. It might well be possible to make some saving in expenditure on civil defence, particularly if the Territorial and Army Volunteer Reserve could be run down. The heaviest expenditure was, however, on police and prisons. Expenditure on police was not increasing at a rate above the general average and could not be restricted unless local authorities were prevented from recruiting up to the level of their approved establishments. This would involve legislation, a course which could hardly be contemplated. The only way in which it might be possible to reduce the requirements for numbers of police in later years was by increasing expenditure in the near future on additional and improved equipment. The additional expenditure which was involved on prisons was for the most part outside the Government’s control, since even after taking account of the effect which the passing of the Criminal Justice Bill might have in reducing prison sentences and of other measures which the Government were taking to that end, it was estimated that the prison population would increase from the present figure of some 35,500 to about 41,500 in 1970–71. It would clearly be unacceptable that the Government should declare themselves unable to imprison those who had been properly sentenced by the courts. The additional expenditure made very little provision for improvements in prisons or prison sanitation, most of which was still disgraceful. In general, in considering expenditure on police and prisons it must be borne in mind that the maintenance of law and order was the basic duty of any Government.

In discussion it was suggested that there might be advantage in increasing during the current year expenditure on improved equipment for police forces, in order to lessen the burden of such expenditure in later years and also to increase the possibility that police establishments might justifiably be reduced towards the end of the period. It would help the industries concerned if orders for cars and wireless equipment could be placed now, while there was spare capacity, rather than later when demand for these products was likely to be increasing generally. It was pointed out that difficulty would arise to the extent that half the cost of the equipment was...
borne by local authorities, but there was general agreement that this possibility should be pursued.

In further discussion it was urged that savings could not be achieved on overseas information, which indeed might well be increased in the interests both of our trade and of our influence world-wide at a time when our defence expenditure overseas was being substantially reduced. It was also urged that although there was considerable scope for reductions in some fields of expenditure on governmental research and technology, such support for industry should justifiably be increased on purely economic grounds. It was also urged that in considering reductions in remaining fields of expenditure, consideration should be given to the possibility of reducing expenditure on colour television, local radio and other similar projects; and it was noted that expenditure on the Channel Tunnel would, on present plans, be met from private capital.

The Prime Minister, summing up this part of the discussion, said that there should now be an interdepartmental examination by officials of expenditure classified in C (67) 125 as remaining expenditure. This examination should include expenditure on colour television, on the establishment of local radio stations and on the extension of the BBC programme of “pop” music. It should also include expenditure on the change to decimal currency. The interdepartmental examination should be on the basis that officials should show by what means it would be possible to achieve net savings of £50 million in all these fields. It should also take into account the extent to which it might be advantageous to increase expenditure in the current year on police equipment in order to make possible savings in police expenditure in subsequent years.

The Cabinet—

(i) Invited the Chancellor of the Exchequer to arrange for an interdepartmental examination by officials of the field of remaining expenditure on the lines indicated by the Prime Minister.

The Minister of Overseas Development said that, although the Chancellor of the Exchequer had proposed that expenditure on aid should rise by between £5 million and £10 million in 1970-71, this apparent increase was achieved only by adding to the programme the food aid which the Government had agreed as part of the discussions on cereals in the Kennedy Round of tariff negotiations and by adding also the mitigatory aid to be given to Singapore and Malaysia as our forces were withdrawn. Food aid was an item in a commercial bargain which the Government had made not connected with the aid programme; and mitigatory aid in the Far East was part of the price necessary to achieve a much greater saving in oversea military expenditure. The effect of the proposals of the Chancellor of the Exchequer would not be to increase the aid programme, but to maintain for the next three years a reduction imposed upon it as part of the emergency measures which had been agreed in the previous July; and it would thus be 9 per cent below the figure approved for 1966-67. The true position was in fact even worse, in that the aid programme, unlike nearly all other programmes,
would continue to be based on current prices instead of on constant prices and its real value would in consequence fall even more. In his memorandum (C (67) 120) he had shown that the cost of the aid programme to the balance of payments was only about one-third of the gross expenditure and that repayments of capital and interest, currently running at about £60 million a year, should also be taken into account. If the aid programme were held at £205 million, we should be unable to make our contribution to the replenishment of the International Development Association (IDA) at a proper level without damage to our bilateral programmes. The IDA was the most efficient international aid-giving body; for every pound we put into it, Commonwealth countries got £6 out and we obtained 30s. in export orders. The United States had proposed a replenishment rising to four times the present level, but had also proposed that the aid should be tied. We could not afford an increase of this order, but if we could contribute to replenishment at twice the present level we could reasonably expect to obtain international agreement that aid given by the IDA should not be tied and there would be considerable consequential advantages to our balance of payments. In considering the level of our aid programme, we must have regard to our moral obligations and to the leadership which we had hitherto provided in this field.

In discussion it was urged that particular importance attached to the increase in our contribution to the IDA, both on general grounds and because of the particular benefit to our balance of payments which it was estimated would ensue. It was also urged that, since much of our bilateral aid was tied to United Kingdom exports or was to provide technical assistance, the cost of which rose with any general increase of prices, it was unreasonable that the total level of the aid programme should continue to be based on current rather than constant prices. On the other hand, it was argued that aid, unlike other governmental programmes, was given and accepted in cash terms and that it would be contrary to the Government's interest to accept that it would automatically rise with rising prices. Even on the restricted level proposed by the Chancellor of the Exchequer, the extent of our aid would still compare reasonably with aid provided by other Western nations. Furthermore, it must be borne in mind that in this field it was necessary to allow for substantial unexpected expenditure to meet new developments, such as the aid which had had to be provided for Zambia in consequence of the illegal declaration of independence by Rhodesia or the additional aid which it might be necessary to provide in the Middle East in consequence of the recent hostilities there.

The Cabinet—
(2) Agreed to resume their discussion at a subsequent meeting, at which they would first consider expenditure on social security.

Cabinet Office, S.W.1,

SECRET
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 13th July, 1967, 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 (Item 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 (Items 1 and 2)
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. PATRICK GORDON WALKER, 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. KENNETH ROBINSON, M.P., Minister of Health (Item 3)
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Item 3)

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Miss J. J. NUNN
Mr. K. BARNES
Mr. L. ERRINGTON
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<td>Proposals for Revision of the Carriers' Licensing System</td>
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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, while the date of the adjournment for the Summer Recess depended on the progress of Parliamentary business, it was hoped that the House might adjourn on 28th July. It was proposed that the House should resume on Monday, 23rd October.

2. The Cabinet resumed their consideration of memoranda by the Minister of Transport (C (67) 122) and by the President of the Board of Trade (C (67) 127) on the revision of the present road haulage carriers' licensing system.

The Minister of Transport said that at the Cabinet's previous discussion she had outlined her proposals for a revised road haulage licensing system comprising two types of control—quality licensing and quantity licensing. When this issue was considered by the Ministerial Committee on Economic Policy, there had been general support for the proposals on quality licensing. Quantity licensing would apply to vehicles of over 5 tons unladen weight which were engaged either on hauls of over 100 miles or on the carriage over shorter distances of certain types of bulk cargo. When the operators of these vehicles applied for a licence, the application would be open to objection by the railway operators on the grounds that they could provide a service which would be equally satisfactory as regards speed, cost and reliability. The system would apply not only to public hauliers but also to firms carrying their own goods in their own vehicles ("own-account" operators). Some of her colleagues had doubted the desirability of extending this system to own-account operators. But the object of her proposals was to secure the diversion to rail of some 30 million tons of traffic now carried annually by road, which was essential if we were to avoid under-use of rail freightliner services representing a very large investment. Over one-third of the traffic in question was carried by own-account operators and this objective could not be secured if these vehicles were exempted. The British Railways Board believed that they could secure the diversion to rail of about half the traffic at issue by ordinary promotional methods, but licensing would be necessary if they were to secure the remainder in view of the long-standing prejudice against the railways which was felt by many firms. The prejudice against use of the railways was illustrated by the poor response of road hauliers to the opening of freight terminals for use by their vehicles which had eventually been secured after protracted opposition by the railway unions. If own-account operators were exempted from quantity licensing, this would inevitably lead to a
further proliferation of vehicle fleets operated on own-account for which there was no economic justification. Moreover, the application of licensing to these vehicles would have a beneficial effect in stimulating greater attention by firms to their transport costs. A recent survey of a sample of firms operating own-account vehicles showed that about half of them had no knowledge of railway freight rates or how these compared with their own transport costs. There was no question of attempting to divert to rail traffic which was unsuitable for this purpose. Licences would only be refused where the case had been fully made out that the railways could offer an equally satisfactory service. If the vehicle operator could show that the freightliner services would not meet his needs—for example because his vehicles needed to make calls at intermediate points which were not served by rail—then he would be given a licence. In cases where a firm had a genuine need for a small number of vehicles to be held available to meet unforeseen contingencies, it would be open to the licensing authority to award a licence for a limited number of the operator's existing vehicles. The system should conduct to greater efficiency on the railways, since the railway operators would know that, if they failed to fulfil assurances as to the quality of the service they could offer, it would be open to vehicle operators who had been refused a licence to apply again. There should be no major administrative difficulties in operating the system which would apply to only some 70,000 vehicles as compared with 1,500,000 vehicles which were at present subject to licensing. The present licensing authorities were satisfied that it should be entirely practicable for them to form a fair assessment of the relative costs of rail and road services, provided that the railway operators did not seek to contest relatively insignificant licence applications; there was no reason to suppose that they would do this.

It was necessary to take into account broader issues than the strictly economic considerations. The introduction of quantity licensing would give a considerable measure of reassurance to both management and unions on the railways about the Government's future transport policy. The Government had rightly asked both the British Railways Board and the unions to accept some unpalatable decisions in the interests of greater efficiency, notably the continuing rundown in the railways' labour force and the admission of private hauliers to freight terminals. It would be of great assistance in carrying through these policies if the railways could be given the assurance of full economic use of the freightliner services. There would be an extremely hostile reaction from railway management and unions if quantity licensing were completely abandoned. There would on the other hand be opposition from the Confederation of British Industry (CBI) and the road haulage employers to her proposals, but she would be able to emphasise that taken as a whole they represented a considerable liberalisation of existing licensing procedures. Moreover it had to be remembered that the amount of road goods traffic which would be affected by quantity licensing was a very small proportion of the total, though it would constitute no less than 14 per cent of the present volume of rail freight traffic.
Her proposals for quality licensing were in line with practice in the European Economic Community (EEC). On quantity licensing, the EEC countries operated a quota system which at present excluded own-account operators. There was, however, a growing body of opinion in the EEC that this was completely illogical. If we were to enter the EEC, it would be preferable to have a viable system of quantity licensing of our own since this would help to prevent our being saddled with a rigid quota system.

She sought the agreement of the Cabinet to her proposals as a basis for future transport policy and for the consultations with industry which would then be necessary.

The President of the Board of Trade said that he fully supported the Minister’s proposals for quality licensing but was opposed to the imposition of quantity licensing on vehicles operated on own-account. To impose a physical restriction of this kind on the operations of private industry would be unprecedented and it was a serious matter to hand over, in effect, management decisions in individual firms to a licensing authority. A control of this kind would be inconsistent with the Government’s general policies for increasing productivity and helping exports. The right course was to leave the railways to attract traffic to the new freightliner services by demonstrating in practice that these were efficient and reliable. If they were, there was no reason to suppose that suitable traffic would not be secured. The reluctance of many firms to use the railways was not due simply to conservatism, nor were they primarily influenced by relative costs. The most important factor from their point of view was that they needed an absolute assurance that goods would be delivered by a particular time, since factory production would often depend on this. In view of the unreliability of railway services in the past, the reluctance of firms to divert their traffic to rail was understandable and in many cases justified. The great increase in the number of own-account operators which had taken place since the introduction of the present licensing system in 1947 showed that there was a genuine economic requirement for firms to be able to operate their own vehicles. The assurance that they would have control of their own means of transport was frequently a crucial factor in persuading firms to move to development areas and the introduction of quantity licensing would therefore have adverse effects on the Government’s policies for distribution of industry. A better alternative to the proposed licensing system would be to increase the licence duty on goods vehicles. This would encourage the diversion of suitable traffic to the railways but would still leave it open to a firm to retain its own goods vehicles where it had good reasons for doing so; it would also bring in additional revenue to the Exchequer.

In discussion there was general support for the Minister’s proposals on quality licensing. On quantity licensing, while it was generally agreed that the objective should be to secure the maximum practicable diversion from road to rail of suitable traffic, it was
argued nevertheless that the Government would not be justified in introducing a system which would force firms to use the new freightliner services before these had proved themselves in practice, particularly as regards reliability, which was a more important factor than cost from industry's point of view. The operation of the proposed licensing system would be likely to have adverse effects on industrial efficiency and exports unless the railways proved more reliable in the future than they had been in the past; and it was wrong to assume in advance that they would prove to be so. The mistrust of the railways felt by many firms rested on past experience of unreliability and high cost and these factors went far to account for the proliferation of vehicles operated on own-account since the present licensing system was introduced in 1947. It was an inadequate defence of the proposed system to say that, if the freightliner services were in the event to prove unsatisfactory, a firm which had been obliged to use them by refusal of a licence would be free to renew its application, since by that time the firm would have disposed of its vehicles. In many cases it was crucial to a firm's efficiency to have control over its own transport in order to cope with unforeseen contingencies or to have an absolute assurance of delivery of raw materials or components at a particular time in order to maintain production. The risk that firms might be obliged to use the railways would deter them from moving to development areas. There was already a considerable volume of complaints from firms in the remoter parts of these areas about the unsatisfactory nature of rail services. Quantity licensing would provoke strong and continuing opposition from industry, which would be reinforced whenever there was disruption of freightliner services, for example because of strikes. Morale in industry generally was low at present; the introduction of quantity licensing would be an additional blow at a time when a revival of confidence was essential if we were to secure the economic rate of growth at which we were aiming. Instead of introducing licensing before the freightliner services had had an opportunity to prove themselves, it would be preferable for the Government to announce their intention to introduce it at some future date—say after 12 months—when there had been sufficient experience of the new services to justify this. In this way there would be time for public opinion to be prepared.

On the other hand it was argued that it would be impossible to carry through an integrated transport policy without a system of quantity licensing which covered own-account operators. It was justifiable to allow considerations of public policy to be taken into account in determining whether firms should be permitted to use their own vehicles, since the roads on which they travelled were maintained at public expense. A system of licensing on the lines proposed was fully justified as an alternative to the nationalisation of road haulage. Too much weight should not be attached to the needs of firms to maintain their own vehicle fleets; this was often done for reasons of prestige or as a form of advertising rather than because of any genuine advantage in cost or efficiency. But the primary argument for quantity licensing was the need to ensure the full utilisation of the large investment in freightliner services and
the heavy cost to the nation if these facilities were under-used. An increase in the vehicle licensing duty was a matter of taxation policy, but it should not be regarded as a substitute for licensing: it would penalise many firms who could not possibly divert their traffic to the railways and who would have got licences under the proposed licensing system. For the Government to announce that a licensing system was its ultimate objective but to defer introducing it for a considerable period would give an appearance of vacillation and would allow the maximum opportunity for opposition to the proposals to develop.

In further discussion it was suggested that the best course would be to introduce in the forthcoming Transport Bill provisions for quantity licensing on the lines proposed by the Minister of Transport, but to provide that they should only come into force on a day to be appointed by Order. A period could then be allowed for further experience to be gained of the operation of the freightliner services. The Minister could give an approximate indication during the passage of the Bill through Parliament of the time at which the Government would intend to bring the provisions into force if the new services developed satisfactorily. This might perhaps be about a year ahead, but it would be wise to avoid commitment to a specific date. The effect of proceeding in this way would be that the railways would be put on their mettle by the knowledge that, if the freightliner services did not prove their efficiency and reliability and if there were disruptions, the implementation of the licensing provisions would be deferred.

The following additional points were also made:

(a) It would be important for the licensing authorities in dealing with applications for quantity licences to take account of the speed and reliability of the rail services not only as regards the carriage of goods between freight terminals, but also as regards delivery from the terminals to the ultimate destination.

(b) In the consultations with industry which would be necessary before licensing provisions could be introduced, the present proposals on quantity licensing should be made more flexible in order to meet the difficulties which would undoubtedly arise in some cases—for example, where a firm needed to maintain a limited number of vehicles to provide stand-by capacity which it would be uneconomic for them to maintain unused save in emergency. Consideration should be given to the desirability of special concessions for firms considering a move to a development area and firms already established in the remoter parts of the development areas.

(c) Consultations should take place initially with the CBI: their views would carry greater weight than those of the road haulage employers, who were interested parties.

(d) In view of the strong criticism from industry which the licensing proposals were bound to evoke, it would be important in presenting them to emphasise the degree of liberalisation which they represented, as compared with the present licensing system.
If quantity licensing were introduced, it would be essential to emphasise to the railway management and unions the need for their fullest co-operation in measures to increase efficiency and reduce costs.

The Prime Minister, summing up the discussion, said that the Cabinet endorsed the proposals by the Minister of Transport for the introduction of quality licensing. They also agreed on balance that provision for quantity licensing broadly on the lines proposed in C (67) 122 should be introduced in the forthcoming Transport Bill. However, in order to allow a period of time during which the freightliner services would have an opportunity to demonstrate their efficiency, the provisions should not come into force immediately on the passage of the Bill but should be activated on an appointed day by Order. The Minister of Transport could then indicate during the passage of the Bill through Parliament the approximate time at which the Government would intend to bring the provisions into force but should make it clear that they would only do so if they were satisfied that it was then appropriate in the light of the efficient and reliable working of the railways in the intervening period. The Minister should now proceed with her consultations with industry and in the course of these consultations she should consider what modifications might be made to her proposals on quantity licensing in order to meet the difficulties to which the system seemed likely to give rise in particular cases of the kind mentioned in discussion and any other difficulties which might emerge during the consultations. Points of importance arising from these discussions should then be considered by the Ministerial Committee on Economic Policy.

The Cabinet—

(1) Approved the proposals in C (67) 122 for the introduction of quality licensing for road haulage vehicles.

(2) Agreed that provision should be made in the forthcoming Transport Bill for the introduction of quantity licensing broadly on the lines proposed in C (67) 122, the provisions to come into effect on a day to be appointed by Order as indicated in the Prime Minister's summing up of the discussion.

(3) Invited the Minister of Transport:

(a) To proceed with the necessary consultations with industry and to consider in the light of those consultations and of the points made in discussion what modifications might be made to her proposals on quantity licensing in order to meet particular difficulties to which the system seemed likely to give rise.

(b) To circulate any revision of her proposals resulting from Conclusion (3) (a) to the Ministerial Committee on Economic Policy.
The Cabinet considered memoranda by the Chancellor of the Exchequer (C (67) 128 and 131) and a memorandum by the Minister of Social Security (C (67) 132) on family endowment.

The Chancellor of the Exchequer recalled that at their previous discussion, while rejecting the application of means-testing to improved family allowances, the Cabinet had accepted in principle that there should be an increase in family endowment based on "give and take" principles, but had, in view of the public expenditure and fiscal considerations, deferred further consideration of the issues relating to the amount of the increase and the method by which it should be financed. There was currently widespread concern with the problem of child poverty and he had given much thought to the best method of improving family endowment selectively so as to concentrate on the most needy the limited additional resources which could be made available. He had been driven to the conclusion that the most effective, most politically acceptable and the most economical answer lay in the adoption of a means-tested scheme, involving the introduction of a new housing allowance. Under such a scheme, a family would get an allowance for rent and rates of 30s. a week (which was the average rent) or more if the actual rent were greater, where its income did not exceed £9 a week for a married couple and one child; the qualifying level of income would be increased by £1 for each child after the first and, in computing family income, family allowances would be disregarded. The housing allowance would taper off for families with higher incomes. While the scheme would benefit some 300,000 families with incomes a little above the supplementary benefit level, it would effectively concentrate help on the neediest 160,000 families with incomes below that level. It would bring 86 per cent of such families up to the present supplementary benefit level at a cost of no more than £32 million, and would, in particular, benefit families with only one child who could not be helped by any increase in family allowances. While any such scheme, the details of which would need to be more fully worked out, might require the employment of an additional 600-700 staff and would involve certain administrative difficulties, adoption of the alternative "give and take" approach would also involve a substantial increase in Inland Revenue staff because of the additional numbers brought into the income tax field and would itself be accompanied by administrative difficulties. While applicants for a housing allowance would have to take the initiative in claiming, it should be possible, by simplifying the procedure and by publicity, to make people aware of their rights and to ensure that the great majority of those who were qualified claimed the allowance. In so far as the introduction of the allowance might discourage local authorities from introducing rent rebate schemes, no new issue was involved, since the new supplementary benefit scheme was already having this effect; and the method would be discussed with the local authorities. Only 5 per cent of council tenants would, however, benefit from the housing allowance. The allowance would be...
available to tenants in the private housing sector where the rent rebate scheme did not apply.

If, however, despite its advantages of doing more for the neediest families at lower cost than any other scheme, the Cabinet still rejected the means-testing approach, he would accept as an alternative a 5s. or 7s. all-round increase in family allowances, financed by a combination of reductions in income tax child allowances and reduction in the reduced rate band of income tax, with perhaps an increase in personal allowances and some addition to corporation tax or other adjustments. As compared with a housing allowance scheme, however, such increases would cost respectively some £62 million, and £87 million a year net after payment of income tax, and would lift only some 35 per cent and 44 per cent of deficient families up to the present supplementary benefit level. A 5s. increase would restore family allowances to their value in 1956, when they were last increased, whereas a 7s. increase would match the rise in average earnings since 1946. On public expenditure grounds he could not accept a greater increase; a 10s. increase would cost £160 million a year gross, or £120 million a year net after payment of tax. Nor could he accept that the cost of such an increase should be financed by a directly matching reduction in income tax child allowances; he accepted, however, that it would be necessary to make an interim increase in family allowances and he proposed that family allowances should be increased at the end of October by 5s. for fourth and subsequent children at a cost of £13 million in a full year.

The Minister of Social Security said that the Government were committed to announce their new scheme of family endowment before the Summer Recess. A housing allowance, subject to a means test, would be widely unpopular with the Government supporters and in the country, and would be ineffective because people would be reluctant to apply for it. There was disturbing evidence that despite the publicity for supplementary benefit, a substantial number of qualified people were not applying for it. Any means-tested allowance would have a disincentive effect on families with low incomes who could none the less increase their earnings; and her Department's survey had disclosed that only about one-sixth of the breadwinners of such families were physically or mentally handicapped. Local authorities would be reluctant to introduce rent rebate schemes, and both they and private landlords would be less hesitate about increasing their rents. On the other hand a 10s. increase in family allowances would bring 65 per cent of children in families with incomes below supplementary benefit standard up to that level and that part of its cost (£32 million a year) which would fall on general taxation under a "give and take" scheme would be less than that of the housing allowance scheme combined with the interim increase of 5s. for fourth and subsequent children. In so far as a "give and take" scheme represented simply a switch of income within the family from husband to wife, there was no loss of taxable capacity and no increase in public expenditure. Indeed, on this basis, a 15s. increase in family allowances would cost no more than the Chancellor of the Exchequer's proposals and would be nearly as effective in bringing families up to supplementary benefit level. Further, it would help the substantial number of families with incomes...
only just above that level who would otherwise be adversely affected
by the proposed increases in the charge for school meals and welfare
milk prices.

In discussion, there was general agreement that, whatever
approach to family endowment was adopted, it was essential that
it should be capable of presentation as a selective improvement
which would not benefit the well-to-do. The difference of view was
essentially whether selectivity should be achieved through direct
means tests applied to the lower income families (the "means test"
approach), or by adjusting the income tax liability of the higher paid
to offset the benefit of improved family allowances (the "give and
take" approach). In discussion of the means test approach, it was
pointed out that its effectiveness depended on the extent to which
potential applicants were aware of their rights and were prepared
to take the initiative in making claims which could involve an
approach to both employers and landlords; and in the light of
experience of such schemes in other fields it was questioned whether
a reluctance to claim could be sufficiently overcome. While,
therefore, a scheme of the housing allowance type might be potentially
more effective than a "give and take" scheme, this might not in
practice prove to be the case. It was further pointed out that while
the proposed housing allowance might none the less prove to be the
most effective and economical approach to the problem of child
poverty, as well as offering a means of modifying the regressive effect
of rent and rates, a scheme on these lines would have to be fully
studied interdepartmentally before there could be any assurance that
the difficulties could be solved. It was suggested that there was a
need for a comprehensive review of policy in the field of rent and
rates and for rationalisation of the various means tests applying in
this and other related fields. The problem should be dealt with as
a whole and not piecemeal and any announcement of a housing
allowance so soon after other recent changes, and in particular after
the recent circular to local authorities suggesting a model rent rebate
scheme, would only create confusion and give the appearance of
vacillation. It was suggested, therefore, that the possibility of
introducing a housing allowance should be considered in a more
general study of the problem of rent and rates with a view to
promulgating a policy statement in two or three years' time on the
position of tenants generally. While there was a risk that a housing
allowance might provide an incentive to landlords to put up rents
and to tenants to move into more expensive accommodation, it was
suggested that even if local authorities tended to exclude the poorest
families from rent rebate schemes, this might have the effect of
encouraging the development of such schemes for other tenants.

In further discussion it was suggested that since the proposed
housing allowance scheme would need further detailed study, and
in view of the doubts which were felt about its effectiveness and
acceptability, there was no alternative to the adoption of the "give
and take" approach if an announcement of the Government’s
proposals for improved family endowment were to be made, as
promised, before the Recess. This would be in line with the closer
integration between the income tax system and social security payments which would eventually have to come. On the other hand, it was argued that, in so far as the “give and take” approach involved the financing of increased family allowances by increasing the tax liability of families with children, particularly those only just above the level at which liability for the standard rate was incurred, it would be widely resented. The selective effect of “give and take” schemes was, however, dependent on the reduction of child tax allowances in order to offset the benefit to better-off families of higher family allowances. It was suggested that in view of the difficulties inherent in the “give and take” approach, there should only be a limited increase in family allowances, perhaps confined to the older children of larger families and financed from general taxation.

The Prime Minister, summing up the discussion, said that while there was a difference of view on the merits of the proposed housing allowance as a means of alleviating family poverty, there was general agreement that any such scheme would require further detailed study before its effectiveness and acceptability could be satisfactorily assessed. The Government were, however, committed to announcing their proposals before the Summer Recess. In these circumstances, the Cabinet were inclined to favour a general increase in family allowances, provided that a form of finance could be designed which met the objections to a fully equivalent reduction of income tax child allowances and which could still be presented as sufficiently selective in its effect. They should therefore consider the alternative approach suggested by the Chancellor whereby an increase in family allowances would be financed by a combination of adjustments of child allowances and personal allowances, with a reduction in the reduced rate band of tax and possibly other changes in the tax structure. They should consider how far, consistently with the need to preserve the Chancellor’s freedom to determine how expenditure should be financed, this alternative could be presented as a selective approach to family endowment in conjunction with some extension of the present arrangements for remission of charges for school meals and welfare milk. A draft statement should be prepared for their consideration accordingly by the Minister without Portfolio, in consultation with the Chancellor of the Exchequer, the Lord President, the Secretary of State for Scotland, the Secretary of State for Education, the Minister of Housing, the Minister of Social Security and the Minister of Health. The draft statement should include, for consideration, a reference to further study of a housing allowance.

The Cabinet—

(1) Invited the Minister without Portfolio, in consultation with the Ministers principally concerned, to prepare a draft statement on family endowment in accordance with the summing up of their discussion by the Prime Minister.

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

Cabinet Office, S.W.1,
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Wednesday, 19th July, 1967,
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. 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. PATRICK GORDON WALKER, 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. RICHARD MARSH, M.P., Minister of Power
The Right Hon. ARTHUR BOTTOMLEY, M.P., Minister of Overseas Development
The Right Hon. MARGARET HERBISON, M.P., Minister of Social Security
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury
The Right Hon. KENNETH ROBINSON, M.P., Minister of Health
The Right Hon. REGINALD PRENTICE, M.P., Minister of Public Building and Works
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury
SECRET

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Miss J. J. NUNN
Mr. L. ERRINGTON
Mr. K. BARNES

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1. The Cabinet had before them a note by the Minister of Power (C (67) 134) on oil supplies.

The Minister of Power said that the situation was broadly unchanged since his report the previous week. Stocks had increased in the week ended 10th July by 0.3 million tons and the estimates of stock for the end of August and the end of September had now been revised upwards, the forecast for the end of September being a million tons (five days’ supply) higher than had been estimated the previous week. It seemed certain that we should at least not fall below these estimates and in the event the position might prove to be somewhat better. The really serious issue was the shortage of naphtha, which was primarily a world-wide commodity shortage rather than a difficulty arising from relative prices, or solely from the recent crisis in the Middle East. Discussions were now taking place with the industries concerned on the extent to which consumption could be reduced, or different specifications could be adopted which might ease the problem of supply. He would circulate a paper to the Cabinet for consideration in the following week dealing with the oil supply problem generally, the implications for our balance of payments and rationing.

In discussion it was suggested that the possibility of allocating available supplies of naphtha among the industries concerned should be further considered by the Minister of Power.

The Prime Minister said that the Cabinet would wish to consider these issues further on the basis of the Minister’s paper the following week. It would also be necessary to keep the situation under review during August and he would consider with the First Secretary of State and the Minister of Power how this could best be done.

The Cabinet—

(1) Invited the Minister of Power to consider the practicability of a system of allocation of available supplies of naphtha.

(2) Took note that the Prime Minister would consider, in consultation with the First Secretary of State and the Minister of Power, the best means of keeping under review throughout August the question of our oil supplies.

2. The Cabinet considered a note by the Minister without Portfolio (C (67) 135) to which was annexed a draft statement on family endowment.

The Minister without Portfolio recalled that, at their meeting on 13th July, the Cabinet had invited him, in consultation with the Ministers principally concerned, to prepare a draft statement on family endowment, presenting an increase of family allowances in conjunction with some extension of the present arrangements for the remission of charges for school meals and welfare milk and
including, for consideration, a reference to further study of a housing allowance. The draft statement which he had prepared accordingly assumed certain decisions on policy. In particular it assumed that there would be a uniform increase of family allowances for each child attracting such an allowance from April 1968, but that this should be preceded by an interim increase from the end of October of 5s. a week for the fourth and subsequent children of families. The interim increase would be subsumed in the subsequent general increase. The statement also assumed that the charge for school meals would be increased from April 1968 from 1s. to 1s. 6d. and that the price of welfare milk would similarly be increased from 4d. to 6d. a pint; but that all fourth and subsequent dependent children should qualify for free school meals without test of income; and that all third and subsequent children should qualify for free welfare milk tokens, an expectant mother counting as a child for this purpose. The statement also made reference to the provision of help for educationally deprived areas, although a final decision on this must await the outcome of the review of public expenditure. The statement made reference to three possible increases in family allowances from April 1968—5s., 7s. and 10s. There had been some difference of view among the Ministers principally concerned about these but the preponderating view had favoured an increase of 7s. This would cost, net of tax and other adjustments, £87 million in a full year, compared with a cost of £62 million for a 5s. increase, and £121 million for an increase of 10s.

The Chancellor of the Exchequer said that a 5s. increase in family allowances would exceed the 3s. 7d. required to compensate for the increase in prices since 1956, when family allowances were last increased. A 7s. increase was more than equivalent to the rise in average earnings since 1946, when the family allowance scheme was introduced. A 10s. increase would bear no particular relation to any movement of prices or earnings. An increase in family allowances would be generally unpopular and would not concentrate help sufficiently on those who needed it most; in particular it would not help the one child family. Further, any increase in expenditure on family allowances must necessarily restrict the possibility of making other, perhaps more desirable, improvements in social security provision, for example, through lowering the age limit for widow's pension, the provision of constant attendance allowances for the chronic sick, or the improvement of increments for deferred retirement. For these reasons and in view of the prospective increases in public expenditure generally, he could not support an increase of more than 5s. in family allowances.

The Minister of Social Security said that an increase of less than 10s. in the rate of family allowances would have an inadequate effect on families whose incomes were below the supplementary benefit level. Such families were unlikely to avail themselves of the improved arrangements for claiming free school meals to any greater extent than at present. Increases of 5s. or 7s. would raise to supplementary benefit level only 35 per cent and 44 per cent respectively of families with incomes at present below it. An increase of 10s., however, would bring up to supplementary benefit level 57 per cent of the families.
and 65 per cent of the children whose incomes were deficient in this way. An increase of only 5s. would, after taking account of the proposed increase in school meals, confer no net benefit on families with incomes above supplementary benefit level if they had two children at school age; indeed, if they were liable to income tax, their net income would be reduced. Even an increase of 7s. would confer insufficient improvement in these cases. The net cost of increases of 5s. or 7s. would in any event be higher than estimated, since it would not be justifiable to make the equivalent reductions in the amounts of national insurance dependency allowances which would be possible given a 10s. increase of family allowances. There was widespread expectation of an increase of 10s. and she could not accept the case for any smaller increases. Increases of only 5s. or 7s., not financed on “give-and-take” principles, would unduly benefit the wealthy without conferring sufficient benefit on the poorest families.

In discussion of the amount of the increase in family allowance, there was some support for the view that a 5s. increase would, when account was taken of the increase in the charge for school meals, compensate insufficiently for the increase in prices since 1956, although it was pointed out that larger families, who thereby qualified under the new arrangements for the remission of charges, would benefit considerably. On the other hand, an increase of as much as 10s. would present considerable difficulties in relation to public expenditure unless financed on “give-and-take” principles, involving, for families liable to the standard rate of income tax, an equivalent reduction in their income tax child allowances. It was pointed out that, since school meals and welfare milk were an integral part of family endowment, the cost of the increase in family allowances could be offset by the net saving of £25 million a year from the increase in the charges for school meals and welfare milk, and therefore that the combined net cost of the proposals, with a 7s. increase of family allowances, would be close to the upper limit of additional expenditure on family endowment (£60 million) assumed for the purposes of the proposed adjustments of public expenditure in C(67) 125. The savings to be found from educational services should also be correspondingly reduced. In the light of all the considerations, the balance of view was that family allowances should be increased by 7s. a week bringing the present 8s. allowance up to 15s. It was pointed out, however, that the problem illustrated the difficulties of attempting to consider changes of this kind in isolation from related changes in the tax structure; and it was agreed that the Cabinet should on some future occasion consider in more detail the question of the relationship between expenditure and taxation and general problems affecting the planning of the Budget.

In further discussion it was suggested that there was little purpose in increasing family allowances in two stages, and that either the general increase of 7s. should take effect in October instead of April 1968, or that there should be no interim increase in October. However, it was pointed out that a general increase in October could not be presented as selective in its effect, since changes in income tax
allowances could not be made until April. Furthermore, it would be undesirable to put an increase in family allowances into payment and subsequently to diminish its value by tax adjustments. On the other hand the interim increase should not be deferred, since it was desirable that some steps should be taken to alleviate family poverty before the winter.

In further discussion of the draft statement, a number of amendments were agreed and the following main points were made:

(a) Paragraph 2. While it was agreed that there should be a 5s. increase in family allowances for fourth and subsequent children, to take effect at the end of October in the current year, this should be presented as an advance of part of the general increase to benefit the most needy families before the winter. Accordingly, the order of paragraphs 2 and 3 should be reversed.

(b) Paragraph 3. It was agreed that the increase from April 1968 should be 7s. but it should be made clear that this applied to all existing family allowances and did not therefore include the first child in the family.

(c) Paragraph 4. It was suggested that the order of the final two sentences should be reversed. It was questioned, however, whether it was necessary or desirable to refer specifically to adjustment of income tax child allowances which might create a misleading impression of the extent to which families with children would be affected. On the other hand, it was pointed out that, in the absence of any such reference, the proposed increase in family allowances would be indistinguishable from an unselective increase financed from general taxation and the Government would be pressed to say whether or not they had abandoned the “give-and-take” approach which had been widely canvassed. Although the increase could not be presented as a “give-and-take” scheme and the Chancellor’s budgetary freedom should not be prejudiced, it was essential to present it as selective in its effect. It might be preferable to state that the Government’s objective was to improve the incomes of families in need and to indicate that the financing of the measures to be adopted for this purpose would naturally involve consideration of, among other things, adjustment of the income tax allowances.

(d) Paragraph 5. The first part of this paragraph which referred to the improved administrative arrangements for providing free school meals and welfare milk, should form a separate paragraph. It should be reworded to take account of the fact that executive action was a matter for local authorities. Reference should also be made to the fact that the income limits below which families could get free school meals and welfare milk would be adjusted in line with the increases to be made in supplementary benefits. Subject to decisions to be taken under the review of public expenditure, reference might also be made to the withdrawal of free milk in secondary schools. The net saving from the changes affecting school meals and milk should be given and set against the cost of the family allowance increase to give a combined net total.

(e) Paragraphs 6 and 7. While the possibility of introducing a housing allowance in the longer term, and perhaps in a wider context, should be considered by the Minister of Housing, no reference to...
this possibility should be included in the draft statement in order to avoid arousing public expectation. Reference should, however, be made to the rate and rent rebate schemes and to the encouragement which was being given to local authorities to extend the latter.

(f) Paragraph 8. A decision whether or not to refer to help for the educationally deprived areas should await decisions on the review of public expenditure. If the reference were included there should also be a reference to the application of additional funds in Scotland.

The Prime Minister, summing up the discussion, said that the Cabinet were, on balance, agreed that the weekly rate of family allowances should be increased by 7s. from April 1968. There should, however, be an interim increase of 5s. for the fourth and subsequent children of families from the end of October in the current year. The charge for school meals should be increased by 6d. and the price of welfare milk by 2d. a pint, but fourth and subsequent children should qualify for free school meals and third and subsequent children under five years (including for this purpose an expectant mother) should qualify for free welfare milk irrespective of income.

He would discuss with the Chancellor of the Exchequer the rewording of paragraph 4 of the draft statement annexed to C (67) 135 in the light of the points made at (c) of their discussion. Subject to this and to the points agreed at (a), (b), (d), (e) and (f) of their discussion, the Cabinet approved the draft statement, which should be revised by the Minister without Portfolio in consultation with the Ministers principally concerned. The timing of the statement, which should be made in the House of Commons by the Minister without Portfolio, should be arranged in consultation with the Lord President.

The Cabinet—

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

2. Invited the Minister without Portfolio, in consultation with the Ministers principally concerned, to revise the draft statement on family endowment annexed to C (67) 135, in accordance with the summing up of their discussion by the Prime Minister.

3. Invited the Minister without Portfolio, in consultation with the Lord President of the Council, to announce the Government's proposals on family endowment in the House of Commons in the terms of the statement settled in accordance with Conclusion (2).

3. The Cabinet resumed their consideration of a memorandum by the Chancellor of the Exchequer (C (67) 125) on proposed adjustments in public expenditure programmes to 1970-71. They also had before them the following memoranda by the Chancellor of the Exchequer which had been previously considered:

C (67) 97—Public Expenditure: Civil Reviews: Health and Welfare
The Prime Minister said that the Cabinet at their previous discussion had completed a preliminary review of possible savings on the main blocks of expenditure with the exception of social security. It would now be convenient to consider the social security programme before proceeding at their meeting on the following day to decisions on the total saving in expenditure to be achieved by 1970-71 and its distribution between the different spending programmes.

The Chancellor of the Exchequer said that increases in National Insurance benefits and other social security payments necessarily involved higher taxation, whether this took the form of contributions or of ordinary central Government taxation. It was therefore necessary to seek some reduction in the planned rate of increase in social security benefits. The main issue was whether these benefits should be raised in line with the increase in living costs, or in line with the rise in real earnings, or whether the increase should be pitched at some intermediate point. He proposed that, following the uprating of benefits which it was already agreed would take place in October 1967, there should be a further uprating in October 1969 when benefits should be increased by an amount sufficient to compensate fully for price increases up to that time and in addition for half the rise in real earnings (which were expected to increase at 3 per cent per annum). This would effect a saving in 1970-71 of nearly £70 million as compared with the expenditure at present planned.

The Minister of Social Security said that the social security programme could be distinguished from other spending programmes in two respects. First, even taking account of the reductions which had been proposed for other programmes, the Government would still be able to claim in 1970-71 that their achievements in these fields represented an improvement on those of the previous Administration; it would not be possible to make such a claim in respect of social security if the reduction proposed by the Chancellor of the Exchequer were accepted. Second, all programmes were costed in terms of constant prices and in this way allowance was automatically made for inflation of the planned totals of expenditure because of increases in wages and salaries where these constituted a part of a programme.
of expenditure. The extent of this inflation was far less in the case of social security, where wages and salaries constituted less than 4 per cent of total expenditure, than it was in the case of several of the other main spending programmes where wages and salaries represented a much larger proportion of expenditure, amounting in the case of health services, for instance, to as much as 70 per cent. Having regard to the extent to which wages and salaries were expected to rise in the years up to 1970–71, this constituted a significant difference between the real cost of the social security programme and that of other programmes, which should be taken into account in deciding how the total savings should be distributed. Moreover, the social security programme had already made a considerable contribution towards reductions in planned expenditure in 1970–71. The uprating of insurance benefits in October 1967 would fall short of what would be needed to give pensioners a fair share of improved living standards and this represented a saving in expenditure of £46.5 million. The social security programme was different from other programmes in that it was self-adjusting, in the sense that a lower rate of growth of the economy with a slower increase in real earnings automatically resulted in reduced expenditure on social security. The importance of this had already been demonstrated since, because of the lower growth rate now expected, the estimated expenditure on social security in 1970–71 had been reduced by £124 million as compared with the estimate made in 1966. The Cabinet had accepted in their previous discussions that a given expenditure on transfer payments involved a much smaller call on real resources than an equivalent expenditure on goods and services. While due weight had been given to this consideration in respect of some other programmes, it did not appear to have been taken into account in the proposal for a reduction in the social security programme. If that reduction were accepted, the effect would be to widen the difference between the standard of living of the old, the sick and the disabled and that of the rest of the community. It had been suggested that the cost of provision for family endowment should be met from savings on social security, but the net effect of this would simply be to bring about a redistribution of income within the poorest section of the community without affecting the better-off. The planned expenditure on social security made no allowance for any improvements other than the uprating of existing benefits.

In discussion it was pointed out that, if the proposed reduction were accepted, the percentage increase in expenditure on social security (including the proposed additional expenditure on family endowment) between 1967–68 and 1970–71 would be substantially less than the corresponding increase in some of the other major programmes, notably the roads programme. This suggested some imbalance. On the other hand it was argued that the Government should give priority to those programmes, such as roads, which directly assisted economic growth. As regards the argument that if the proposed reduction were accepted the Government's achievements in social security would compare unfavourably with those of the previous
Administration, their achievements in many other fields would represent a substantial advance but there could not be an advance in all fields if the rate of economic growth were insufficient to sustain this. Despite this consideration, it was still the case that, if the reduction proposed by the Chancellor of the Exchequer were accepted, the Government's record on social security up to 1970-71 would bear comparison with that of their predecessors; and this could be effectively demonstrated.

The Cabinet—

Agreed to consider on the following day, in the light of C (67) 125, the total saving in expenditure to be achieved by 1970-71 and its distribution among the different spending programmes.

Cabinet Office, S.W.1,
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 20th July, 1967, 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 Relations
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 following were also present:
The Right Hon. ARTHUR BOTTOMLEY, M.P., Minister of Overseas Development (Item 3)
The Right Hon. MARGARET HERBISON, M.P., Minister of Social Security (Item 3)
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Item 3)

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. PATRICK GORDON WALKER, 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 Right Hon. KENNETH ROBINSON, M.P., Minister of Health (Item 3)
The Right Hon. REGINALD PRENTICE, M.P., Minister of Public Building and Works (Item 3)
The Right Hon. JOHN SILKIN, 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 following week. The House would rise for the summer adjournment on Friday, 28th July.

2. The Foreign Secretary said that contact had now been made with the two British pilots who had been captured and imprisoned in Algeria when the aircraft carrying Mr. Tshombe, the exiled Congolese leader, was taken over by force. Although the pilots had been subjected to solitary confinement at the outset, they were in good health and were now being well treated. It seemed likely that they would soon be released but, in case this did not happen, consideration was being given to the action open to us to secure their release.

A member of the Federal Council of the Government of South Arabia, Mr. Bayoomi, who had been nominated by the Council as Prime Minister (designate) under the new Constitution, had succeeded in forming a Government of eight members. Its composition appeared to offer the prospect that the Front for the Liberation of Occupied South Yemen (FLOSY) and the National Liberation Front might agree to participate in a Government. Some members of the Federal Council who had not been included in the new Government were however objecting to some of its members, but our High Commissioner in South Arabia, Sir Humphrey Trevelyan, was seeking to persuade them to withdraw their objections. Sir Humphrey Trevelyan would be visiting New York shortly for discussions with the United Nations Mission for South Arabia: it had been hoped that he might also meet members of FLOSY there but they had arranged to leave New York for Paris before his arrival. There was now some sign that the States of the Eastern Aden Protectorate might be willing to consider joining the proposed new South Arabian State but, although it remained our objective that they should do so before independence if possible, we could not defer action on our plans if they did not.

The Special Session of the United Nations General Assembly was expected to end soon with agreement on a procedural resolution which would have the effect of remitting the Middle East problem to the Security Council. Our Permanent Representative at the United Nations, Lord Caradon, had discussed with the Foreign Minister of the United Arab Republic (UAR), Dr. Fawzi, the possibility of clearing the southern section of the Suez Canal so that ships held up in the Canal could get away. It was clear, however, that the UAR would not allow even this limited clearance of the Canal so long as Israeli forces occupied its east bank, while Israel was unwilling to remove her forces without first receiving assurances of a settlement of the Middle East problem that would include agreement that her shipping could use the Canal. Observers of the United Nations
Truce Supervision Organisation were now patrolling both banks of the Canal. This, together with the negotiations that should become possible once the Special Session of the General Assembly was completed, might create conditions in which the Canal could be reopened. We were much more heavily dependent on the Canal than the other maritime powers and we had obtained little support among them for efforts to secure its reopening. As regards refugees from the west bank of the Jordan, Israel was not fulfilling her undertakings about allowing them to return to their homes; we had protested to her about this.

The Commonwealth Secretary said that some 850 persons, including some 500 British subjects, were that day being evacuated by sea from the breakaway Eastern Region of Nigeria (Biafra). Although this might be the last opportunity for evacuation, a number of British subjects had chosen to stay behind. The fighting between the Federal Forces and those of Biafra was sporadic; Federal Forces had however taken some towns and, if the rainy season held off, they could probably soon take Enugu, the capital of Biafra, although there was guerrilla activity behind their lines. There had been no further developments in the Nigerian oil situation.

The situation on the border between Hong Kong and the People's Republic of China was now quieter; although there had been some signs of movement of Chinese troops, both sides had withdrawn heavy weapons from the frontier itself. Incidents were continuing in Hong Kong and Kowloon, the Hong Kong police had raided Trade Union and Communist headquarters and 15 leading Communists had been detained. Although disturbances in Hong Kong were being supported by the Peking Government, there was no evidence that they had been responsible for their outbreak.

The Cabinet—

Took note of the Statements by the Foreign and Commonwealth Secretaries.

3. The Cabinet resumed their consideration of a memorandum by the Chancellor of the Exchequer (C (67) 125) about proposed adjustments to the programme of public expenditure to 1970-71. They also had before them the following memoranda:

C (67) 129 Public Expenditure: Education. By the Secretary of State for Education and Science.

C (67) 130 Public Expenditure: Proposed Adjustments: Aid Programme. By the Minister of Overseas Development.

together with the following memoranda by the Chancellor of the Exchequer:

C (67) 97 Public Expenditure: Civil Reviews: Health and Welfare.


C (67) 99 Public Expenditure: Civil Reviews: Housing.
The Prime Minister said that at their previous discussions the Cabinet had completed a preliminary review of possible savings in the main spending programmes. In the light of that review it was now necessary to take decisions on the savings to be achieved on each programme.

The Chancellor of the Exchequer said that in 1965 the Government had declared their intention of limiting the growth in public expenditure to 4\% per cent per annum at constant prices over the period to 1970-71. If the existing programme were maintained, the rate of increase over this period would average 4.7 per cent and for 1968-69 would be approximately 6\% per cent. The proposals in his memorandum C (67) 125 were designed to moderate the planned rate of increase so as to bring it fractionally below 4\% per cent per annum averaged over the period. The Cabinet's decision would broadly determine the level of taxation over the next few years. The implications for taxation of any given reduction in total expenditure were necessarily uncertain, but he wished to place before his colleagues some illustrative figures. It was estimated that, if planned expenditure were reduced by £400 million in 1970-71, it would still be necessary to increase National Insurance contributions (taking employers' and employees' contributions together) by 5s. 6d. a week. The average rate poundage for local rates in England and Wales would rise from 11s. 8d. in 1967-68 to 12s. 11d. in 1970-71 for domestic ratepayers and from 12s. 1d. to 14s. 7d. for non-domestic ratepayers. Assuming for the sake of simplicity that increases in rates of taxation took the form of an increase in the standard rate of income tax, that rate would have to be increased from 8s. 3d. to 8s. 9d.; alternatively, an increase of 7\% per cent in the indirect taxes governed by the regulator would be required. If the reduction in planned expenditure for 1970-71 amounted to only £300 million, and again assuming that tax increases took the form of an increase in the standard rate of income tax, the rate would then have to be raised from 8s. 3d. to 9s. which would be the highest rate since the war with the exception of a brief period during the Korean crisis; alternatively, an increase of 12 per cent in the regulator taxes would be required. All these estimates assumed that tax allowances would be held at their present level, which would mean...
that their value would be eroded as prices rose and the real burden of taxation would thus be increased. It must be borne in mind that there was already widespread dissatisfaction with the present level of taxation.

The Cabinet then turned to consider the proposals in C (67) 125 in respect of the main programmes of expenditure.

_The Chancellor of the Exchequer_ recalled that in their previous discussion there had been general agreement that the Government should aim at a reduction in the railway deficit of £30 million by 1970–71. There had also been general support for the introduction of special charges on heavy lorries designed to reflect the wear and tear on the roads which these vehicles caused, and on the carriage by road of abnormal loads. It was estimated that these charges together might yield some £25 million in a full year. He proposed in addition that a saving of £25 million in 1970–71 should be secured by reductions in the roads programme or in the further proposals for expenditure on infrastructure grants and other matters referred to in paragraph 4 of C (67) 125, or by some combination of savings from these sources.

_The Minister of Transport_ said that some of the proposed reduction would necessarily take the form of the deferment of new projects in the roads programme and it would be difficult to avoid some dislocation of that programme. She was, however, prepared to accept the proposal by the Chancellor of the Exchequer on the basis that she would have discretion in determining how to allocate the reduction within her own programme. She would propose to introduce provision for the new charges in the forthcoming Transport Bill. If the yield of these charges varied in the event, this would no doubt be taken into account in determining the precise savings to be achieved in expenditure on the transport programme.

_The Cabinet—_

(1) Agreed that the railway deficit should be reduced by £30 million in 1970–71.

(2) Invited the Minister of Transport to make provision in the forthcoming Transport Bill for the introduction of charges in respect of road transport on the lines proposed in discussion, designed to yield £25 million in a full year.

(3) Agreed that the planned expenditure in 1970–71 of £894 million on the roads programme and on the further proposals referred to in paragraph 4 of C (67) 125 should be reduced by £25 million.

_The Minister of Housing and Local Government_ said that the maximum reduction which should be imposed on the housing programme of local authorities in England and Wales was a reduction by 5,000 in the number of houses it was planned to complete in 1970. This would mean reducing the number of starts by 5,000 in 1969 and by a further 2,500 in 1970 and would yield a saving to the Exchequer of £19 million in 1970–71. A reduction of this order would make it difficult to achieve the target of 500,000 houses in 1970 and it was therefore desirable to stimulate private sector housing
in order to make good as far as possible the reduction in the programme of the public sector. First, that part of the Government’s option mortgage scheme whereby 100 per cent mortgages would be guaranteed to house buyers taking out option mortgages should, subject to consultation with the building societies and the insurance companies, be introduced in April 1968, at the same time as the main scheme. Second, the limit for the present year on local authority mortgage lending of £130 million should be increased progressively by £10 million in each year from 1968 to 1970.

The Secretary of State for Scotland said that a large part of the increase in the cost of the future housing programme arose from the implementation of improved housing standards in England and Wales. It would be inequitable if this led to a reduction in the housing programme for Scotland. Moreover, because of the effects on house buying of the higher level of unemployment, there was less prospect in Scotland than in England and Wales of a reduction in the local authority housing programme being made good by an increase in private sector housing. The target for Scotland of 38,000 houses in 1970 should therefore be retained.

In discussion there was general agreement that the local authority housing programme for England and Wales should be reduced as proposed by the Minister of Housing. The programme for Scotland should not be reduced but, since there must be some doubt whether that programme could be fully achieved, it would be reasonable to assume a saving to the Exchequer of £1 million in 1970–71 on the planned programme. There was general agreement that the Government should adhere to the target of 500,000 houses in 1970 and should keep under review the need for measures to stimulate private sector housing so as to offset the reduction in the programme of the public sector. The measures to be considered should include, in addition to the action proposed by the Minister of Housing, an increase in the programme of local authority houses built for sale, subject to further examination of the relative cost to the Exchequer of such houses as compared with local authority houses built for renting.

The Cabinet—

(4) Agreed that the local authority housing programme for England and Wales should be reduced so as to provide for the completion of 5,000 fewer houses in 1970, with a saving to the Exchequer of £19 million in 1970–71.

(5) Agreed that the local authority housing programme in Scotland should not be reduced, but that a saving to the Exchequer from that programme of £1 million in 1970–71 should be assumed for the purposes of the present review.

(6) Invited the Minister of Housing and Local Government, in consultation with the Chancellor of the Exchequer, to keep under review the need for measures to stimulate private housebuilding, including the possible introduction of the
guarantee element of the option mortgage scheme in April 1968, an increase in the present limit on local authority mortgage lending and an increase in the number of houses built for sale by local authorities; and to keep the Prime Minister informed on these matters.

The Chancellor of the Exchequer said that he recommended a net saving of £45 million in expenditure on education in 1970-71 after allowing for any additional expenditure on the development of primary education on the lines proposed in the Report of the Central Advisory Council for Education (England) under the chairmanship of Lady Plowden, on Children and their Primary Schools (the Plowden Report). The Cabinet had agreed at their previous meeting that the charge for school meals should be increased by 6d. and that the resultant net saving of £16 million, after allowing for the extended arrangements for remission of the charge for school meals, should count towards the saving to be made in the programme for expenditure on education.

The Secretary of State for Education and Science said that the basic programme for education had been reduced to take account of a revised forecast of the number of teachers and this saving of £20 million, which represented a reduction in the service provided, should also count towards the reduction of £45 million in expenditure on education for which the Chancellor of the Exchequer now asked. A further saving of £5 million in 1970-71 could be achieved by the withdrawal of the free milk service in secondary schools, but such a withdrawal could not be made unless authoritatively supported by medical opinion. He proposed, in consultation with the Minister of Health, to set up a committee to consider the matter accordingly; he had little doubt that they would recommend withdrawal of the service. He would consider further the question of substituting loans for part of student grants, particularly in respect of graduate students, although it would not be possible to secure any savings by 1970-71 by this means unless the scheme were operated through the banks. Similarly, he would consider the possibility of further economies, including an increase of fees for further education and the limitation of student grants to their present level. It was not possible, however, to quantify the savings which might thereby be achieved.

Against the saving of £41 million resulting from the shortfall in the number of teachers, the increase in the charge for school meals and the withdrawal of milk in secondary schools, it would be necessary to set certain additional expenditure which was urgently required but not included in the basic programme, although the Government were to some extent committed to it. A start must be made on implementing the recommendations of the Plowden Report, for which some £8 million should be allowed. Similarly, provision must be made for the new Medical Schools which would be recommended by the Royal Commission on Medical Education under the chairmanship of Lord Todd when it reported in 1968; and some £2 million should be allowed for this. A further sum of the order of £2 million should be allowed towards the cost of the Open University. After allowing for these increases, which together amounted to £12
In discussion it was questioned whether the £20 million saving already included in the basic programme for education should count towards the £45 million saving now required in that programme. It was suggested that, if the basic programme had not already been adjusted to take account of the shortfall of teachers, the total savings to be found from it would have been higher than the £45 million now required. On the other hand, it was desirable that all programmes should be treated for the present purpose on a comparable basis and there was general agreement that, apart from the reduction of £20 million already made in the basic programme for education due to the shortfall of teachers, there should be a further net reduction in that programme of £9 million after allowing for the additional expenditure proposed by the Secretary of State for Education, the increase in the charge for school meals and the prospective withdrawal of the milk service in secondary schools.

The Cabinet—

(7) Agreed that the programme of expenditure on education for 1970–71 should be reduced by £9 million.

(8) Invited the Secretary of State for Education and Science in consultation with the Chancellor of the Exchequer, to consider further the substitution of loans for part of student grants.

(9) Took note that the Secretary of State for Education and Science, in consultation with the Minister of Health, would arrange for an enquiry into the medical implications of withdrawing the free milk service from secondary schools.

The Minister of Health said that expenditure on the health services should be reduced by some £10–£11 million to take account of the increase in the price of welfare milk to which the Cabinet had agreed at their previous meeting. He was examining the possibility of reducing expenditure on staff in the health and welfare services, but the likely saving could not be quantified at this stage. There was an urgent need for additional expenditure on a number of services, for example on vehicles for the disabled, for which provision could not be made within the basic programme.

In discussion it was pointed out that the programme for expenditure on the health service assumed a continuing increase in expenditure on drugs, the annual cost of which would increase by £15 million a year by 1971; and it was suggested that further consideration should be given to the possibility of containing this increase. It was pointed out, however, that the number of prescriptions resulting from the removal of prescription charges had now ceased to rise and that the Government could not restrict the issue of prescriptions by general practitioners. In part, the increase in cost was attributable to the development of new and more...
expensive drugs. The area of possible economy was therefore confined to the price paid to the manufacturers for drugs. The report of the Committee of Inquiry into the relationship of the pharmaceutical industry with the National Health Service under the chairmanship of Lord Sainsbury on the cost of drugs would shortly be available and was likely to recommend new methods of costing which should result in a measure of saving, although requiring the employment of additional staff. It was suggested that a saving of £10 million a year in the cost of drugs should be aimed at and the possibility of achieving this saving should be further examined.

The Prime Minister summing up this part of the discussion, said that the expenditure programme for the health services for 1970-71 should be reduced by £10 million to take account of the increased price of welfare milk which had been approved by the Cabinet at their previous meeting. The Minister of Health, in consultation with the Chancellor of the Exchequer, should arrange for the possibility of reducing expenditure on drugs by £10 million a year to be further examined. They should report to the Cabinet so that the matter might be considered in the autumn, with the items of remaining expenditure which the Cabinet had previously remitted for interdepartmental examination. In considering any proposals for additional expenditure on the health services which might be brought forward, the likely savings in expenditure on drugs could then be taken into account.

The Cabinet—

(10) Agreed that the programme for expenditure on the health services in 1970-71 should be reduced by £10 million to take account of the increased price of welfare milk.

(11) Invited the Minister of Health, in consultation with the Secretary of State for Scotland and the Chancellor of the Exchequer, to consider further the possibility of achieving a reduction of £10 million in 1970-71 in the cost of drugs, in accordance with the summing up of their discussion by the Prime Minister.

The Chancellor of the Exchequer said that it appeared on further examination that a cut in the programme of expenditure on local environmental services of the order of £20 million would not be possible of achievement. A more realistic figure would be £10 million.

In discussion it was argued that expenditure by local authorities on a considerable range of services was not adequately controlled and that a number of extravagant items, particularly local authority buildings, were still being approved. In these circumstances, it was argued that a cut of £15 million should be imposed. It was, however, the general view that, while expenditure in these fields should be rigorously examined to achieve the maximum possible saving, the provision of services must be expanded in line with the expansion of housing; and in these circumstances it would be imprudent to count on a saving of more than £10 million.
The Cabinet—

(12) Agreed that there should be a reduction of £10 million in the provision in 1970–71 for local environmental services.

(13) Invited the Chief Secretary, Treasury, in consultation with the other Ministers concerned, to arrange for an examination of expenditure in these fields to ascertain whether further savings could be achieved, consistent with the Government's policies.

The Chancellor of the Exchequer said that it had been agreed in previous discussion that officials should examine the remaining fields of expenditure and recommend what savings could be made. Officials should report their conclusions by October. It was doubtful whether a higher saving than £20 million total could in fact be achieved, but every effort should be made to obtain a saving of £25 million.

The Cabinet—

(14) Invited the Chancellor of the Exchequer to arrange for an interdepartmental examination by officials of the remaining fields of expenditure on the basis that a saving of £25 million should be obtained.

The Chancellor of the Exchequer said that he proposed a reduction of £70 million in social security expenditure in 1970–71. This assumed that the uprating of social security benefits in October 1969, would compensate fully for increases in prices in the period and in addition give half the increase in real earnings instead of the full increase, as was assumed in the basic programme. This saving of £70 million would, however, be more than offset by the additional expenditure of £87 million on family allowances which had been approved by the Cabinet at their previous meeting.

The Minister of Social Security recalled that because of the lower rate of growth of the economy now assumed, and for other reasons, the basic programme for social security already reflected a reduction in expenditure of £124 million in 1970–71 as compared with the estimate which had been made in 1966. A further reduction, involving an increase of benefit in 1969 by less than the amount required to compensate for the increase in real earnings, would seriously reduce the standard of living of retirement pensioners in relation to the working population. In particular the provision made by the present Government would compare unfavourably with the provision made by their predecessors, who had given increases in benefits as much as, or more than, the amounts required to maintain the value of pensions in relation to earnings.

In discussion it was suggested that, since retirement pensioners had fewer liabilities than the working population, it was possible to maintain their standard of living in relation to that of the working population without necessarily increasing benefits fully in line with
increases in earnings. Further, although the Government were pledged to give the old a share in the general increase in living standards, they were not committed to maintain fully the relationship between pensions and the movement of earnings. It was also pointed out that when benefits were increased in 1969 it should be possible for the Government to hold out an early prospect of substantial improvement in pension provision with the introduction of the new earnings related pension scheme in 1972. It was further pointed out that so long as pensions had to be financed from the flat-rate contribution, this imposed a limit on the increases which could be given; it might, however, be desirable to consider whether a fully earnings-related contribution could be introduced in advance of the full introduction of the new pension scheme.

Summing up this part of the discussion, the Prime Minister said that the Cabinet were agreed that the programme for expenditure on social security in 1970-71 for cash benefits other than family allowances should be reduced by £70 million. For this purpose it was assumed that the increase of benefits in 1969 would compensate fully for price increases in the period and would in addition give half the increase in real earnings, but this did not imply a decision as to the amount of the increase which would, in fact, be made, since this could only be decided at the time in the light of the fiscal and economic conditions then obtaining and in particular of the possibility of financing the increase otherwise than through the flat rate contribution. After taking into account the additional expenditure of £87 million on family allowances which the Cabinet had approved at their previous meeting, there was a net increase of £17 million in the total social security programme.

The Cabinet—

(15) Agreed that the social security programme for 1970-71 should be increased by £17 million on the basis indicated by the Prime Minister.

Aid

The Minister of Overseas Development said that the aid programme based on the continuation of existing policy (£225 million) had suffered a heavy cut of £20 million in the previous July. The Chancellor of the Exchequer proposed that this should remain in force, although it had been agreed that additional provision of £25-£30 million should be made for mitigating aid to Singapore and Malaysia and for food aid. This programme was inadequate. Repayments of interest and capital on our aid were running at the rate of £60 million a year. The requirement that aid should be expressed in cash terms rather than on the basis of constant prices meant a continuing erosion of the programme in real terms. Aid from governmental sources (as distinct from private investment) would fall from 0·66 per cent of the gross national product (GNP) in 1964 to 0·50 per cent in 1970-71. It was particularly important to double our contribution to the International Development Association (IDA) for the reasons that had been developed in earlier Cabinet discussion and because only in this way could we hope to achieve international agreement that, contrary to the present proposal.
by the United States Government, the additional contributions should not be on the basis of tied aid. But this increase could not be accommodated by a reduction of our bilateral aid.

In discussion considerable doubt was expressed about the possibility of the United States Government being induced to withdraw their insistence that further contributions to the IDA should be tied. It was, however, the general view that it would be justifiable to offer to double our contribution to the IDA if this would achieve international agreement to that effect. If such agreement could not be obtained, then a lesser increase of 50 per cent of our present contribution would be appropriate. In view of the difficulties of cutting bilateral aid to the full extent necessary to accommodate this additional provision, there was general agreement that the further contribution to the IDA should be covered by an addition to the aid programme of £10 million if our contributions were doubled, or £5 million if it were increased by 50 per cent. The aid programme should however continue to be expressed in cash terms rather than be on the basis of constant prices.

The Cabinet—

(16) Agreed that £10 million should be added to the aid programme in order to enable us to double our existing contribution of £11½ million a year to the International Development Association if this would achieve international agreement that additional contributions to the Association should be untied aid, but that, if such agreement could not be obtained, the increase in our contribution should be limited to 50 per cent and £5 million should be added to the aid programme.

(17) Agreed that the aid provided in accordance with Conclusion (16) above should be additional to a normal aid programme of £205 million a year in money terms, plus £25–£30 million a year in respect of mitigating aid to Singapore and Malaysia (£20–£25 million a year) and food aid to which the Government was committed as part of the cereals agreement in the Kennedy Round of tariff negotiations (£5 million a year).

The Prime Minister, summing up the discussion as a whole, said that the Cabinet had now agreed adjustments in all the main spending programmes. While there should be no detailed announcement of their decisions at the present time, it would be useful if opportunity could be taken to make it clear in public that the Government's review, so far from entailing a reduction in the current rate of public expenditure, provided on the contrary for a continuing substantial increase in the Government's civil programmes and that total governmental expenditure would continue to rise at approximately the annual rate which the Government had agreed shortly after taking office. This would be consistent with an increase in the rate of personal consumption per head of the order of 2-1 per cent per
year even if some increase in taxation proved to be necessary. The lengthy process of examination by Ministers of the whole field of public expenditure had been greatly assisted by the admirable and exhaustive documentation which had been provided by officials, for which great credit was due to them.

The Cabinet—

(18) Took note, with approval, of the Prime Minister’s summing up of their discussion.

Cabinet Office, S.W.1,
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Monday, 24th July, 1967, at 12 Noon

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. 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 following were also present:
The Right Hon. Sir ELWYN JONES, Q.C., Attorney-General
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

SECRET
Subject
RHODESIA
The Cabinet met to consider what action the Government should take as a result of oral reports made to the Prime Minister and the Secretary of State for Commonwealth Affairs by Lord Alport, formerly British High Commissioner to the Federation of Rhodesia and Nyasaland, after his recent visit to Rhodesia.

The Commonwealth Secretary said that Lord Alport had been invited to visit Rhodesia on behalf of the Government for the purpose of assessing the climate of opinion there in relation to a possible settlement, because of his knowledge of the country and because he was a known opponent of the illegal régime. At the outset of his visit Lord Alport had been cold shouldered but later large numbers of Rhodesians of all races and shades of opinion had come to see him, including representatives of the Zimbabwe African National Union and the Zimbabwe African Peoples Union, although he had been refused access to those leaders of the two latter parties who were in detention. He had found widespread eagerness among Europeans for a solution of the Rhodesian problem, although they were universally opposed to early majority rule or to any settlement based on the Government’s commitment not to grant independence before majority African Rule (n.i.b.m.a.r.). Mr. Smith was still in control of the illegal régime but support for him had weakened since the breakdown of the talks held in HMS Tiger; then he had had the support of more than 80 per cent of the European population but it appeared that this might now have been reduced to something of the order of 60 per cent. His strongest support came from the civil service, police, junior ranks of the armed forces, housewives and artisans, whereas businessmen were in general less strongly behind him, although some had benefited from the need to diversify their activities following the imposition of economic sanctions. Mr. Smith himself appeared troubled about his own position in relation to his support in Rhodesia, though no more inclined than hitherto to make concessions to our own requirements for a settlement; he might be moving away from the extremists of the Rhodesian Front but it was doubtful whether he would be willing or able to break with them or would survive politically if he were to try. Recent events in the Congo and Nigeria and the attacks made on us by Zambian leaders were however helping to consolidate European opinion behind Mr. Smith.

Economic sanctions would not bring decisive results quickly but they were hurting the business community and also the African population, some of whom were having to return to Malawi and to the tribal areas in Rhodesia because of unemployment. Among African opinion, politicians and trade unions wished to see economic sanctions ended; they supported a constitutional settlement of the type drawn up on HMS Tiger linked to n.i.b.m.a.r. and they had also expressed a feeling of relief at the general freedom from terrorism in Rhodesia since the illegal declaration of independence.
Lord Alport's view was that there would be tactical advantage for us in moving slowly towards negotiations with the illegal régime, while maintaining our position but seeking to create difficulties between Mr. Smith and the extremists in the régime who were opposed to any talks with us. Lord Alport had put a series of questions to Mr. Smith on our behalf, although without the authority to press for answers to them or to negotiate. The answers he had received had indicated that Mr. Smith might be able to obtain the authority to negotiate a settlement with us if a firm basis for such a settlement were found before the end of the year, but that n.i.b.m.a.r. was unacceptable to the régime and that it was unlikely that Mr. Smith would be able to make the substantial and guaranteed changes in Rhodesia that we should require before it would be open to us to reconsider n.i.b.m.a.r. in consultation with the other Commonwealth Governments concerned. Mr. Smith had however said that, if certain changes could be made in the Tiger constitution, he would be willing to seek approval for it in a general election in Rhodesia; but we did not know whether the changes he had in mind were minor or important. Lord Alport did not feel that there could be any certainty of success in reopening negotiations with the illegal régime, but considered that we should nevertheless seek to clarify what changes in the Tiger constitution Mr. Smith would wish to see.

The Prime Minister said that Lord Alport had not been able to establish whether there could be worthwhile discussions with Mr. Smith which would offer the hope of a settlement. Nevertheless, Lord Alport had advised that the Government should take an initiative, partly because he feared that the situation would deteriorate, leading either to the establishment of a Republic or to effective dominance by South Africa and partly because he took the view that an initiative at this stage offered the possibility of increasing the split in the illegal régime between the extremists and the moderates. It was to be expected that the former would oppose any kind of discussions and might be correspondingly inclined to seek to overthrow Mr. Smith if they were started.

In these circumstances, there were three possible courses of action open to the Government. We could do nothing, apart from intensifying sanctions wherever possible and in particular strengthening the action to be taken against imports of oil for Rhodesia through Mozambique. Alternatively, we could make use of the fact that Mr. Smith had said that the Tiger constitution might be acceptable to him, subject to certain changes, and we could play for time by seeking for clarification of what he had in mind. If the changes proved to be minor in character only, this might offer some prospect of a further move. If, on the other hand, it emerged that Mr. Smith was concerned to re-establish a constitutional mechanism by which the régime in power could at their discretion impose a brake on the movement to an African majority in the Legislature, then clearly this would be wholly unacceptable to us. It should be borne in mind that Mr. Malcolm MacDonald, the United Kingdom Special Representative in Central and East Africa,
had advised that the Commonwealth countries with which he was concerned could be brought to accept the fact that enquiries were being made of Mr. Smith on the basis of clarifying his attitude in this respect. The third course would be to appoint a Royal Commission to ascertain if the Tiger constitution was acceptable to opinion in Rhodesia as a whole, either as a basis for early independence or as a constitution which would provide for continued constitutional dependence until majority rule. The appointment of such a Commission would be in accord with the Government's fifth principle regarding the need for any constitution to be acceptable to the people of Rhodesia as a whole; furthermore, its appointment would offer a better prospect than the second course of leading to a split in the illegal régime.

The Ministers primarily concerned had discussed these possible courses of action and had come to the conclusion that, in present circumstances, the best course was the second, that is that we should ascertain, through the Governor and the Head of our Residual Mission in Rhodesia, what amendments Mr. Smith would wish to see made in the Tiger constitution. Thereafter, the Committee had taken the view that it would be appropriate if in early September the Commonwealth Secretary were to visit Africa for some form of discussion, or conference, with Heads of African Commonwealth Governments. The purpose of such discussions would be firstly to seek their agreement on the attitude which should be adopted by members of the Commonwealth at the forthcoming Meeting of the General Assembly of the United Nations towards sanctions and in particular on the need to tighten our control of oil passing through Mozambique, while not extending sanctions to South Africa. Secondly, the Commonwealth Secretary's purpose would be to consider with the Commonwealth Heads of Government in question the possibility of there being further talks with the illegal régime, including the possibility of appointing a Royal Commission on the basis he had outlined.

In these circumstances, the Ministers concerned had taken the view that the statement to be made in Parliament later in the week should begin by reaffirming that it remained the Government's policy not to grant independence to Rhodesia before majority African rule. The statement should add that Lord Alport had not reported as a result of his visit that there was any possibility of effective discussions with the illegal régime leading to an acceptable settlement, but that it appeared that Mr. Smith took the view that a constitution based on that drawn up in HMS Tiger might prove an acceptable basis for discussions, subject to certain amendments. It had not been within the scope of Lord Alport's visit to ascertain what those amendments might be and the Government were accordingly seeking clarification of Mr. Smith's views on this aspect, through the Governor of Rhodesia and the Head of our Residual Mission there.

In discussion there was some support for the course of setting up a Royal Commission to investigate the acceptability to the
people of Rhodesia as a whole of a settlement of the Rhodesian problem on the basis of the Tiger constitution. The general view was however that to attempt to do so at this stage would raise such serious opposition among the Government's supporters in Parliament, in Commonwealth countries and in the United Nations that it should be ruled out. On the other hand the view was expressed that we should recognise that Lord Alport's mission had demonstrated that there was no likelihood of negotiating with the illegal régime in Rhodesia a solution acceptable to us and that, in these circumstances, it would be against our interests and policy to make any new move now; even such a limited move would have serious adverse effects among the Government's supporters in Parliament, in Commonwealth countries and in the United Nations, since it would be taken as a sign of weakness and of a willingness on our part to see the Tiger constitutional proposals modified to meet the wishes of the illegal régime, which would gain strength if we were to attempt to reopen negotiations despite its obdurate attitude. The general view of the Cabinet was however that we should take a positive step as a result of Lord Alport's recommendations and that we should be able to defend successfully with other Commonwealth Governments and in the United Nations an attempt to elucidate through the Governor of Rhodesia what changes in the Tiger constitution Mr. Simth had in mind if it were to provide a basis which he could accept for a settlement of the Rhodesian problem. This would provide us with essential material for the formulation of our policy towards Rhodesia. In announcing it we should stress that our policy continued to be based on n.i.b.m.a.r. and that economic sanctions against the illegal régime would be maintained and intensified. To this end an approach was being made that day to Dr. Muller, the South African Minister for External Affairs, to seek to persuade the South African Government to use their influence with the Portuguese Government to induce the latter to give effect to any resolution passed in the United Nations to restrict the supply of oil to Rhodesia through Mozambique; there was in any event no reason to suppose that the South African Government would make good any resulting short fall of supplies to the illegal régime. Publicity should also be given to the respects in which the recently published Rhodesian Budget, which purported to show a healthy financial situation in the country, did not represent the true situation. Use might be made of the fact that financial institutions in Rhodesia regarded the Rhodesian pound as being worth no more than 8s. to 11s. sterling.

The Prime Minister, summing up the discussion, said that the Cabinet agreed on balance that further limited action should be taken as a result of Lord Alport's mission. They were however agreed that a Royal Commission should not at this stage be appointed to investigate the acceptability to opinion in Rhodesia of a constitution on the lines of that drawn up in HMS Tiger. The balance of opinion was in favour of seeking to elucidate through the Governor of Rhodesia what Mr. Smith's attitude was towards the Tiger constitution, what changes he had in mind and whether in the light of these it appeared that there was a possible basis for
negotiations. He would make a statement to this effect later that week, stressing also that the Government's policy towards Rhodesia continued to be based on n.b.m.a.r. and on the maintenance and intensification of economic sanctions against the illegal régime. The Commonwealth Secretary should visit Heads of Government of Commonwealth countries in Africa before the meeting of the General Assembly of the United Nations in the middle of September to canvass their support for our policy of avoiding the use of force against the illegal régime and the imposition of mandatory sanctions against South Africa. If, by the time these visits took place, exchanges with Mr. Smith had shown that the changes that he had in mind in the Tiger constitution were minor and in particular that they did not involve the reintroduction of arrangements to prevent Africans from obtaining the political advancement for which the Tiger constitution provided, it might then be possible to discuss with those Heads of Government the setting up of a Royal Commission to visit Rhodesia. It would however have to be clearly understood that such a Royal Commission could only be set up if censorship were lifted in Rhodesia and if detainees other than those who had committed criminal offences were released.

The Cabinet—

(1) Took note, with approval, that the Prime Minister would make a statement in Parliament about action on Lord Alport's report on the lines indicated in his summing up of their discussion.

(2) Invited the Commonwealth Secretary to make arrangements to visit Heads of Commonwealth Governments in Africa to canvass support for our policy in Rhodesia on the lines indicated by the Prime Minister, in advance of the forthcoming session of the General Assembly of the United Nations.

_Cabinet Office, S.W.1._

CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 25th July, 1967, 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 (Items 1-4)

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. PATRICK GORDON WALKER, M.P., Minister without Portfolio

The Right Hon. ANTHONY CROSSLAND, M.P., Secretary of State for Education and Science

The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal (Items 1 and 2)

The Right Hon. FRED PEARCE, M.P., Minister of Agriculture, Fisheries and Food

The Right Hon. CLEDAWN 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

The Right Hon. MIKHAIL 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. 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. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:

Sir BURKE TREND
Mr. P. ROGERS
Miss J. J. NUNN
Mr. P. E. THORNTON

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1. The Secretary of State for Wales said that he had received on 19th July the report of the Tribunal of Inquiry on the disaster at Aberfan and had said in reply to a Parliamentary Question on the following day that the report would be published as a Parliamentary Paper early in August. It was necessary to decide when the report should be published, what should be said on behalf of the Government at that point and what should be said before Parliament rose. Unfortunately it was not possible for the report to be published before the Recess because of the time needed by the printers to reproduce the plans and photographs which were necessary to the understanding of the text. The earliest practicable date would be 3rd August.

The Prime Minister said that the report was a damaging indictment of the National Coal Board and contained severe strictures on a number of named individuals including the chairman of the Board. It should be published at the earliest practicable date so that any suggestion that publication had been deliberately deferred until after the Parliamentary adjournment could be firmly answered. It might be desirable to state on publication whether the Government accepted the report or were considering it: to reject it seemed out of the question and it might be thought difficult to justify deferment of acceptance.

In discussion it was suggested that the Lord President should take an opportunity during the debate on the adjournment later in the day to announce that the report would be published on 3rd August and to give a firm assurance that a full day’s debate would be arranged as soon as the House resumed. It would be appropriate to say nothing further until the report had been published and careful thought would have to be given to the question whether the Government could then say that they accepted it, in view of the strictures passed on named individuals. It might be possible to say that the Government wished to defer a general statement on the report until they had had the opportunity of considering the views expressed in the debate in the autumn.

The Prime Minister, summing up the discussion, said that it would be helpful if the Minister without Portfolio would take the chair of a committee of the Ministers principally concerned, to consider in the light of the Cabinet’s discussion what should be said on the publication of the report and what advice should be given to Ministers who could not avoid commenting on it during the Recess. Since attempts might be made to make political capital out of the report during the Recess, Ministers who were not closely concerned with the subject should be careful not to be drawn into public discussion of it. The Home Affairs Committee should consider in the autumn what action the Government should take on the report and in the meantime it would be helpful if the Minister without Portfolio would be responsible for watching the development of the situation and the possible need for some further Government statement.
The Cabinet—

(1) Invited the Secretary of State for Wales to arrange for the publication of the report of the Tribunal into the disaster at Aberfan to be published on 3rd August.

(2) Invited the Lord President of the Council to announce the date of publication in the debate on the adjournment in the House of Commons later that day and to undertake that a debate would be arranged immediately the House resumed.

(3) Invited the Minister without Portfolio to arrange for a committee under his chairmanship, comprising the Lord Chancellor, the Lord President of the Council, the Home Secretary, the Minister of Housing and Local Government, the Secretary of State for Wales, the Minister of Power, the Chief Secretary, Treasury and the Attorney-General, to consider what statement should be made on the publication of the report and what advice should be given to those Ministers who would need to refer to it publicly during the Recess.

2. The Cabinet considered a memorandum by the Minister of Power (C (67) 136) on oil supplies.

_The Minister of Power_ said that the supply situation was improving slightly; and the forecasts for the end of September had improved still further since his memorandum had been circulated. In general it remained a problem of the availability and of the rerouting of tankers, rather than of the extent of supplies. The Soviet Union had again refused to supply us. He was keeping in close touch with the oil companies to see that the United Kingdom got at least its fair share of deliveries despite the continuation of the ban by Arab countries on shipments to the United Kingdom and United States. He was also discussing with them how best to strike a balance between our own immediate needs and our long-term interest in maintaining export outlets.

The only immediate cause for anxiety was in respect of naphtha; there was an absolute shortage in the Western world at present. The two main consumers (the Gas Boards and the petro-chemical industries) where being consulted on the use of alternative fuels and how best to apportion available supplies, including the possibility of widening the specifications. There had been no application for a further increase of prices and a close watch was being maintained on the situation in this respect, in relation both to companies' costs in the United Kingdom and to prices in Europe. As regards the balance of payments, the present estimate was that, if the dislocations lasted for six months, i.e., until the end of November, the additional
cost to the United Kingdom would be about £85 million, of which some £15 million would fall in 1968. Much the largest item was the cost of chartering tankers. If rationing were imposed, about £15 million might be saved through the rationing of motor fuel and certain restrictions on the consumption of industrial oil and about £25 million by more severe cuts, especially on industrial fuels. But the effect of these on industry in general, while incapable of close calculation, could easily be so great as to result, through a fall in exports, in a net loss in the balance of payments. An efficient rationing scheme had now been fully developed and the printed ration books would be kept available in storage. It did not however appear that it would be necessary to impose rationing on supply grounds; nor was it necessary as a precautionary measure to start the issue of ration books so as to be able to institute rationing by mid-September should the situation deteriorate. Nevertheless, the position remained precarious and would need to be kept under constant review.

In discussion there was general agreement with the conclusions of the Minister of Power and the following points were made—

(a) If a deterioration in the situation made it necessary to introduce rationing, it would also be necessary to suspend driving tests for some three weeks, since those concerned would be required to assist in the introduction of rationing. As much notice as possible should therefore be given to the Ministry of Transport if this proved necessary.

(b) Further consideration would have to be given to the position of the Republic of Ireland if rationing were introduced in the United Kingdom: it would be necessary on supply grounds for the Irish Government to introduce rationing also, but there was no legislative provision for this.

(c) After the present crisis was over, and supplies of naphtha were readily available, it might be desirable to consider maintaining larger stocks in the United Kingdom.

In further discussion the Cabinet considered the desirability of an early announcement that rationing would not be introduced. It was the general view that the major consideration in reaching a decision was the effect that such an announcement might have on the attitude of the Arab States towards the continuation of supplies; this would call for further consideration by the Foreign Secretary.

The Cabinet—

(1) Took note, with approval, of C (67) 136.

(2) Invited the Minister of Power to keep the oil situation under close review and to report the situation weekly to the Prime Minister during the Summer Recess.

(3) Invited the Foreign Secretary, in consultation with the Minister of Power, to consider in the light of the discussion the effect on the Arab States of an early announcement that oil rationing would not be introduced in the United Kingdom.
(4) Took note that the Prime Minister, in consultation with the Minister of Power and other Ministers concerned, would consider in the light of Conclusions (2) and (3) when a decision should be taken and announced that oil rationing would not be introduced in the United Kingdom.

3. The Cabinet considered a memorandum by the First Secretary of State (C (67) 133) about the Industrial Expansion Bill.

The First Secretary of State said that the Ministerial Committee on Economic Policy had agreed that a general enabling Bill, on the lines described in his memorandum, was urgently required. The Bill would enable Ministers of Departments with responsibilities for sponsoring industries to introduce measures to promote industrial efficiency, to expand or sustain productive capacity and to support technological advance. Schemes falling within the scope of the Bill would be submitted to Parliament in the form of Orders subject to Affirmative Resolution. When the Bill was introduced, the Government would submit to Parliament proposals for a Select Committee which would be able to examine schemes promoted under the Bill. Private industry was at present often too slow in reorganising itself and the Government had inadequate powers to provide the necessary assistance.

The Minister of Technology had three aircraft projects requiring legislation and had other industrial projects in mind; these could all be introduced by Orders under the new Bill if it were enacted in time. On the other hand, it was most important to consult industry fully about the proposals and not to leave them with the impression that the Government had left insufficient time to take their representations into account. These consultations could however be satisfactorily completed in time to introduce the new Bill in November and there would be little risk of having to defer its introduction until after the end of the year or, therefore, of requiring a separate Bill for the purchase of the Beagle Aircraft Company. Subject to Cabinet approval, the Minister of Technology and he would see representatives of the Confederation of British Industry (CBI) on 27th July to discuss the proposals. He proposed to write to the General Secretary of the Trades Union Congress (TUC), suggesting a meeting with the TUC in September. However, there was some difficulty about arranging the necessary early consultation with the National Economic Development Council (NEDC). A very full agenda had already been circulated for the NEDC meeting on 2nd August and they would not be meeting again until 9th October; but this would still leave time for the introduction of the Bill in November. Finally, while it was not possible to identify now all the types of projects which the Government might wish to promote under the Bill in the future, it would be necessary to give industry, during the course of consultations, a considerably fuller description of the sort of projects envisaged than the draft White Paper at present contained.
The Minister of Technology said that the previous autumn he had identified a number of projects to assist industry to increase exports and to save imports. However, he had been advised that each project would require separate legislation. More recently he had discussed with the Lord President the problems involved in finding Parliamentary time for the separate Bills required for three aircraft projects for which legislation was required, as well as measures designed to sustain investment in the machine tool industry and to finance the leasing of computers. The proposal for a general enabling Bill, of the kind now proposed, appeared to be a progressive solution to the Parliamentary problems involved.

It was however desirable that the programme of consultation with industry and the publication of the White Paper should be carried out more quickly than had been suggested. The subject could appropriately be raised at the meeting of NEDC on 2nd August when a paper about the Ministry of Technology was under discussion. Arrangements should now be made for very early consultation with the TUC and subsequently the White Paper on the proposals could be issued in August. This programme would require a dummy White Paper to be laid by the end of that week. The Bill could then be introduced at the beginning of the following Session.

In discussion, there was general agreement that the White Paper should be published earlier than had been contemplated by the Ministerial Committee on Economic Policy. Once consultations with industry began, garbled versions of the Government's proposals would inevitably leak and would be open to deliberate misrepresentation. It was also most desirable that the White Paper should have been published before the Labour Party and TUC annual Conferences. Since the Economic Policy Committee had made their recommendations, the subject had been widely discussed in the Press and the previous arguments for delaying publication no longer had force. It was suggested, however, that it would make for better relations with industry if such an early White Paper made it clear that, while the Government were fully committed to the general principles of the Bill, they were prepared to consider changes in the light of the consultations with industry. It was also suggested that it should be made clear that enabling powers provided by the Bill would not be confined to projects to assist manufacturing industry only but would extend more widely; for example, to the shipping industry.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that an Industrial Expansion Bill on the lines proposed in C (67) 133 should now be prepared. Consultations with the TUC and NEDC, as well as the CBI, should be brought forward as proposed by the Minister of Technology, to enable a White Paper about the Bill to be published in the third or fourth week of August. The text of the White Paper should be cleared for publication by the First Secretary of State in consultation with the other Ministers concerned. Meanwhile, the Minister of Technology should arrange
forthwith for the drafting of the Bill, which it should be the aim to introduce at the beginning of the following Session, thus avoiding the need for separate legislation for the three aircraft projects referred to in paragraph 5 of C (67) 133.

The Cabinet—

(1) Invited the First Secretary of State, with the other Ministers concerned, to make arrangements for early consultation about the proposed Industrial Expansion Bill with the CBI, TUC and NEDC.

(2) Invited the First Secretary of State to consider, in consultation with the Lord President of the Council, the President of the Board of Trade, the Minister of Transport, the Minister of Power, the Minister of Technology and the Chief Secretary, Treasury, the text of a White Paper on the subject.

(3) Invited the Minister of Technology, subject to Conclusions (1) and (2) and in consultation with the Lord President of the Council, to arrange for the publication of the White Paper during the second half of August.

(4) Invited the Minister of Technology to arrange, in consultation with the other Ministers concerned, for the drafting of an Industrial Expansion Bill on the lines proposed in C (67) 133.

The Secretary of State for Defence said that it might prove necessary for him to issue a White Paper during the Summer Recess in respect of the highly complicated case of Mr. Parkes, a deserter from the army who had been convicted in the Courts on the previous day of perjury. In view of the normal practice that the drafts of White Papers were invariably submitted to the Cabinet, it was for consideration how the necessary collective Ministerial approval could be given during the period when the Cabinet would not normally have meetings.

In discussion some doubt was expressed whether it would be appropriate to issue a White Paper in respect of the case mentioned by the Defence Secretary, but it was the general view that in any event arrangements should be made to give collective Ministerial approval for the issue of White Papers during the Summer Recess, both because the need might arise unexpectedly and also because otherwise there would be unreasonable pressure upon the Cabinet to consider draft White Papers at the end of July.

The Prime Minister, summing up the discussion said that the Cabinet agreed that he should make the necessary arrangements on their behalf for a group of Ministers to consider and approve, as necessary, the drafts of White Papers which it might prove desirable to issue during the Summer Recess while regular meetings of
the Cabinet were not being held. In view of the doubts which were expressed about the case of Mr. Parkes, the Defence Secretary should set out the need for a White Paper in a minute to him which should be copied to the Home Secretary, in view of the latter's concern with certain aspects of the case.

The Cabinet—

(1) Took note that the Prime Minister would arrange for a group of Ministers to consider collectively on their behalf the drafts of any White Papers which individual Ministers might think it desirable to issue during the Summer Recess.

(2) Invited the Secretary of State for Defence to submit a minute to the Prime Minister, with a copy to the Home Secretary, about the desirability of issuing a White Paper regarding the case of Mr. Parkes.

5. The Cabinet considered a memorandum (C (67) 138) by the Minister of Transport, to which was attached the main report of the Joint Steering Group set up to review future railway policy.

The Minister of Transport said that an earlier interim report had recommended Government grants to cover the losses which would otherwise be made by providing certain unremunerative passenger services for social reasons. The main report now made far-reaching proposals for the financial reconstruction of British Railways (BR) and for the improvement of its management structure. There had been very serious lack of financial control by the British Railways Board for many years. Some £1,400 million had been invested in BR during the last ten years without any significant impact on its deficit. Financial and management reconstruction must be seen as two complementary parts of a single programme and the first must not be allowed to proceed without the second. The financial proposals involved the writing off of £700 million of suspended debt and a very large part—possibly £400 million—of the £900 million of debt on which interest was still being paid. BR's assets would be written down correspondingly, so that there would be a reduction in future provision for depreciation as well as interest charges. This would have the incidental effect of imposing tighter control over future investment, by reducing the cash flow from normal operations available to finance it. Track rationalisation was urgently required: with modern signalling equipment it would, for example, be possible in many cases to carry on two tracks the traffic for which four tracks were now provided. A Government grant tapering from £15 million a year to zero over five years would enable BR to carry through this rationalisation.

The report also recommended that the BR Board should be smaller and that, in the main, the members should concentrate more
on broad policy issues and less on day-to-day operation. There should, however, be members specialising on financial policy, long-range planning and labour relations. There should be a Chief General Manager responsible to the Chairman for the day-to-day running of the railways. The Regional Boards should be abolished. In order to attract and keep managers of the quality required, it would be necessary to pay them at the full commercial rates for comparable employment. The Chairman of BR agreed with the financial recommendations and also that the Regional Boards should be abolished but he was not yet favourably disposed towards the proposals for a Chief General Manager nor for a smaller, less functional Board.

Subject to the Cabinet's approval, the necessary provision would be made in the Transport Bill, now being drafted, for those recommendations which required legislative sanction. It would be preferable to publish the report in full or in an edited version; but failing this, its main recommendations should be included in one of the White Papers on Transport Policy which she proposed to publish in the autumn.

In discussion there was general agreement with the proposals of the Minister of Transport and the following points were made:

(a) The proposals involved writing off large sums and it was essential that approval for this course should be conditional on the acceptance and simultaneous implementation of the proposals for changes in management structure.

(b) The need to pay higher salaries to the senior staff and members of the British Railways Board would inevitably have repercussions on the salaries of members of the Boards of other nationalised industries. These salaries would in any event call for further consideration in the light of the present level of comparable salaries in private industry. It would probably prove desirable to consider these issues as a whole and it might be necessary to refer proposals at some stage to the National Board for Prices and Incomes. The best course would be for Treasury Ministers to consider, in consultation with the Ministers concerned with nationalised industries, what proposals covering the whole field should be put forward for collective Ministerial consideration.

(c) Further consideration should be given to the timing and manner of publication of the proposals, which would need to be related to the timing of any announcement of increased fares which might be made in the near future.

The Cabinet—

(1) Invited the Minister of Transport to consult the Ministerial Committee on Economic Policy, in the light of her further consultations, on the timing and manner of publication of the recommendations of the Joint Steering Group.

(2) Subject to Conclusion (1), approved C (67) 138.

Cabinet Office, S.W.1,
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 27th July, 1967, 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 (Items 1-3)

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. PATERSON GORDON WALKER, 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. CLEDDYNO 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 SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:

SIR BURKE TREND
Mr. P. ROGERS
Miss J. J. NUNN
Mr. H. L. LAWRENCE-WILSON
Mr. P. E. THORNTON
CONTEMNS

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1. The Cabinet were informed of the business to be taken in the House of Commons, after the Summer Adjournment, in the week beginning Monday, 23rd October. It was expected that Parliament would be prorogued on Friday, 27th October and that the new Session would open on Tuesday, 31st October.

In discussion of the progress in the House of Lords of Mr. SteeFs Medical Termination of Pregnancy Bill, the Cabinet were informed that the third Reading would be on Monday, 23rd October.

2. The Foreign Secretary said that the attempt to form a Government of South Arabia by Mr. Bayoomi, a member of the Federal Council, who had been nominated by the Council for this purpose, had run into difficulties. Some members of the Council who had not been included in the new Government had objected to some of its members, the Council had taken the opportunity of Mr. Bayoomi's absence from Aden on a visit to Beihan to withdraw their agreement to his nomination as Prime Minister designate and there might well be awkward developments when Mr. Bayoomi returned to Aden, including further outbreaks of trouble in the South Arabian armed forces. By contrast, there was an improved prospect of the Front for the Liberation of Occupied South Yemen and the National Liberation Front becoming associated in a broad based Government for South Arabia. Our High Commissioner in Aden, Sir Humphrey Trevelyan, had talked with representatives of these two organisations, and with the United Nations Mission to South Arabia, during his visit to New York. The Mission were now more hopeful that they could make a useful contribution to solving the problem, but it would be important to the success of our policy for Mr. Bayoomi to succeed in his attempt to form a Government. One possible consequence of the latest developments was that it might be desirable for our forces to be withdrawn before the end of the year; but the need to take a decision on this did not seem likely to arise until September.

The situation in relation to the two British pilots who had been captured and imprisoned in Algeria when the aircraft carrying Mr. Tshombe, the exiled Congolese leader, had been taken over by force was very unsatisfactory; we had had no further contact with them and no reply had been received to representations made about them on our behalf to the Algerian Government. A representative of the Swiss Government in Algeria was seeking an interview on our behalf and the United Nations Secretary-General, U Thant, had undertaken to make representations in his personal capacity. We should not for the present consider retaliatory action against Algeria, but this position might be difficult to hold.
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China

(Previous Reference: CC(67) 37th Conclusions, Minute 3)

British Honduras

Middle East: Suez

(Previous Reference: CC(67) 50th Conclusions, Minute 2)

SECRET

Reuter's correspondent in Peking, Mr. Gray, was under house arrest and the only access to him was by telephone through the British Chargé d'Affaires in Peking. This action by the Chinese Government was probably in retaliation for the detention of certain Chinese journalists in Hong Kong in consequence of their activities in promoting disorder. Mr. Gray had no exit visa from China and it might be that charges against him would be trumped up; we had protested to the Chinese both in London and in Peking and were considering what action we might take to secure his release, but effective steps to this end were difficult to devise.

Talks had been taking place with the Foreign Minister of Guatemala on the report of Ambassador Bethuel Webster, who had been nominated by President Johnson at the request of Guatemala, and with our concurrence, to mediate in our long standing dispute with Guatemala about British Honduras. There was already agreement between the two sides on most of the recommendations made by the mediator and it seemed likely that there would be early agreement also on the basis for a settlement of the two outstanding points, which concerned sovereignty and relationships in foreign affairs and defence. Although it would not be possible for the Foreign Minister of Guatemala openly to reach bilateral agreement with us on the issue of sovereignty, it was expected that he would be able to agree privately on a basis that could then be pressed on both sides by the mediator and subsequently accepted. In this event it should be possible for us to proceed with arrangements for granting independence to British Honduras.

The prospects for an early re-opening of the Suez Canal were gloomy. Although it was estimated that physical clearance of the Canal would only take about two months, it was the main bargaining counter for the United Arab Republic (UAR) in any negotiations that might take place about a Middle East settlement; and they had let it be known that the Canal might be closed for six months. It would be prudent for us to take account of the possibility that, even when the Canal was re-opened to shipping of other countries, transit by British and United States ships might be denied and that we might not be able to use it for up to a year from now. Officials were to study the implications of this for us and the steps that we might take to reduce our dependence on the Canal. The UAR was however losing £8 million a month in foreign exchange while the Canal was closed. The Soviet Government were thought to be unwilling to make good this loss to the UAR and to be pressing her to agree to end the state of belligerency with Israel in return for limited troop withdrawals from Arab territory. The withdrawal of Israeli forces from the east bank of the Canal would be a key point in any attempt to re-open it. In Israel there was an unresolved conflict between those members of the Government who were prepared to attempt to negotiate with the Arab countries on the basis of a limited withdrawal of their troops linked to an ending of the state of belligerency and others who favoured making no move at all to negotiate. The outcome should be known shortly. As regards the crews of British ships trapped in the Canal, arrangements had been made for those who wished to leave to do so.
The Commonwealth Secretary said that the situation in Hong Kong had improved, the number of incidents there had declined and morale was now much higher. Two Chinese journalists from the mainland, one of whom had only been in Hong Kong for six weeks, had been imprisoned for terms of two and five years on criminal charges; other Chinese journalists were detained and were to be tried shortly. The possibility of arranging with the Chinese Government an exchange of the two convicted journalists for Mr. Gray, the representative of Reuters who was under house arrest in Peking, was being considered.

An amphibious landing by Federal Nigerian forces had taken place and the town of Bonny had been captured together with a number of troops of the breakaway state of Biafra and large quantities of their ammunition. Federal troops were about 35 miles from the main oil refinery in Biafra and were near Port Harcourt. There had been some damage to oil installations although its extent was not known. It now seemed likely that the Federal Government would be successful in its action against Biafra and, in these circumstances, it would be in our interest for the Shell Company to make payment of oil revenues to the Federal Government and none to Biafra.

The Cabinet—

Took note of the statements by the Foreign and Commonwealth Secretaries.

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3. The Cabinet considered a memorandum (C (67) 142) by the Home Secretary about theatre censorship.

The Home Secretary said that the Joint Select Committee on Censorship of the Theatre had recommended that the Lord Chamberlain's censorship powers should be abolished and not replaced by any other pre-censorship provisions; and that stage plays should be put on the same footing in law as books and other publications. The Home Affairs Committee had agreed on 19th July that the Government should accept the report. There remained for consideration a number of questions on the adaptation of the Obscene Publications Acts for the purpose of the theatre, but this need not inhibit acceptance of the recommendations in principle and he proposed to make an announcement later that day on the lines of the draft attached to his memorandum. It was important that the Government's decision should be announced quickly and should be followed by early legislation because of the difficulty in which the Lord Chamberlain found himself in the interim. The Lord Chamberlain was known to be anxious, pending legislation, to restrict his activities to the protection of the Sovereign and the Royal Family and to indicate that apart from this he would not exercise practical censorship. He and the Attorney-General had, however, in discussion...
with the Lord Chamberlain persuaded him that pending legislation it would not be proper for him to announce that he would not discharge his statutory functions. The Lord Chamberlain had accepted this, subject to an assurance from the Attorney-General that if plays were presented in defiance of his refusal to approve them, proceedings would be taken.

The Prime Minister said that he had thought it right that the Cabinet should discuss the report of the Joint Select Committee because he was concerned that the complete abolition of pre-censorship would leave the way open to the portrayal of living persons on the stage. The portrayal of the Sovereign or of heads of foreign States might cause offence in this country and abroad; and, while no exception could be taken to political satire as such, plays portraying public men for purposes of political advantage or private malice might well do harm to the public interest. The present practice of the Lord Chamberlain, who shared his concern, was to prohibit representation of the Sovereign and to give any other persons who might be portrayed an opportunity to see the script and to make representations, in the light of which he decided whether he would require the modification of the text or refuse to permit the play to be presented. The position in respect of television was that, although there was no longer a statutory prohibition of the presentation of living persons, the control exercised by the Independent Television Authority (ITA) in matters of taste was in practice used to prevent an acceptable degree of political lampooning of public figures from passing into their portrayal in a manner plainly motivated by political or personal malice. Lord Hill, the chairman designate of the British Broadcasting Corporation (BBC), had assured him that in his (Lord Hill’s) view the powers vested in the Governors of the BBC were adequate to enable a similar practice to be adopted and that it would be his intention to exercise them in such a manner as to prevent what he described as “character assassination”. These assurances would remove the difficulty which the Home Affairs Committee had felt about prohibiting the portrayal of living persons in the theatre when it was not prohibited on television. In neither medium would ordinary political satire be forbidden; but there should be safeguards against the theatre being used deliberately to discredit or create political hostility towards public figures.

In discussion it was suggested that the theatre could be distinguished from television since, unlike television, it did not penetrate into the home and attendance was optional. Stage plays should therefore be left to the operation of the ordinary law and the good taste of the public. On the other hand, the dangers of politically motivated representation of living persons were recognised; but it was pointed out that it would be difficult to replace the censorship exercised by the Lord Chamberlain with a stricter requirement that there should be no representation of living persons on the stage at all; and anything short of this would raise the practical problem of providing for an exercise of discretion by some other individual or body. The problem would require careful consideration in the preparation of the Bill but in the meantime it might be wise to modify
the proposed announcement of the Government's intentions by omitting, subject to consultation with the Lord Chamberlain, the reference in the second half of the first sentence of the draft to the abolition of his powers and by indicating in the final sentence that "for the time being" rather than "in the meantime" he would continue to discharge his duties under the existing law.

The Prime Minister, summing up the discussion, said that, while the Cabinet were in general agreement with the Joint Select Committee's principal recommendation, it was important that a solution should be found to the problem of the portrayal of living persons on the stage. The Home Secretary should examine this carefully and put proposals before the Home Affairs Committee, with his proposals for adapting the Obscene Publications Act to stage plays. In the meantime the Government's intentions could be announced on the lines indicated in their discussion.

The Cabinet—

(1) Agreed to accept the general principle of the recommendations of the Joint Select Committee on Censorship of the Theatre.

(2) Invited the Home Secretary:

(a) to announce this decision in a written reply to a Parliamentary Question on the lines of the draft attached to C (67) 142, amended in the light of their discussion and of further consultation with the Lord Chamberlain;

(b) to consider how provision could be made to deal with the problems of the presentation of living persons on the stage and to bring proposals before the Home Affairs Committee.

4. The Cabinet had before them the following memoranda on increases of prices in the public sector:

Memorandum by the First Secretary of State (C (67) 137),
Memorandum by the Minister of Power (C (67) 139),
Memorandum by the Minister of Transport (C (67) 141).

The First Secretary of State said that increases of prices in the public sector had already been approved this year to bring in additional revenue of £115 million a year. The proposals for further increases which were now before the Cabinet would bring in about £50 million a year and, in addition, proposed increases in Post Office charges would raise another £70 million a year. Since he had circulated his paper, British European Airways (BEA) had made an application, which was now under consideration by the Air Traffic Licensing Board, for increases in domestic passenger fares and freight
rates. The total of these increases, if implemented, would represent a most serious threat to the future of the policy on prices and incomes and the Ministerial Committee on Prices and Incomes considered that it was essential to examine the situation as a whole. We should not abandon existing general principles for settling prices in the public sector of industry; but it must be recognised that, if prices of essential services were increased over the next few months on the scale proposed, there would be intolerable pressures on the policy on prices and incomes, which was now largely a matter of voluntary restraint but was too an essential part of the Government's economic strategy. Such increases would risk non-co-operation on wages by the trade unions, who would argue that their members could not be expected to exercise restraint in the face of substantial increases in the prices of essential services, and from private industry, who would not only be faced with increased costs but would also measure the extent of their own restraint in increasing prices against that exercised by the nationalised industries. Machinery should therefore be established, after examination by officials, to review the efforts made by nationalised industries to improve their efficiency and productivity—a process for which there was large scope—with a view to minimising future increases of prices. It would, however, take some time to establish this machinery and meanwhile no increases should be approved until Ministers had been satisfied by further evidence that increases in costs could not be absorbed by increased productivity. To allow time for the examination of further evidence, the financial targets of the industries concerned should be set aside to the extent necessary to accommodate a delay of up to three months in implementing the proposals for increases of prices. Future proposals for increases put to the Prices and Incomes Committee should be accompanied by a draft of the public announcement which it was intended to make, which should include a full statement of what the industry concerned had done to reduce its costs. The financial return set as the target of the gas industry should be temporarily reduced to admit a correspondingly smaller increase in charges. This was in any event desirable in view of the prospect of cheaper gas supplies in the 1970s.

The Minister of Power said that the prices for gas and electricity were inseparably connected. Against his own judgment, he had within the last two months accepted the collective Ministerial view that there should be an increase of 10 per cent in electricity charges in order to reduce the extent to which the industry would need to borrow from the Government for its future investment. His present proposals for increases in gas prices were a direct result of the increased electricity charges and were intended to equalise competition between the two industries. Nevertheless, if the Cabinet took the view, in the light of the consequences of the policy on prices and incomes, that the existing financial target for the gas industry should be maintained, so giving an increase of 5\frac{1}{2} per cent instead of 7\frac{1}{2} per cent in prices, this would be acceptable. But it would be unrealistic to look to dramatic improvements in productivity which would permit reductions in prices over the next few years. The gas industry had
improved its productivity by 5 per cent per annum over the last 5 years and was fully alive to the need to continue its efforts to improve its efficiency. Every Gas Board was already using the services of management consultants.

The Minister of Transport said that she recognised the consequences for the policy on prices and incomes of the concentration over the next few months of substantial increases in the prices of a number of basic services. However, following the Cabinet's recent conclusions on public expenditure, she was under an obligation to make a contribution to its reduction by securing a reduction in the railway deficit of £30 million by 1970-71. Any postponement of the increases for which British Railways and the London Transport Board were now seeking authority would prevent the achievement of such a reduction in the railway deficit. The London Transport Board would, in any event, require further financial assistance from the Government before the end of the year in addition to that already provided by the Transport Finances Act. As for the proposed investigation into efficiency, the Joint Steering Group report had provided an excellent and up-to-date efficiency audit on British Railways; and substantial manpower reductions were continuing. Yet further investigations into efficiency at present would yield no practical results. The issue was whether financial orthodoxy or the policy on prices and incomes should have priority at the present time.

In discussion the following points were made:

(a) If the nationalised industries were not required to obtain, wherever they could, a commercial return on their assets, the result would be a Government subsidy for the consumption of their products. This would inevitably lead to an artificial inflation of demand on the public sector and a consequent artificial inflation of investment in the nationalised industries. Moreover it was socially regressive to subsidise from taxation consumers with widely differing levels of income. At the same time undue control of prices in those industries would tend to depress wages in the public sector, so making more difficult the recruitment and retention of staff of the requisite quality, while the absence of a clear commercial target would seriously weaken the efficiency of management. Public ownership should not be equated with running industries at a loss. Nor were some at least of the proposals for deferment of increases, e.g., in respect of the railways, compatible with the conclusions of the Cabinet the previous week on public expenditure. Delays in respect of London Transport would cost £800,000 a month and jeopardise savings by British Railways of £2 million to £3 million by the end of 1967.

(b) For industries in the public sector like the Post Office, which were able at least to cover their costs, the fundamental question was how much of their investment programme should be financed from their own revenue and how much by borrowing. If, for example, the Post Office were able to borrow 60 per cent instead of 50 per
The nationalised industries were being expected to maintain or increase their financial targets, by increased prices, at a time when the profits of private industry were being substantially reduced: financial targets were being applied too inflexibly. On the other hand the International Monetary Fund in a recent report on the United Kingdom economic situation had commented that the nationalised industries were not as a whole generating a sufficiently large proportion of their cash requirements for investment.

(c) In the course of the Cabinet's discussion of public expenditure, the case for making charges for, for example, some of the welfare services had been balanced against the need for the increased taxation which would otherwise be required. The same arguments were valid in weighing increases in prices by nationalised industries against financing more of their investment or of their deficits by the Government. It was suggested that, on the whole, the general public preferred increases in taxation to increases in the prices of basic services. On the other hand it was argued that no good case could be made for requiring rural taxpayers, for example, to subsidise the fares of urban commuters, or the rest of the United Kingdom to subsidise London public transport.

(e) The future of the policy on prices and incomes as a whole would be seriously jeopardised if all the proposed increases were sanctioned now. If the policy on prices and incomes were to fail, the Government's economic strategy, which was based on the assumption of its reasonable success, would have to be fundamentally re-examined. It was necessary to consider therefore what cost might be justified to secure such a degree of success. It should moreover be borne in mind that rising prices would be accompanied in the coming winter by rising unemployment and that the effects of the Middle East crisis on the country's balance of payments had restricted the Government's room for economic manoeuvre.

(e) It was suggested that the rise which had previously been agreed in electricity prices had been excessive and that this rise was in consequence no argument for making the same mistake with gas prices. On the other hand it was urged that unless gas and electricity prices were kept in line a rational fuel policy was impossible. Moreover, the gas industry, which was now additionally affected by the effects of the Middle East crisis, would be in deficit without an immediate increase in prices.

In further discussion the view was widely expressed that while there were cogent arguments for agreeing to the increases in prices which were now in question, there had been inadequate time for the Cabinet to reach a considered view on this balance of advantage and on all the consequences both for the nationalised industries and for the policy on prices and incomes. There would be advantage if there could be further study by officials of all the aspects, in the light of which Ministers could, on their return in September, take considered decisions.
The Prime Minister, summing up the discussion, said that on balance the Cabinet took the view that decisions, both on the general approach to these problems and on the individual cases of proposed increases of price now before them, should be deferred in order to give time for fuller study. Officials should prepare, for a meeting of the Ministerial Steering Committee on Economic Policy (SEP) during September, to which the Ministers of Departments responsible for nationalised industries should be invited, a study dealing fully with—

(i) the general principles involved, including those governing the fixing of prices and of financial targets for the nationalised industries in relation to:
   - the most efficient conduct and development of those industries;
   - the implications for the Exchequer; and
   - the policy on prices and incomes;

(ii) the application of these principles to the individual cases of increases of prices awaiting decision; and

(iii) the best method of public presentation of such increases as might be sanctioned.

The study should also examine the effects on the Exchequer of delaying any of the increases now under consideration as well as of changes—temporary or permanent—in the financial targets set for the industries concerned. Finally, it should consider the desirability of establishing, and publicly announcing, machinery on the lines suggested by the First Secretary of State to promote increased efficiency and reductions in costs in nationalised industries. Meanwhile, there should be no increases of prices in the public sector before the meeting of SEP.

The Cabinet—

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

(2) Invited the First Secretary of State, in consultation with the Chancellor of the Exchequer and other Ministers concerned, to arrange for the preparation by the beginning of September of a study on the lines indicated by the Prime Minister.

Cabinet Office, S.W.1.
26th July, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 7th September, 1967,
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. 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., 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 (Items 1-4)
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
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)
Mr. GEORGE THOMAS, M.P., Minister of State for Commonwealth Affairs (Items 1 and 2)

Mr. GERALD REYNOLDS, M.P., Minister of Defence for Administration (Items 1 and 2)

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. W. A. NIELD
Mr. E. M. ROSE
Mr. L. ERRINGTON

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1. The Prime Minister welcomed the new members of the Cabinet.

2. The Foreign Secretary said that the situation in South Arabia had deteriorated rapidly within the last few weeks and the Federal Supreme Council had virtually disintegrated. This at least had the advantage that our hands were no longer tied by our earlier commitments to the Council. The High Commissioner had broadcast on 5th September a statement that he was ready to enter into immediate discussions with the nationalist forces with a view to the recognition of a new South Arabian Government. The immediate reaction to this statement had not been encouraging. But senior officers of the South Arabian Army had now broadcast an order to both the National Liberation Front and the Front for the Liberation of Occupied South Yemen to stop fighting and had said that they would support only those members of both groups who came forward in support of the British Government's call for negotiations. The United Nations Commission had approved our decision to talk to the nationalists but seemed to resent the fact that it had resulted from our own and not their initiative. The Minister without Portfolio (Lord Shackleton) had seen the Commission in Beirut and was now on his way to see King Feisal of Saudi Arabia. Not unexpectedly, the King (as well as the Ruler of Bahrain) had been upset by our decision.

It was too early to give a considered review of the position resulting from the Arab Summit meeting at Khartoum. The first impression was that there had been a genuine movement among the Arab States which were represented towards a more realistic understanding of the present situation in the Middle East and a recognition that they must seek to achieve their objectives by means other than war. It looked as if the United Arab Republic (UAR) might be ready not only to change its attitude towards Israel but also perhaps to reopen the Suez Canal. The Arab States also seemed to realise that they had been mistaken in branding the United Kingdom as an aggressor and to wish to restore relations with us. President Nasser had let it be known that he would be willing to resume talks with us. The Israeli attitude, on the other hand, to judge by recent public statements, seemed to be hardening. He hoped to discuss these problems with the Israeli Foreign Minister, Mr. Eban, on his way through London to New York. Meanwhile it still seemed that the best course would be to work for a compromise resolution in the Security Council.

In discussion it was noted that the decision of the Arab Summit meeting to resume oil shipments to the West would make our supply position marginally easier. But the essential problem remained one of transport and not of supply.
The Foreign Secretary said that the referendum in Gibraltar on the choice between British and Spanish sovereignty was due to be held on 10th September. Meanwhile the United Nations Committee of Twenty-four had passed a resolution saying that our decision to hold a referendum contradicted last year's Resolution of the General Assembly and implicitly supporting the Spanish position. On 6th September the Spanish Ambassador had delivered to the Foreign Office a Note proposing talks, but mentioning the referendum as an obstacle in the way. A reply would be sent when the referendum was over.

Pressure on staff of the Office of the British Chargé d'Affaires in Peking had recently been relaxed. We had been able to resume contact with our Chargé d'Affaires and he was now being received again at the Chinese Ministry of Foreign Affairs. No grave damage seemed to have resulted from the occupation of the Office by the Red Guards and it was believed that no classified material had fallen into Chinese hands. After the attacks on our Office in Peking and the disorders in front of the Chinese Embassy in London the possibility of breaking off relations with the Government of the People's Republic of China had been considered but had been rejected, *inter alia*, because of the possible repercussions on the British staff in Peking. The Foreign Secretary had sent a letter in relatively friendly terms to the Chinese Minister of Foreign Affairs, but no reply had yet been received. The aid of the President of Pakistan had been enlisted in seeking the evacuation of our staff and their dependents; but no exit permits had yet been granted. Meanwhile police surveillance of the Chinese Embassy in London was continuing.

The Minister of State for Commonwealth Affairs said that the security situation in Hong Kong was under firm control. The Communists were now turning to bomb outrages and in the fortnight before 4th September there had been 700 reports of bombs, of which 100 were genuine. This put a heavy strain on the bomb-disposal units; and proposals had been made for stern action against people found carrying bombs. So-called "mosquito broadsheets" (containing threats of death against leading personalities—one of whom had since been killed) had also recently appeared; and some of them were being produced in premises owned by Chinese Government enterprises. Thought was being given to action to deal with these new threats, having regard to possible repercussions on the British staff of the Office of the Chargé d'Affaires in Peking. The Ghurkha troops had done excellent work in aiding the civil power: but this was one of the factors leading to further Chinese pressure in Nepal to stop recruitment.

Recent clashes between Rhodesian security forces and guerrillas seemed to show that the guerrillas were increasing their campaign of violence. Meanwhile the leader of the illegal régime, Mr. Smith, had failed to answer the request put to him as a result of the visit by Lord Alport (formerly British High Commissioner to the
Federation of Rhodesia and Nyasaland), for his views on amendments to the draft Constitution drawn up at the meeting on HMS Tiger earlier the previous year: and had insisted on the need to deal first with the problem of the acceptability of the Constitution to Rhodesian opinion as a whole, in a manner satisfactory to the illegal régime.

In discussion it was noted that Mr. Smith seemed not only to be going back on what he had said to Lord Alport about the acceptability of the Tiger Constitution but also on his previous acceptance of the Government’s Fifth Principle relating to the acceptability of the Constitution to the people of Rhodesia as a whole.

The Minister of State for Commonwealth Affairs said that it was becoming increasingly unlikely that there would be a clear victory in Nigeria for either side. Our policy on arms was to supply the Federal Government with reasonable quantities of types similar to those supplied in the past (e.g., rifles) but to refuse sophisticated weapons (e.g., aircraft, rockets, etc.). When the mid-Western Region was occupied by forces of the Eastern Region on 9th August, this policy had been reviewed. It had been decided not to stop arms supplies to the Federal Government, since they were the legitimate Government and there were some 17,000 British lives at stake in Federal controlled territory. We therefore continued to adhere to our previous policy, which the Government of the Eastern Region reluctantly accepted. Mr. Arnold Smith, the Secretary-General of the Commonwealth Secretariat, had recently written, with our encouragement, to both General Gowon, Head of the Federal Military Government, and to Colonel Ojukwu, the Military Governor of the Eastern Region, proposing a truce in the land fighting to permit peace talks to be held. General Gowon had rejected this proposal in moderate terms; Colonel Ojukwu’s reaction was not yet known. But the point of view of the Government of the Eastern Region was that they could only agree to talks on the basis that the independence of the Region was recognised: whereas the Federal Government insisted as a prior condition of talks that it should not be recognised.

Mr. Bradshaw, the Premier of St. Kitts-Nevis-Anguilla, was now in London on a visit. It was hoped to discuss with him the possible appointment of a United Kingdom Interim Commission to take over the administration of Anguilla.

The Cabinet—

Took note of the statements by the Foreign Secretary and the Minister of State for Commonwealth Affairs.

3. The Cabinet considered a note by the Secretary of the Cabinet (C (67) 148) covering a report by officials on Public Sector Prices.
The Prime Minister said that on 27th July the Cabinet had considered proposals for further increases in prices in the public sector and had decided that officials should make a further study, both of the general problem of public sector pricing and of the individual increases under consideration, and should report to the Ministerial Steering Committee on Economic Policy (SEP) during September. It had been agreed that meanwhile there should be no increases of prices in the public sector. Since that decision, the question of public sector prices had been highlighted by public controversy over the introduction of the increases in consumer prices for electricity which had been agreed earlier in the year and this had been taken into account in the meeting of SEP which had taken place the previous day to consider the report by officials. The Committee had taken a number of decisions of which the Cabinet would wish to be informed. The basic problem facing the Committee had been how to finance the substantial long-term capital investment in the nationalised industries in question (save for transport where there was a special situation of continuing deficit). These investments should serve to improve the efficiency of these industries and of the services they provided and to keep down the charges made for them: but it would clearly be some time before such large-scale investment could be completed and take effect. Meantime the problem of financing them was a formidable one: the necessary finance could be provided either through the imposition of higher prices now, or by borrowing from the Government or abroad, which would sooner or later involve increases in taxation with deflationary effects. Moreover the industries concerned were already relying substantially upon loan finance; and borrowing abroad in particular presented difficult problems. The general view of the Committee had been that there was no reason to question the present policy of fixing target returns which the nationalised industries should be required to achieve on the investment made in them.

Against this background the Committee had reached certain conclusions:

(a) On the general issue of financing large-scale investment in the nationalised industries a small committee consisting of the Chancellor of the Exchequer, the President of the Board of Trade and the Secretary of State for Economic Affairs should consider further and report to SEP on the general problem of finance for the nationalised industries.

(b) There had also been some feeling that the call on real resources involved in investment programmes of the size now under consideration, especially if it were considered in the light of the severity of the review of social security expenditure which the Cabinet had conducted during the summer, called for a comprehensive factual report on present commitments on capital expenditure in the nationalised industries, for consideration at a further meeting of the Committee.

(c) In the light of the requirements of the Government's policy on prices and incomes and of the need to let it be seen that publicly-owned industries were subject to disciplines comparable to those
with which private industry had to comply, it would be right that all future proposals for major increases in public sector prices should be referred to the National Board for Prices and Incomes (NBPI); and that the following specific references to the Board should be made on the proposals for increases in public sector prices before the Cabinet:

(d) It had been agreed, on the Minister of Power's proposal, that the proposed increase in the bulk supply tariff for electricity for 1968–69 should be referred to the NBPI and that an immediate announcement to this effect should be made, so that any doubts about the necessity for increases in charges for electricity could be resolved.

(e) The proposed increases in London fares by British Rail and the London Transport Board, and the other proposed increases in countrywide fares and charges set out in Annex D to the memorandum before the Cabinet (C (67) 148), including charges for coal and coke, should be referred to the NBPI; increases in individual charges not on a countrywide basis need not be so referred.

(f) The proposed increase in gas prices should be referred to the NBPI in terms which would draw attention both to the additional costs imposed by events in the Middle East and to the fact that earnings in the industry were not at present adequate to meet its financial target, but which would not bring into question the fuel policy of the Government.

(g) The Committee had also agreed that the NBPI should be asked to develop a small but expert efficiency unit to advise them, in connection with enquiries referred to them concerning the public sector, on the efficiency of the industry or industries under review and on the measures taken by the relevant Departments to check on and improve that efficiency; and, where appropriate, to carry out detailed investigations, if necessary with the help of outside consultants.

(h) After the Minister of Power had explained the difficulties arising from the present decentralisation of authority to regional gas and electricity boards, the Committee had invited him to review the structure of the gas and electricity industries, and to report his conclusions to them.

(i) The Committee had also invited the Minister of Power to consider whether further economies might be made by the reduction of uneconomic competition and duplicate services between the gas and electricity industries.

The Committee had also taken the view that, in the light of the difficulties which the financing of the nationalised industries presented for the Government's policy on prices and incomes, it was important that the announcement of these decisions should be carefully managed, both as to timing and presentation, and had reached the following further conclusions:

(j) The Secretary of State for Economic Affairs, in consultation with the Minister of Transport, the Minister of Power, and the
Postmaster-General, should consider the precise timing of the public announcements concerning the individual references which it had been decided should now be made to the NBPI; it was important that information concerning these increases should be kept confidential.

(k) The Chancellor of the Exchequer should consider, in the light of the Committee's discussion, what amendments might be required to the Draft White Paper on the Financial and Economic Objectives of the Nationalised Industries, the timing of its publication and, in particular, whether this should await the outcome of the consideration of the report to be made by his new group on the financing of the nationalised industries.

(l) The Minister of Power should take an immediate opportunity of explaining the reasons for, and the extent of, the recent increases in the consumer prices for electricity, with appropriate reference to the decision to refer to the bulk supply tariff for electricity to the NBPI and to his review of the structure of the gas and electricity industries; and to include representative examples of the effect of the price increases.

(m) The Committee had taken note, with approval, that he himself would make an early public statement on the general problem of prices in the nationalised industries in the context of the Government's policy on prices and incomes, including the decision to refer to the NBPI future proposals for major increases of prices by the nationalised industries.

(n) The proposed increases in the prices charged by HM Stationery Office for all editions of Parliamentary Debates should be announced and introduced as soon as Parliament reassembles.

He would make a further report to the Cabinet after SEP had discussed the items which they had decided merited further study and consideration.

In discussion it was emphasised that it was important that the proposed new efficiency audit machinery of the NBPI should not be allowed to impinge on the constitutional position of Ministers in relation to the Public Boards, for which they had statutory responsibilities. It would be wrong for the NBPI to be put in a position where they might come between a Minister and the publicly-owned industries for which he was generally responsible, or where they might involve him in questions of detailed administration within these industries which lay outside his statutory responsibilities. On the other hand it was pointed out that nothing in the conclusions reached by SEP could affect the statutory position of Ministers in regard to the nationalised industries. There was no question of giving new authority to the NBPI in this respect, but only of asking them to perform the functions for which they had been set up, namely to investigate and pronounce on problems of prices and incomes which had been referred to them. Moreover, it was important, since the nationalised industries were monopolies, and in view of the severity of the statutory scrutiny to which private monopolies might be subjected, that the Government should not seem to subject the publicly-owned monopolies to disciplines less stringent than those imposed on private monopolies. In this
connection there was no doubt that the reference to the NBPI of proposed increases of prices by nationalised industries would reduce the difficulties which Ministers hitherto had encountered in restraining increases of prices in private industries and trades.

It was also urged that it was important that the new rule for reference of major increases in public sector prices to the NBPI should not be allowed to increase the delays in reaching decisions affecting the financial position of the nationalised industries; in recent cases there had been delays of as much as 18 months which had seriously hindered their planning of investment. It was however pointed out that the delays in question had largely resulted from the standstill on prices and wages and the subsequent period of severe restraint on increases of prices and wages, which were now past history. The new rule that all major increases of prices in the public sector should be referred to the NBPI would eliminate delays in making references to that body, which was now in a position to conduct its investigations at a pace comparable to that of the departmental machinery for scrutinising the operations of the nationalised industries.

In further discussion it was suggested that it might be prudent to provide for exceptions to the rule that all major increases in public sector prices should be referred to the NBPI, since special cases might arise in which such reference might not be desirable. On the other hand it was argued that since such cases were by definition special ones, there should be no insuperable difficulty in making an exception for them if the need should arise; and it might also be possible to make arrangements with the NBPI for special treatment of cases where this would be appropriate.

The Prime Minister, summing up the discussion, said that the Cabinet were in agreement with the conclusions reached by SEP, on which action should now go forward. It was important to recall that the increases in prices under consideration would, if approved, go far towards removing the necessity for further increases of this kind for a considerable period ahead.

The Cabinet—

Took note, with approval, of the Prime Minister's statement on the conclusions of the Ministerial Steering Committee on Economic Policy on the problem of public sector prices.

CONFIDENTIAL

4. The Cabinet considered a memorandum by the Secretary of State for Scotland (C (67) 147) about inducement payments for teachers in certain Scottish schools.

The Secretary of State for Scotland said that schools in some of the poorer districts in Scotland were seriously hampered by a shortage of staff. A committee under the chairmanship of Dame Jean Roberts had been set up in 1965 to consider means of effecting a more equitable distribution of teachers and had...
recommended the payment of an additional allowance of £100 a year to teachers in schools to be designated as being seriously affected by the staff shortage. Such designation would be so limited that not more than 4,000 teachers (10 per cent of the teaching staffs) would receive the additional allowance. At their meeting on 3rd August, the Ministerial Committee on Prices and Incomes had accepted this proposal in principle and agreed that there should be an immediate announcement of it. They had however taken the view that it should not be implemented except as part of the general revision of the salaries of Scottish teachers which was due from April 1968 on the ground that the credibility of the Government's policy on prices and incomes would be called into question if special additional payments were offered to certain teachers during the currency of the present salary settlement. In his view, however, there were compelling reasons for introducing the scheme from 1st October, 1967, which outweighed any risk of damage to the Government's policy on incomes. It was essential to improve the distribution of teachers and ease the situation in those schools where there was an acute shortage of staff; in March of the present year some 4,500 pupils were receiving only part-time education. There was already strong criticism of the Government's failure to take any action on the Roberts Report, which had been available since April 1966, and the position had been made more difficult by the extent of the arbitration award on teachers' salaries in England and Wales. Criticism would be strengthened by the agreement which would probably be reached on additional allowances for priority schools in those countries. Furthermore, the Government had declared their intention of incurring additional expenditure on school premises in the poorer areas; but an improvement in staffing was a more immediate priority than improvements to the buildings themselves. Finally, it must be borne in mind that when the new negotiating machinery on salaries, for which the Remuneration of Teachers (Scotland) Act provided, came into effect in October he would as Secretary of State for Scotland cease to hold his present controlling position in matters of this kind. If action were taken now, he could introduce the scheme of inducement payments on his own authority in the form which was most likely to be effective. If there were delay, there could be no assurance that any scheme could be introduced, since the whole issue would be caught up in negotiations for a general revision of salaries and any resultant scheme might be more costly and less effective than that now proposed. In these circumstances the right course was to introduce the proposed scheme of inducement payments from 1st October.

The First Secretary of State said that while the Ministerial Committee on Prices and Incomes had been sympathetic with the proposals in principle, they had not felt able to agree that they should be implemented immediately. They had taken the view that the credibility of the Government's policy on prices and incomes would be called into question if they were seen to be offering ad interim special additional inducements during the currency of the present salary agreement for Scottish teachers. To take such action...
immediately after the end of the period of severe restraint would give the public impression that continuing restraint was unnecessary. Furthermore, the proposal would inevitably have repercussions both on the position of teachers in England and Wales and on the pay of other professional staff.

In discussion it was urged that the payment of inducement allowances for reasons of social policy differed from a general increase in salaries and that since the present staff shortage was prejudicial to the education of a substantial number of children in certain areas of Scotland the proposal for the payment of an inducement allowance should be accepted now. It was, however, the general view of the Cabinet that notwithstanding these considerations they were outweighed by the repercussions which would inevitably ensue in other professions and in industry to the damage of the Government's policy in prices and incomes. The objection arose not from the merits of the proposals in principle but from the proposed timing of their implementation.

The following points were also made:

(a) The proposal would, on balance, be liable to have embarrassing repercussions in respect of the pay of teachers in England and Wales and while this should not be over emphasised it would be preferable on this account that the payment of the allowance should be postponed.

(b) The proposal might have repercussions on the pay of the police. It had recently been agreed to pay considerably smaller allowances in certain areas to provide additional inducements for recruitment in a number of police forces, where the relative deficiency of staff was much greater than obtained in the Scottish schools in question. Furthermore, these allowances were paid at lower rates in respect of more senior staff and no differential allowance was paid at all to officers of the rank of police Superintendent and above. The Cabinet were, however, informed that the proposed allowance would not be paid to head teachers in Scotland and did not, therefore, conflict in principle with the system of a tapering allowance in respect of the police.

(c) The early payment of the allowance, in advance of the negotiations on salaries in April 1968, was additionally objectionable in view of the rejection in arbitration earlier in the present year of a salary claim by Scottish teachers.

The Prime Minister, summing up the discussion, said that on balance the Cabinet took the view that, while it was acceptable that the Secretary of State for Scotland should announce immediately that the recommendations of the Roberts Report in respect of inducement payments for teachers in certain Scottish schools were accepted in principle and that it was proposed to include these as part of any general settlement on the salaries of Scottish teachers from April 1968, they could not accept that the proposal should be implemented immediately because of the damage that would ensue to the policy on prices and incomes.
The Cabinet—

Invited the Secretary of State for Scotland, after consultation with the Chancellor of the Exchequer, the Secretary of State for Education and Science and the Secretary of State for Economic Affairs, to announce that the Government accepted in principle the recommendations of the Roberts Committee with regard to special inducement payments for teachers in schools in particular areas in Scotland, but that those recommendations would not be implemented except as part of a general settlement on the salaries of Scottish teachers due from April 1968.

5. The Cabinet considered a memorandum by the Lord Chancellor (C (67) 145) to which was annexed a report of the Ministerial Committee on the Powers of the House of Lords.

The Lord Chancellor recalled that the Cabinet had previously concluded that proposals should be worked out for abolishing the powers of the House of Lords to delay Bills and to reject subordinate legislation, but that the question of the composition of the Lords should not be reopened in this connection. On this assumption and after considering a number of alternatives, the Ministerial Committee took the view that whereas under the present Parliament Acts a public Bill could not become law if rejected by the Lords unless it was passed by the Commons in two successive Sessions with a minimum interval of a year between Second Reading in the Commons in the first Session and Third Reading in the next, those Acts should be amended so as to remove the compulsory minimum interval of a year. Thus a Bill rejected by the Lords could, if necessary, be passed quickly into law by closing the Session and immediately opening a fresh Session in which the Bill would be passed again by the Commons. Further, they considered that the Lords' powers to reject subordinate legislation should be abolished, although it would still be open to the Lords to debate such legislation if they chose.

However, while the Committee were satisfied that these proposals were the best they could devise on the assumption that the composition of the Lords remained unchanged, the Committee had also reached the conclusion that such proposals, limited to dealing with the powers of the Lords, would be unsatisfactory in themselves and open to criticism by the Government's own supporters as well as by the Opposition. In the present state of party representation in the Lords, the Government were wholly dependent on the co-operation of the Opposition in the Lords in achieving their legislative programme. At present this was forthcoming because the Lords knew that they existed on sufferance. The disturbance of the present good working relations with the Opposition in the Lords, which would flow from any attempt to deal with their powers, would almost certainly result in greater delay to the Government's
programme of legislation as a whole than was likely to result if the Lords' powers were left as they were at present. Moreover, to the extent that the proposals involved removing from the Lords their valuable scrutinising function over subordinate legislation the effect of the proposals would be retrograde. If legislation to give effect to these proposals were introduced, the Government would be embarrassed by the amendments which the Opposition would certainly move to reform of the composition of the Lords. It was therefore the Committee's view that there was no satisfactory way of dealing in isolation with the Lords' powers over legislation and, if the Lords' powers only could be dealt with, the Committee advised that no proposals for a change should be introduced in the present Parliament.

In the light of this conclusion, the Committee were, however, of the view that further consideration should now be given to reforming the composition and functions of the Lords, together with limitation of their powers. These three aspects could not be dissociated and the issue would almost certainly have to be faced in any event, since it was open to any member of the Lords to introduce a Bill on this matter. He therefore sought the agreement of the Cabinet that the possibility of changing the composition and functions of the House of Lords, as well as their powers, should now be considered by the Ministerial Committee, without prejudice to the question whether legislation to effect such changes should in the event be introduced.

The Lord President said that, in the light of the Ministerial Committee's report, the effective choice lay between a radical and comprehensive reform of the House of Lords on the one hand and leaving the present situation unchanged on the other. The Lords had been fully co-operative in passing even controversial legislation, because they knew they existed on sufferance, but there might be some risk to the Government's legislative programme in the last Session of the Parliament if the composition and powers of the Lords were left unchanged. More generally there was a need for a working second Chamber to relieve the Commons of some of its routine functions, in particular of the detailed scrutiny and revision of legislation, but the functions of the Lords could not be developed in this way so long as the Government had no effective control through a majority. A general reform of the House of Lords would have the further advantage of enabling better use to be made of accommodation and services at Westminster which might be shared with the Commons. It was desirable that any legislation which might be agreed should be introduced in the new Session; it could not in any event be left until the final Session of the Parliament, since it might have to be enacted under the Parliament Acts.

In discussion there was general agreement that, if the composition of the Lords were not to be changed, it would be undesirable to introduce legislation dealing solely with their powers; and it was pointed out in particular that the proposal to abolish the power of the Lords to reject subordinate legislation would throw more work on the House of Commons.
In further discussion it was pointed out that the reform of the House of Lords was a matter on which there were strongly held and widely different views and there would be great difficulty in devising any scheme for reform which commanded a sufficient measure of agreement. It might therefore be preferable to leave the present situation unchanged since it operated favourably to the Government. The risk to the Government's programme which might arise in the final Session could be reduced by avoiding controversial legislation at that time. On the other hand, there was support for the view that the case for reform of the Lords justified further examination of the possibilities, so that the Cabinet might take a decision on the basis of positive proposals whether or not to proceed with this reform. It was suggested, however, that the balance of practical advantage to be gained from any alteration of the present system would have to be carefully weighed. It would, for example, be important, if the co-operation of the Opposition in the Lords were to be forfeited, that the Government should be sure of a sufficient majority to enact its Finance Bills within the time available.

The Prime Minister, summing up the discussion, said that the Cabinet were agreed that the broad choice lay between a comprehensive reform of the House of Lords and leaving matters as they stood. On balance, they were agreed that the possibilities of comprehensive reform, including changes in the composition and functions of the Lords, should now be examined by the Ministerial Committee. It would be open to the Cabinet to decide, in the light of the Ministerial Committee's proposals, whether or not to proceed with such reform, but any such decision should be taken before The Queen's Speech on the Opening of the new Session was completed.

The Cabinet—

(1) Invited the Lord Chancellor to arrange for the Ministerial Committee on the Powers of the House of Lords to consider proposals for reforming the composition and functions of the House of Lords, in accordance with the summing up of their discussion by the Prime Minister.

(2) Agreed to resume their discussion at a later meeting in the light of Conclusion (1).

Cabinet Office, S.W.1,
7th September, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 14th September, 1967, 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
(Items 1-4)
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. RICHARD CROSSMAN, M.P., First Secretary of State for Foreign Affairs
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. PATRICK GORDON WALKER, M.P., Secretary of State for Education and Science
The Right Hon. GEORGE THOMSON, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. ANTHONY GREENWOOD, M.P., Secretary of State for Scotland
The Right Hon. R. J. GUNTER, M.P., Secretary of State for the Lord Privy Seal

Also present:
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:
Mr. P. Rogers
Mr. W. A. Nield
Mr. E. M. Rose

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The Foreign Secretary said there had been no change in the position with regard to the two British pilots who had been detained in Algeria since the aircraft carrying the exiled Congolese leader, Mr. Tshombe, had been taken over by force at the end of June. Their interrogation had been completed and no charges were being made against them. There was no reason to believe that they were implicated in any way in the kidnapping. But the Algerian authorities would not let them go until they had decided what to do with the other occupants of the aircraft and with Mr. Tshombe. All our efforts to secure the pilots' release had so far been unsuccessful. He proposed to try to enlist the support of the United Nations when he was in New York later in the month. He also intended to discuss the problem with the Algerian Foreign Minister, if he were there, and with the Secretary-General of the United Nations. But it was difficult to bring any effective pressure to bear on the Algerian Government so long as they were determined to disregard international opinion. Press interest in this country in the fate of the pilots was mounting and there might be heavy pressure to place an embargo on all United Kingdom trade with Algeria and in particular to stop shipments of Algerian gas, which had just been resumed. Officials of the appropriate Departments were studying the possibility of such action and its legal and other implications.

In discussion it was pointed out that the Gas Council bought Algerian gas from an international company in which they only had a part interest and which they could not therefore control. A threat to stop buying the gas would not exert pressure on Algeria since other countries would readily take over the contract. Moreover we badly needed Algerian gas in order to maintain our naphtha supplies over the next two winters.

The Foreign Secretary said that there had been a renewal of serious fighting in South Arabia between the National Liberation Front (NLF) and the Front for the Liberation of Occupied South Yemen (FLOSY) but the South Arabian Army seemed to be holding together and was continuing its efforts to reconcile the two factions. There had been no official reaction from the NLF to the High Commissioner's offer to enter into immediate discussions with the nationalist forces: but unofficial reactions were not unfavourable. King Faisal of Saudi Arabia had reacted strongly in the face of our offer and had asked that it be delayed for a month in which time he would seek to bring the various factions together. We had not felt able to accept such a delay.

The referendum in Gibraltar on the choice between British and Spanish sovereignty had now taken place and as expected had resulted in an overwhelming vote in favour of continued association with the United Kingdom. There had been no reaction from the Spanish Government since the referendum. He proposed now to concert with the Commonwealth Secretary a reply to the Spanish Government's previous proposal for talks.
In discussion it was pointed out that the Commonwealth Governments represented in the United Nations Committee of 24 had played an unhelpful part in the Committee’s recent discussions on Gibraltar, despite their professions of support for the self-determination of peoples under colonial rule. It might be helpful to arrange for Gibraltarian representatives to visit certain Commonwealth countries as part of an attempt to seek a more helpful attitude towards our dispute with Spain on the part of the Governments concerned.

The Cabinet—

(1) Invited the Commonwealth Secretary to consider in the light of their discussion the desirability of arranging for Gibraltarian representatives to visit a number of Commonwealth countries.

The Foreign Secretary said that the discussions on Cyprus between the Turkish and Greek Governments had been resumed at a meeting on 9th and 10th September in Thrace between their respective Prime Ministers, but no progress seemed to have been made towards agreement.

We had protested in the strongest possible terms to the South African Government against their decision, announced on 8th September, to send into Rhodesia, without our consent, a body of South African police to co-operate with the Rhodesian police to prevent the incursion of terrorists into South Africa. Our Ambassador in Pretoria had on 13th September seen the South African Foreign Minister who had indicated that the number of police was not large and that he hoped it might be possible to withdraw them before long.

The United States Senate had now endorsed the decision of the House of Representatives to insist on the requirement that all United States naval vessels should be built in American yards. The implications of this decision for our purchase of the F111 would need to be urgently considered in the light of the concurrent understanding about offset purchases. The United States Administration was gravely disturbed by the decision, which it had done its best to prevent: but it could not effectively ask Congress to reverse their decision. Our Ambassador in Washington had advised that we should immediately protest against the decision and publicly express our concern both in the Press and at Ministerial level. If we did not at once protest strongly, there was a danger of similar decisions in other fields, arising from Congressional dissatisfaction with our policy in Vietnam and particularly with regard to British ships sailing to North Vietnamese ports.

In discussion the Cabinet were informed that the implications of the decision for the prospect of offsetting the costs of buying the F111 were less serious than might appear. United States purchases covering 40 per cent of these costs had already been made and contracts to the value of a further £5 million were in the course of being negotiated.
Nevertheless there was general agreement that the implications of the United States decision for our agreement to purchase the F111 should be further considered.

The Cabinet—

(2) Agreed that Ministers should, in consultation with the Foreign Secretary, publicly express the Government's serious concern at the decision of the United States Congress.

(3) Invited the Secretary of State for Defence to circulate for further collective Ministerial discussion a memorandum on the implications of this decision for our agreement to purchase the F111.

The Commonwealth Secretary said that the military stalemate in Nigeria continued and that the attempt by the Secretary-General of the Commonwealth Secretariat, Mr. Arnold Smith, to promote peaceful negotiations had received a negative response from both sides. There had been some indication from the Chief Justice of the Eastern Region who had recently been in London that the Government of the latter might be prepared to start talks without conditions. But this was contradicted by the known views of Colonel Ojukwu, the military governor of the Eastern Region. We could only continue to watch the situation and lend support to any move towards a settlement.

The Cabinet—

(4) Took note of the statements by the Secretaries of State for Foreign and Commonwealth Affairs.

The Cabinet considered a memorandum by the Foreign Secretary (C (67) 150) on the current situation in the Middle East.

The Foreign Secretary said that the prospects of a settlement in the Middle East were still confused. Since the meeting at Khartoum in August of representatives of the Arab States, the latter had shown signs of a more rational approach to the problem of Israel and of seeking a settlement. The Israeli attitude on the other hand had hardened; and there was a risk that the Arab States would revert to their former intransigence. It would be unwise to count on the early reopening of the Suez Canal. Much would depend on the forthcoming meeting of the General Assembly of the United Nations in New York. The United States Government believed that the Soviet Union were resisting from the terms for a draft Security Council Resolution which had been agreed in July between the Soviet Foreign Minister, Mr. Gromyko, and the United States representative at the United Nations, Mr. Goldberg. We should seek acceptance by the Security Council of a Resolution on the lines of that draft, which established a direct connection between an Israeli withdrawal and the ending of belligerency by the Arabs.
There had been recent indications in particular an article in the *Sunday Times* on 11th September by the Editor of Al-Ahram that the Government of the United Arab Republic (UAR) were interested in resuming discussions with the United Kingdom and even in resuming diplomatic relations. He had in response sent President Nasser a message indicating that if he wished to resume discussions, we should be glad to do so and offering to send to Cairo for that purpose a senior official whom the President knew and trusted.

In discussion the Cabinet were informed that satisfactory international arrangements could be made to deal with any balance of payments problems which might arise from the withdrawal of sterling balances by Kuwait and other Arab states in order to fulfil the obligations which they had undertaken at the meeting in Khartoum to provide financial support for the UAR and Jordan.

The Cabinet—

Took note of C (67) 150.

3. The Cabinet considered a memorandum by the Minister of Power (C (67) 149) on the oil supply situation.

*The Minister of Power* said that the recent conference in Khartoum of representatives of Arab States had agreed that the ban on oil supplies destined to the United Kingdom, the United States and West Germany should be removed on 1st September. This would not affect the total supplies available to Europe which, as long as the Suez Canal remained closed, were limited by tanker capacity and might be increased only by the opening of the pipeline from Saudi Arabia to Syria or the resumption of exports from Nigeria. The decision would, however, assist the oil companies in effecting the most economic programme for tankers and supplies and would enable us to obtain crude oils better suited to our refineries. Enough tankers were now available to meet European needs for oil in the coming winter, though at high cost; but the prospects would continue to be insecure until there was a settlement in the Middle East. Stocks in the United Kingdom during the coming winter were now estimated to be at a satisfactory level except for naphtha. Special measures were still necessary to deal with this shortage but there could now be greater confidence that minimum demands could be met; the position would be somewhat easier when the supply of Algerian natural gas was resumed. Imperial Chemical Industries had attempted to buy supplies of naphtha from the Soviet Union but these were only available on trans-shipment via Rotterdam and the additional cost involved made them uneconomic.

The general supply situation was now such that the precautionary measures which had been taken in respect of rationing (which were costing £30,000 a month for offices and pre-empting a number of staff) could be relaxed. There remained the possibility that an additional temporary surcharge would be needed to cover the increased costs of the oil companies and he would consult his colleagues further on this in the light of further discussion with the
companies. The committee of officials which had been considering current arrangements for our oil supplies would now turn to a longer-term study of the security of our oil supplies in the future.

In discussion there was general agreement that the precautionary arrangements in respect of rationing could now be relaxed as proposed by the Ministry of Power and that periodic reports on oil supplies, as distinct from supplies of naphtha, could be discontinued. The point was also made that we had been greatly helped in meeting the recent crisis by the large stocks of oil which were held in the United Kingdom. It would be necessary to consider a timetable for building up those stocks to meet any later crisis that might ensue. In that connection it would be desirable to consider the fullest possible use of the oil storage facilities maintained on defence account.

The Cabinet—

(1) Took note of C (67) 149.

(2) Agreed that the precautionary measures which had been taken in preparation for oil rationing could now be relaxed, as proposed by the Ministry of Power.

(3) Invited the Ministry of Power, in consultation with the Secretary of State for Defence, to consider the use of oil storage facilities on defence account in replenishing oil stocks.

(4) Invited the Minister of Power to make fortnightly reports to the Ministerial Committee on Industrial Policy on available supplies of naphtha.

4. The Cabinet considered a memorandum by the Chancellor of the Exchequer on a National Loans Fund (C (67) 144).

The Chancellor of the Exchequer said that the object of the proposal in his memorandum to set up a National Loans Fund was to take the great bulk of Consolidated Fund lending and of the resulting borrowing out of the Exchequer, i.e., those transactions in which the Government acted as an intermediary and not as a principal. His original reason for formulating this proposal had been presentational, namely to remove the inhibitions on policy which the inclusion of these transactions in the Exchequer accounts sometimes created. The present arrangements required undue emphasis to be placed on the extent of Government borrowing even when the Budget provided for a substantial surplus. In working out the proposal, however, it had become clear that there was also justification of substance for it, i.e., that it was desirable to abandon the 19th century concepts of public financing which were embodied in the present arrangements and which had come to be outmoded by the increase in the number and size of Government borrowing transactions. Implementation of the proposal would enable him
to present a clear-cut Exchequer account and so to remove misconceptions about the significance for the economy of the relatively large Exchequer borrowing requirements, by concentrating Governmental borrowing operations in the proposed separate National Loans Fund, out of which loans to nationalised industries and local authorities would be made. To assist the dissociation of these transactions from the Budget and so ease its presentation forecasts of lending from the Fund could probably be published at a different time from the presentation of the Budget. Whilst the introduction of the National Loans Fund would not ease any problems of policy, it was hoped that it would allow, if that were desired, an immediate and significant increase in local authority access to the Public Works Loan Board, whose operations would be brought within the ambit of the Fund. In so far as this reduced the need of local authorities to borrow on the open market, it would help to reduce the cost of their long-term borrowing. It would be a great advantage if the Bill could be passed before 31st March, 1968, as there would be a very substantial Exchequer borrowing requirement in 1968–69, which would otherwise complicate the presentation of the Budget.

In discussion there was general agreement in principle with the proposal. The following main points were made:

(a) While the merits of the proposal were clear, it was for consideration whether it should be introduced at a time when a substantial increase in Exchequer borrowing was necessary; and there might be attempts in Parliament to insist that the financial statistics should continue to be made available on the old basis as well as on the new one. On the other hand it was pointed out that the Chancellor had foreshadowed this reform in his 1967 Budget speech and that the merits of the proposal both in rationalising the Government's borrowing arrangements and in clarifying the presentation of the Budget would provide a firm basis for resisting such criticism.

(b) It was not clear how the proposal would affect the alternative arrangements for loans for housebuilding which Ministers had considered during the summer; while the Chancellor's proposal appeared generally acceptable, it might be desirable that under the new arrangements loans for housebuilding should be shown separately from other loans. On the other hand the proposal should help to reduce competition between local authorities in the money markets and would meet the purposes of the alternative arrangements for housebuilding loans which had previously been discussed by Ministers. Moreover, some of the detailed arrangements which would apply within the general framework of the proposal had not yet been fully worked out and this left room for discussion whether, inter alía, loans for housebuilding could be shown separately. Discussion was also continuing on whether the new arrangements should enable the Treasury to borrow abroad for the National Loans Fund.
The Prime Minister, summing up the discussion, said that the Cabinet agreed that the proposals in the Chancellor's memorandum should be approved and the preparation and presentation of the necessary legislation should proceed; the legislative programme had been so devised that Parliamentary time would be available for its passage before 31st March, 1968. Meanwhile the Ministers concerned should consider further the points made in discussion about housing finance.

The Cabinet—

1. Approved the proposals in C (67) 144 for the establishment of a National Loans Fund.

2. Took note that the Chancellor of the Exchequer would discuss with the Lord President of the Council and the Minister of Housing and Local Government the arrangements to be made in respect of loans for housebuilding under the new proposals.

CONFIDENTIAL

5. The Minister of Labour said that the current dispute in respect of railway guards arose from the alteration in their duties in consequence of the change from steam to electric traction and the use of diesel engines. These technical advances had made it unnecessary to employ second men on the footplate and the guards had in consequence taken on certain extra duties. The National Union of Railwaymen (NUR) were at fault in the dispute on two counts. Procedurally they were in breach of their agreement to make full use of the machinery for conciliation, and ultimately, arbitration, before taking industrial action. In substance they had paid no regard, in seeking extra pay, to the need to increase productivity in order to enable the additional cost to be met, despite their earlier agreement to the contrary. In these circumstances it was essential that the Government should not weaken the position of the British Railways Board and, though he would continue to watch the position closely, this was not a situation where he could suitably intervene so that a compromise might eventually be reached between the two sides.

The Home Secretary said that the official Committee on Emergencies was keeping the situation under close review. So far, however, there was no occasion for action which would justify a meeting of the Ministerial Committee, nor did such a meeting seem desirable.

The Cabinet—

Took note of the statement by the Minister of Labour and the Home Secretary.

Cabinet Office, S.W.1.
14th September, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 21st September, 1967
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
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 (Items 3-7)
The Right Hon. PATRICK GORDON WALKER, M.P., Secretary of State for Education and Science
The Right Hon. GEORGE THOMSON, M.P., Secretary of State for Commonwealth Affairs
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 following were also present:
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury
The Right Hon. SIR ELWYN JONES, Q.C., M.P., Attorney-General (Items 2-7)

Secretariat:
Mr. W. A. NIELD
Miss J. J. NUNN
Mr. E. M. ROSE
Mr. L. ERRINGTON
Mr. K. BARNES
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1. The Minister of State for Foreign Affairs (Mr. Mulley) referred to the recent incident in which a Soviet scientist, Dr. Vladimir Tkachenko, had been removed by the police from a Soviet aircraft at London Airport on suspicion that he was being taken out of the country against his will, but had been allowed to leave once it had been established that he wished to do so. The criticism in the Soviet Press on our handling of this question seemed to be merely attempts by the Soviet security authorities to cover up their own incompetence; and there was no evidence to suggest that the incident would adversely affect our relations with the Soviet Union. A delegation of Soviet trade unionists had just arrived in this country as planned.

The Foreign Secretary had informed the Spanish Ambassador on 18th September that he was ready to meet the Spanish Foreign Minister for a discussion on Gibraltar, if a suitable place and time could be found. It was satisfactory that Mr. Stuart Christie, who had been serving a sentence of 20 years' imprisonment for bringing explosives into Spain, had now been released. We had been pressing for his release for some time.

The Commonwealth Secretary said that the Federal Government were now taking the initiative in Nigeria and had reoccupied Benin, the capital of the Mid-Western Region. But there was no indication that Biafra, the breakaway Eastern Region, was collapsing. The Deputy High Commissioner's Office in Enugu had recently been raided by the Biafran authorities who had removed some diplomatic wireless equipment. They had now been informed that, unless it was returned, we should withdraw our representatives from Biafra.

A dispute had developed between the Prime Minister of Guyana and the Minister of Finance (who belonged to a different political party) over the appointment of a Commissioner of Income Tax. As a result there was a danger that the dispute might spread and the Government of Guyana break up.

The Cabinet—

Took note of the statements by the Secretary of State for Commonwealth Affairs and the Minister of State for Foreign Affairs.
gave to outside bodies about their actions, might later require a
decision by the Law Officers or by the Director of Public Prosecutions
on whether a prosecution should or should not be launched. Failure
to consult in such cases circumscribed the freedom of decision of the
Law Officers. He proposed, therefore, to issue a further
memorandum, calling attention again to the importance of
consultation with the Law Officers on the categories of case previously
specified and adding the new category to which he had referred. It
was important that Ministers should bring this memorandum to the
notice of their legal advisers and emphasise the importance of
compliance with it.

The Cabinet—

Took note of the statement by the Prime Minister.

3. The Lord Chancellor recalled that he had been invited by
the Prime Minister to investigate the sources of certain apparent
leakages of information relating to Cabinet business. He was
satisfied that there had been no deliberate leakage of such information.
Apparent leaks frequently appeared to be no more than informed
guesses by experienced journalists. Such journalists were, however,
expert in acquiring separately and piecing together small items of
intelligence, none of which might in themselves be important or
explicit, but which in total often provided an informed and experienced
man with sufficient material to make an accurate assessment of the
Government's intentions. The only safeguard lay in strict limitation
of classified information to those who needed to know of it. It had
to be recognised, however, that guidance to the Press was necessary
and there was no clear cut line between legitimate guidance and
leakage of classified information. He suggested, however, that the
extent of the circulation of Cabinet documents by the Cabinet Office
to Ministers and officials should be reviewed. Further, Ministers
should review the circulation within their Departments of Cabinet
documents including circulation to junior Ministers. Thirdly,
Ministers should be on their guard against discussing Cabinet business
however fragmentarily with those who did not need to know, whether
junior Ministers or officials. Practice on all these matters varied very
widely among Departments.

In discussion it was pointed out that some apparent leakages of
Ministerial discussions related to the evolution of policy on matters
of controversy which did not carry the highest security classification.
The proposed review should, therefore, extend to Confidential
material as well as to Secret and Top Secret documents. In view of
recent cases, the review should also cover the practice of civil servants
in taking Top Secret and Secret documents home for work overnight.

In further discussion, the following main points were made—

(a) In some instances, as in the case of the Defence Review, a
relatively wide departmental circulation of Cabinet documents might
be necessary in order to ensure both preparation for and the effective
execution of Cabinet decisions.
(b) Steps had been taken, in the light of a recent case, to prevent unauthorised extra copies of documents being taken, and in regard to the notebooks of shorthand-typists and their security clearance.

(c) Ministers should review the arrangements in their Private Offices for the handling of Top Secret documents; further it was desirable that Private Offices should keep an accurate record of the movement of classified documents taken by Ministers to their homes.

(d) There might be a case for examining instances where the secrecy of controversial topics had successfully been maintained during prolonged Ministerial consideration.

(e) While the nationalised industries could be relied on in matters of national security, they were liable to use confidential information affecting their interests for the purpose of exerting political pressure.

(f) While close relations between Departments and the Press were desirable on general grounds, there was a risk to security where officials were entertained individually by specialist journalists. It was for consideration, therefore, whether officials should report the receipt of such invitations and should make a record of any discussion of official matters.

(g) Where a matter under review was difficult or controversial, it was undesirable to announce that it was under discussion since this aroused Press interest and led to continued speculation where an announcement of policy decisions was delayed.

(h) Where temporary Civil Servants had subsequently taken employment as journalists, Departments should be warned against discussion with them of matters in which they had previously been engaged.

The Prime Minister, summing up the discussion, said that he would arrange for the Secretary of the Cabinet to review the present circulation by the Cabinet Office of Cabinet documents to Ministers and officials and in consultation with the Permanent Heads of the Departments most concerned with sensitive material, the practice in relation to the circulation of such documents within Departments. It should also be ascertained to what extent junior Ministers and Parliamentary Private Secretaries were given access to Cabinet documents, particularly where their own Department was not directly involved. These reviews should extend to Top Secret, Secret and Confidential material. The practice of Civil Servants taking Top Secret and Secret documents home should also be reviewed. In the light of these reviews and of the points made in their discussion, he would subsequently circulate a memorandum making specific proposals for consideration by the Cabinet.

The Cabinet—

Took note with approval of the Prime Minister's summing up.
4. The Cabinet had before them a note by the Lord Chancellor (C (67) 146) to which was appended the report of a Committee of Ministers under his chairmanship on Ministerial publication.

The Lord Chancellor said that the Committee had agreed that some restriction on the publication by Ministers of material which was derived from their experience in office was necessary in order to maintain the principle of collective responsibility, but there was the delicate problem of balancing, on the one hand, the requirement of collective responsibility and, on the other hand, the desirability of allowing the production of autobiographical work, which was the raw material of history and the basis of much of the country's accumulated political experience. The Committee found the present situation unsatisfactory: the Official Secrets Acts prohibited the disclosure without authority of any information received by Ministers in their official capacity, and, while there were conventions governing the circumstances in which publication could be authorised for the purpose of the Acts, these conventions were not generally known. The Committee had therefore drawn up a code of conventions which they recommended should be specifically brought to the attention of Ministers. The code would require Ministers, on taking office, to acknowledge that the Official Secrets Acts applied to them; and to undertake that they would not on leaving office remove official papers except, with the permission of the Secretary of the Cabinet, copies of papers (other than those classified Top Secret) with which they had a close personal association; and that they would submit to the Secretary of the Cabinet before publication the manuscript of work based on their experience as Ministers. The security risks inherent in keeping diaries or diary material should be drawn to the attention of Ministers, who should ensure that any typist transcribing the material was aware of the provisions of the Official Secrets Acts, and that such material was securely kept. A Minister should not while in office enter into a contract with a publisher for any work based directly on his Ministerial experience. These recommendations were unanimous, but the Committee were divided on the question whether Ministers should undertake to be bound by suggestions made by the Secretary of the Cabinet for the deletion or amendment of material submitted to him. Three members, who were themselves authors, had objected to this proposal; the other two members had thought that, since it was generally agreed that in the event of legal proceedings a Minister would accept the decision of a judge, it was not unreasonable to ask him to accept suggestions from the Secretary of the Cabinet who was better qualified to advise on whether particular passages would be detrimental to security or to the country's current relations with foreign Powers.

The Home Secretary said that the majority of the Committee had taken the view on broad grounds of principle that, while the Secretary of the Cabinet was best qualified to advise former Ministers
on passages in their work which might be harmful to the national interest, it would be unreasonable to expect Ministers to undertake in advance to accept what would amount to censorship at some time in the future in circumstances which could not be foreseen. In the majority of cases the advice would no doubt be accepted, but a former Minister should be free, if he thought the advice oppressive, to publish and to accept the risk that there might be legal proceedings. It was doubtful whether any Minister could sign the undertaking proposed by the majority of the Committee without secret reservations, and it was important to avoid a distinction growing up between the theory of Ministerial conduct and the actual practice.

In discussion it was pointed out that while an author might be willing to listen to advice from the Secretary of the Cabinet he would be unlikely to agree to be bound by that advice, particularly in relation to works on the machinery of government in which the Secretary of the Cabinet would inevitably have some professional interest. Moreover, the proposed scheme was vitiated by the fact that it would be impossible to control the publication of articles in the Press which could be both highly mischievous and highly remunerative, whereas the author of a book would be required to obtain the assent of the Secretary of the Cabinet. There was no satisfactory alternative to relying on the integrity and good judgment of Ministers. It would be undesirable to seek a binding undertaking which could not be enforced; and a Minister who would be prepared to publish material harmful to the public interest or the reputations of his colleagues might also be prepared to give and subsequently ignore the undertaking.

It was suggested that a distinction should be drawn between questions of security and accuracy and the reticence necessary to preserve the doctrine of collective responsibility. The Secretary of the Cabinet would be a suitable person to handle the former—construing security in the sense employed in the Defence Notice system: in recent instances he had in fact secured the omission of material which would prejudice security. As the servant of successive Governments he was also concerned with the maintenance of the doctrine of collective responsibility and might be able to give an author valuable advice on this aspect of his work. The publication by a former Minister of attacks on the integrity or competence of his former colleagues would, however, harm both the political system and the reputation of the Party concerned, who might as a result be assumed by the public to be incapable of governing under the existing system of collective responsibility. It might therefore be appropriate for the Secretary of the Cabinet to be consulted on matters of security and accuracy, subject to appeal to the Prime Minister of the day; and to refer matters affecting the principle of collective responsibility either to the Prime Minister of the Government in which the author had served, or, if he were not available, to the current leader of his Party. If the author refused in the last resort to accept advice, it might be possible to have
recourse to proceedings under the Official Secrets Acts or to an application for an injunction; but it was unlikely that a judge would consider the political harm that might be done by the publication of the material in question to be sufficient ground for issuing an injunction, and the ultimate sanction would lie in the fact that the author had disregarded the advice of the leader of his Party and in the freedom of those concerned to reply to his criticisms, or to contribute hostile reviews of the book to the Press.

It was argued, however, that reference to the leader of the author's Party would have several disadvantages. It might be thought unfair to expect a former Minister who had disagreed with his Party to submit his manuscript to its leader, or a senior Minister to submit to the judgment of a man much his junior in political service. It would be embarrassing for the leader of the Party to seek the excision of criticism of some of his colleagues but not of others, and an attempt to interfere with the publication of the book would show the Party concerned in an illiberal light. Nevertheless, consultation with the leader of the Party might result in some reduction of inaccurate or malicious comment in the book; and experience suggested that authors would themselves be willing to consult the leaders of their Party. It was suggested, however, that it would be a mistake to attribute too much importance to the publication of autobiographies which were critical of fellow Ministers. An author who wrote from malice served to condemn himself rather than to damage the reputation of his victim; and there was no evidence that malicious autobiographies had harmed the Party concerned in the eyes of the public. Moreover, in view of this growing public sophistication, it might be more important to allow the free publication of material which promoted greater understanding of the operation of government than to protect individual Ministers against the criticism of their former colleagues.

In further discussion the following principal points were made:

(a) The opinion stated in paragraph 14 of the report of the Ministerial Committee that the possibility of publishing dissenting opinion should not be excluded was open to question. It was one thing for a Minister to explain immediately on resignation why he had dissented from the views of his colleagues; but quite another for a Minister who had remained in the Cabinet to claim years later that he had in fact dissented from the policies of his colleagues, especially if they were named, though he had not thought it necessary to resign. It was pointed out, however, that the propriety of disclosures of this kind depended largely on when they were made. Once the official records were open to public scrutiny such disclosures were not necessarily harmful; and to prevent disclosures which had been customary in the past would deprive historians of valuable material.

(b) The keeping of diaries by Ministers involved risks to security, both because Ministers seldom had secure facilities for the custody of the diary itself and because typists employed to transcribe dictation
or tape recordings were unlikely, even if warned of the application of the Official Secrets Acts, to be as conscious of the significance of the warning as would be a civil servant. Moreover, a Minister who kept a diary would have an advantage over any colleagues whom he subsequently chose to criticise. On the other hand, it would not be practicable to forbid Ministers to keep diaries; and the fact that they did so should afford some protection against inadvertent inaccuracy in their autobiographies.

(c) It might be desirable to make a rule that Ministers should not attribute official advice to a named individual, since he could not defend himself and his value to the public service and his own prospects might also be prejudged. On the other hand, senior officers of the Armed Forces had enjoyed considerable freedom to criticise the policies of Ministers, and it was not clear why civil servants should be protected by a rule of anonymity. It was possible, however, that the recommendations of the current Committee on the Civil Service might have a bearing on this problem.

(d) It should not be assumed that the Official Secrets Acts could be invoked as an ultimate sanction if a former Minister proved unwilling to accept advice on the amendment of his manuscript. It would be unwise to rely on proceedings either under the Acts or by way of injunction, in view of the reluctance to proceed against a former Minister and the risk that such proceedings would be presented as an attempt to suppress unpalatable information. It was therefore the more incumbent on Ministers who enjoyed this degree of immunity from legal sanctions to accept moral sanctions on the lines which the Committee had proposed.

The Prime Minister, summing up the discussion, said that it was clear that the Cabinet were unwilling to reach a conclusion on the Committee's proposals. He would accordingly give further consideration to the problem himself, in the light of their discussion and in consultation with members of the Cabinet as appropriate; and would later put before the Cabinet an outline of the conventions which might be found acceptable.

The Cabinet—

Took note that the Prime Minister, after further consideration and consultation, would bring new proposals before them.
He would consider in the light of the outcome of the meeting between the BRB and the NUR whether there was any initiative which he could usefully take with either or both sides in the dispute.

The Home Secretary said that the Official Committee on Emergencies would be meeting to consider the situation that afternoon. The main problem was the mounting accumulation of parcels traffic on the railways, and if this continued it would soon be necessary to consider either placing restrictions on the acceptance of parcels or the use of Service aircraft to move them.

In discussion it was pointed out that the attitude of the NUR was contrary to the long-term interests of their members, since the Government's plans for diverting traffic from road to rail under the provisions of the forthcoming Transport Bill depended on the railways demonstrating their reliability: this point had been emphasised to the Union.

There was general agreement that it would be unwise at the present juncture to make use of Service aircraft for the movement of parcels, and a decision on this should be deferred at least until the beginning of the following week.

The Cabinet—

(1) Took note of the statements by the Minister of Labour and the Home Secretary.

(2) Invited the Home Secretary to be guided by their discussion in considering the use of Service aircraft to move parcels.

The Minister of Labour said that the number of dockers on strike in protest against the conditions of decasualisation of dock labour fluctuated from day to day: the previous day's total had been approximately 17,000 out of a labour force of some 60,000. The trouble was largely confined to parts of the Port of London, where nearly one-third of the labour force was on strike, and to Liverpool and Manchester where the ports were "completely stopped. It was unfortunate that the official leadership of the Transport and General Workers Union (T & GWU) had not been prepared to take a firmer stand in the dispute. There were, however, signs that there might be a general resumption of work by the beginning of the following week. A major advance had been secured by the decision of the National Amalgamated Stevedores and Dockers to abandon their opposition to a common register for stevedores and dockers, which was a vital feature of the new decasualisation scheme. There was no initiative which the Government could usefully take at the present time to hasten a resumption of work.

The Home Secretary said that the main effect so far on maintenance of essential services was the delay in unloading Australian mail.

The Cabinet—

(3) Took note of the statements by the Minister of Labour and the Home Secretary.
6. The Cabinet considered a memorandum by the Secretary of State for Economic Affairs (C (67) 151) about the position of the Beagle Aircraft Company.

The Secretary of State for Economic Affairs recalled that the Government had decided in July 1966 to acquire the Beagle Aircraft Company and had reaffirmed their decision in December 1966, at which time it was estimated that the Company's production programme would require subventions from public funds totalling £3.2 million in the five years to 1970-71. The Company had now, however, submitted a revised programme and new financial estimates which would increase the requirement for Exchequer assistance to £4.5 million up to 1970-71. This change in the situation was largely due to a short-fall in sales of the B-206 aircraft and to the inclusion in the programme of new variants of this aircraft and of the smaller B-121.

In view of this deterioration in the Company's position, the Ministerial Committee on Industrial Policy had considered whether the Government would be justified in going ahead with the project, but had not been able to reach a consensus. Some Ministers had argued that the advantages of the Government's acquisition of the Company had always been marginal, that the deterioration in sales prospects which had now taken place tipped the balance against proceeding, and that the Government should withdraw now before their commitment became too heavy. Other Ministers had felt that short-term fluctuations in cash flow in a project of this kind had to be expected and that the situation had not changed sufficiently to justify withdrawal. In his view, the change in the situation since the Government's decision in the previous December was not sufficiently significant in itself to warrant abandoning the project, and the argument in favour of that course must rest mainly on the proposition that it had been wrong to decide on acquisition originally. The project was not significant from the point of view of its effects on employment or on technological innovation and should therefore be judged solely by commercial criteria. On that basis it was doubtful whether the Government should continue with the acquisition of the Beagle Aircraft Company and the support of its programme.

In discussion it was argued that there had been marked deterioration in the Company's prospects over the previous nine months. Estimates of sales had proved over-optimistic, and there were now no outstanding orders for the Company's principal aircraft. The prospective rate of return on the Government's investment over the next 13 years was now likely to be a little more than half the return of 6.2 per cent which was expected when the original decision was taken, and the investment of Government funds at such a low rate of return would represent a misuse of resources. While there might be some embarrassment to the Government if they now decided to withdraw, they would risk even greater embarrassment if
they persisted in supporting a project which the commercial world did not regard as viable, as had been shown by the fact that a number of other companies, after closely examining the prospects of the Beagle Company, had not been prepared to interest themselves in it. If the Government proceeded with acquisition, this would be the first project to be undertaken under the proposed Industrial Expansion Bill, and it would be difficult to defend such a choice during the passage of the Bill through Parliament. The Government should therefore abandon the project. This need not mean that the United Kingdom would be forfeiting any share of the market for light aircraft. A number of other British companies produced such aircraft, and the better course might be to aim at the creation of large organisations for marketing light aircraft which would have a better chance of establishing a world reputation in this field.

On the other hand there was wide support for the view that the Government should proceed with the acquisition of the Company. The change in the situation since the previous December had not been sufficient to warrant reversing the decision taken then and writing off the sum of £2 million which would be involved. If the Government were to withdraw, this would mean the immediate dismissal of some 1,000 employees which would exacerbate the problem of the emigration abroad of skilled men in the aircraft industry. The Company still had reasonable sales prospects in a world market for light aircraft which was expected to expand at a rate of 10 per cent per annum over the next decade. All the Company’s sales would either be exported or would represent a saving of imports. Marketing arrangements had been made with a major concern in the United States and were being negotiated with organisations in France and Germany. The quality of the Company’s management should be improved by the appointment of a new Managing Director and a suitable candidate had now been found. If the Government were to change their mind about the project so soon after their original decision, the aircraft industry, which was already beset by many uncertainties, would have legitimate ground for complaint.

The Prime Minister, summing up the discussion, said that on balance the Cabinet agreed that the situation had not changed sufficiently to warrant reversing their earlier decision. Arrangements for the acquisition of the Company and for support of its programme should therefore continue.

The Cabinet—

Agreed that the Government should proceed with the acquisition of the Beagle Aircraft Company and with support for its programme.
500 from the August figure, representing a percentage rate of 2.4% which was unchanged since August. The number of unfilled vacancies for adults, seasonally adjusted, showed an increase of about 10,000 between August and September, and this was the first increase in any month since April 1966. While it would be unwise to place too much weight on the figures for a single month, these movements might well mark the beginning of a general recovery in the economy. There had also been a slight improvement in the areas of high unemployment where the unadjusted percentage rate of unemployment had fallen between August and September from 4.3 to 4.2 in the Northern Region, from 4.1 to 4.0 in Wales and from 3.8 to 3.7 in Scotland.

In discussion the Cabinet were informed that the seasonally adjusted increase between August and September in the number of adults wholly unemployed was only 4,000 compared with an average monthly increase of 16,000 over the period March to August. The slight fall of 500 in the total registered unemployed compared favourably with a rise of 23,000 from August to September in 1966. There was still appreciable unemployment among school leavers, but the total number unemployed was only some three-fifths of the corresponding number at the time of the last recession in 1963. It seemed a reasonable inference from these figures that the economy was beginning to recover and further evidence was provided by the increase in the production index in July, the signs of increased activity in the motor industry and in housing. Moreover, the effects of a large amount of public expenditure would be increasingly felt over the coming months. Developments on the Stock Exchange reinforced the view that business confidence had not suffered to the extent that had seemed possible some months earlier. If the signs of recovery were borne out, it would become important to avoid action which might lead to the overloading of the economy in the following year, and the Government’s measures should continue to be concentrated mainly on correcting regional disparities in unemployment and on selective strengthening of the economy.

In further discussion the following points were made—

(a) The Prime Minister, with the Secretary of State for Economic Affairs and the Minister of Power, had discussed with the Chairman of the National Coal Board on the previous evening the possibility of selective deferment of pit closures with a view to alleviating unemployment during the coming winter. The fact that this discussion had taken place was public knowledge, but talks were continuing and no Government statement on their substance could yet be made.

(b) It would be preferable not to seek special publicity at the present time for the measures under consideration for assisting miners displaced by pit closures, including the scheme for protecting the earnings of those made redundant over the age of 55. It would be
more appropriate for the announcement of these measures to be coupled with the statements which would have to be made later about fuel policy.

The Cabinet—
(1) Took note of the statement by the Minister of Labour on the September unemployment figures.
(2) Invited Ministers to be guided by the points made in discussion in any public reference to the rundown of the coalmining industry.

_Cabinet Office, S.W.1._

_22nd September, 1967._
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 28th September, 1967, 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. ROY JENKINS, M.P, Secretary of State for the Home Department
The Right Hon. PATRICK GORDON-WALKER, M.P, Secretary of State for Education and Science
The Right Hon. GEORGE THOMSON, M.P, Secretary of State for Commonwealth Affairs
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. ANTHONY WEDGWOOD BENN, M.P, Minister of Technology
The Right Hon. MICHAEL STEWART, M.P, First Secretary of State
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, President of the Board of Trade
The Right Hon. PETER SHORE, M.P, Secretary of State for Economic Affairs
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 following were also present:
The Right Hon. JOHN DIAMOND, M.P, Chief Secretary, Treasury
The Right Hon. SIR ELWYN JONES, Q.C, M.P, Attorney-General (items 3 and 4)
The Right Hon. JOHN SILKIN, M.P, Parliamentary Secretary, Treasury

Secretariat:
Mr. W. A. NIELD
MISS J. J. NUNN
Mr. E. M. ROSE
Mr. L. ERRINGTON
Mr. P. E. THORNTON
Mr. K. BARNES

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1. The Prime Minister said that he proposed during the debates at the Labour Party Conference at Scarborough to make appropriate references to certain Government decisions on which it would be desirable for the departmental Ministers concerned to hold Press conferences later the same day. It was not appropriate for civil servants to be associated with Party Conferences but there would be no objection to Ministers arranging for their Information Officers to be present at these Press conferences, and for departmental advisers to be available either at the Press conferences or if the Minister needed them for the despatch of urgent public business provided that Ministers ensured that no civil servant was, in any way associated with the proceedings at the Party Conference.

The Cabinet—

Took note, with approval, of the Prime Minister’s statement.

2. The Foreign Secretary said that in the course of his visit to New York he had talks with 30 Foreign Ministers. He thought that his speech at the General Assembly of the United Nations in New York had been well received and had succeeded in putting our point of view without giving offence to those who did not share it. In particular the Spanish Foreign Minister, Señor Castiella, after hearing what he had said on Gibraltar, had decided not to react as strongly as he had previously thought of doing. The Foreign Secretary had also spent some time with the President of the United States in Washington.

His talks had been dominated by the Middle East. The general view was that the Middle East question should be put to the Security Council as soon as possible. The aim should be to obtain a balanced resolution which provided not only for Israeli withdrawal from occupied Arab territory, but also for recognition by the Arab States of Israel’s right to exist. He had discussed this question with the Soviet Foreign Minister, Mr. Gromyko. Although Mr. Gromyko had gone back on his previous support for such a resolution, there were indications that he might be prepared to accept a resolution on similar lines if the majority of Arab States, including the United Arab Republic (UAR), would acquiesce. He had also discussed with the Yugoslav Foreign Minister President Tito’s proposals for a Middle East settlement. In their present form these proposals failed to provide the necessary balance between Israel’s withdrawal and recognition by the Arab States of her right to exist. But the Yugoslav Foreign Minister, Mr. Nikezic,
had indicated that the proposals were not final and were open to any improvements. The attitude of the Arab States, with the exception of Algeria and Syria, continued for the moment to be realistic and restrained; and they no longer seemed to believe that they would benefit from renewed fighting or that Israel could be destroyed. The attitude of the Israeli Foreign Minister, Mr. Eban, on the other hand, had been very rigid.

There were various possibilities of practical progress including the appointment of a United Nations Representative in the Middle East to help establish contact between the two sides, some new arrangement for the refugees and possibly a move towards reopening the Suez Canal. He had had a long talk with the Foreign Minister of the UAR, Mr. Mahmoud Riad, who had asked him to send a representative to Cairo for talks in the near future with a view to the resumption of diplomatic relations. He proposed to do so in mid-October and hoped that this would open the way to discussion of the reopening of the Suez Canal. Meanwhile he had suggested to Mr. Riad that the UAR should open the southern end of the Canal to release ships now detained. He had also discussed the Suez Canal with Mr. Eban and had the impression that it would be easier for Israel to withdraw from the banks of the Canal and thus facilitate its reopening if the Security Council passed a balanced resolution recognising Israel's right to exist and at least implying her right to use the Canal even if this right were not exercised initially.

In discussion attention was drawn to the importance of the early reopening of the Suez Canal. It was also important to bring home to Israel the price which we were now paying for giving her moral support. The closure of the Suez Canal was costing us about £200 million on the balance of payments and had deprived us of the achievement of a favourable balance this year and of the opportunity to make an earlier and more decisive start with the process of reflation.

The Cabinet—

(1) Took note of the statement by the Foreign Secretary and of the points made in discussion.

The Foreign Secretary said that his discussions on Vietnam in New York had been discouraging. The attitude of the Soviet Foreign Minister, Mr. Gromyko, had been totally inflexible; and there seemed to be little chance that between now and the celebration in November of the 50th Anniversary of the October Revolution the Soviet Government would risk any initiative which might incur criticism in Communist countries. The United States attitude was not much more hopeful. There did not appear to be much room for manoeuvre on either side at present.

In discussion it was pointed out that there was a strong feeling in this country that the war in North Vietnam was an unjust war and a consequent demand that the Government should clarify their attitude towards it. Besides the moral issue there was also the
political question of our international standing in the world, especially among the developing countries of Asia where we were in danger of being regarded as supporting American intervention in Vietnam. It was generally known that we were unsympathetic towards the continued bombing of North Vietnam and would welcome its suspension. We should therefore say so publicly.

On the other hand it was argued that the United States were not responsible for the war in the first instance. North Vietnam had broken the Geneva Agreement and the United States had the right to afford South Vietnam the assistance for which they had been asked. Repeated United States offers of negotiations had been rejected by the North Vietnamese, and the Soviet Union continued to be their major supplier of arms. If the United States were now to break faith with South Vietnam the confidence of her other allies, not only in Asia but in Europe and the rest of the world, would be gravely shaken.

The attitude of the Government had been clearly and repeatedly stated, in particular by the Foreign Secretary at the Labour Party Conference at Brighton in October 1966. The Government did not support the war. They deplored its escalation. They condemned the continued bombing of North Vietnam. But they also condemned terrorist activities in South Vietnam. It was essential to keep this balance if we were to retain our power to influence events. Our attitude was understood by the United States and put us in a position to exercise our influence in favour of a settlement at the appropriate time. We had already taken a number of initiatives in this sense, in particular in February 1967 at the time of the visit to London of Mr. Kosygin, the Soviet Prime Minister. The United States attitude had changed considerably over the last two years: the fact that they had shown willingness to negotiate was largely due to our influence. It was important to retain our influence to help in bringing the war to an end. A public declaration of policy might impair it.

The Cabinet—

(2) Took note of the Foreign Secretary’s statement.

(3) Invited the Foreign Secretary to circulate a paper on Vietnam for consideration at a later meeting.

The Foreign Secretary said he had discussed the Falkland Islands with the Argentine Minister for Foreign Affairs, Senor Costa Mendez, and they had made good progress.

The Foreign Secretary said that he had had a long and frank talk with the Spanish Foreign Minister, Senor Castiella, in the course of which he had made plain that there could be no question of our giving up sovereignty, and that on this basis we would be willing to resume talks with Spain.
He had also had an interesting talk with the French Foreign Minister, M. Couve de Murville, who had been unusually friendly. In reply to direct questions he had appeared to accept that we were bound to join the European Economic Community, and to agree that negotiations might begin by the end of the year.

We had protested as strongly as possible to the United States Government against their failure to consult us or their other allies before announcing their decision to deploy a limited number of anti-ballistic missiles to guard against a possible attack by the Chinese People’s Republic. He had made an immediate public statement, had written to the United States Secretary of State, Mr. Dean Rusk, and had seen the United States Ambassador. He had also left the President of the United States and Mr. Rusk in no doubt about our attitude to the United States decision during his recent discussions with them. It was clear from these discussions that the United States decision was not necessarily irreversible. The United States Secretary of Defense, Mr. McNamara, was now discussing the question with his North Atlantic Treaty Organisation colleagues at their meeting in Ankara.

The Cabinet—
(4) Took note of the statements by the Foreign Secretary.

CONFIDENTIAL

3. The Cabinet considered a memorandum by the Lord President of the Council (C (67) 152) on House of Commons procedure.

The Lord President said that he sought the agreement of the Cabinet to a number of proposals for reforming the procedure of the House of Commons. These had been recommended by the Ministerial Committee on Parliamentary Procedure after a review of the outstanding proposals of the Select Committee on Procedure and of the experience of the experiments with morning sittings and Specialist Committees. The two major proposals, which were also likely to be controversial, were those affecting the Finance Bill and morning sittings. It was proposed that the Committee stage of the Finance Bill should be sent to a Grand Committee of 80 Members and that this proposal should be adopted in the coming Session. While an extended Report stage would be required, the change would save six or seven days on the floor of the House. The timetable for the Finance Bill would be safeguarded by the application of the further proposal for the extension to Committee and Report stages of Bills generally of voluntary timetabling, which could be backed by a resolution if the agreement broke down. The intention to send the Committee stage of the Finance Bill upstairs should be announced along with the other proposed procedural changes in the forthcoming debate on procedure. Although the experimental morning sittings had disposed of a
substantial amount of secondary business, they had not reduced late night sittings. It was therefore proposed as an alternative to enable the Government to move, without notice or debate, the suspension of a late sitting until the following morning. The use of this device might, in practice, be largely confined to the latter part of any session. In order to make the arrangement effective, it would be desirable also to limit to 1½ hours debates on affirmative resolutions taken after 10 p.m. This would be a logical extension to affirmative resolution of the limit applied to negative resolutions during the Conservative Administration; any Order of major importance could still be started before 10 p.m. These proposals would together make Government business substantially more predictable and would reduce the number of late night sittings.

He also sought agreement that where a Bill had been referred to the Second Reading Committee or the Scottish Grand Committee it should be possible to remit the Report stage to that Committee; that Third Readings should normally be formal; and that the procedure for putting amendments should be simplified. It was proposed that the Select Committee on Statutory Instruments should be enabled to consider all statutory instruments and that they should be empowered to report on drafting defects as well as on defects of vires. Further, it was proposed to implement the main recommendations of the Select Committee on Procedure in relation to urgent debates under Standing Order No. 9. The Speaker would have discretion to allow a matter raised under the Standing Order to be debated on the day after it was raised, and would be specifically exempted from any obligation to give reasons for allowing or refusing such a debate. While the change would be likely to confer benefit on the Opposition in moving what were, in effect, censure motions, the Government would benefit also from the longer time available to prepare for the debate and to adjust their business. The Opposition would, in addition, be allowed to select up to four half-days from the 29 supply days for urgent debates. It was proposed that the power to accept a closure motion should, for Report stages only, be extended to the Deputy Speaker.

On Select Committees, he proposed that the Select Committee on Procedure should be reappointed to make an urgent report on the use of Private Members’ time, to be followed by a report on the annual Parliamentary timetable. Meanwhile, six of the 12 days normally allocated to Private Members’ motions should be given to Private Members’ Bills. The Select Committees on Science and Technology and on Agriculture should also be reappointed for a further Session. Failure to reappoint the Committee on Agriculture would be misinterpreted in the light of their recent reports and they should be given an opportunity to make the departmental study for which they had been appointed. Further Select Committees should be appointed to deal respectively with those activities of the Department of Education and Science and the Scottish Education Department which were not already covered by the Select Committee on Science and with foreign affairs. A Select
Committee might also be required in connection with the Industrial Expansion Bill, and a separate Committee should be established as required to consider the desirability of legislation in particular fields; a suitable subject for such an enquiry would be the question whether there should be a statutory restraint on the invasion of the privacy of the citizen.

The Ministerial Committee had also recommended that the Clerks to the House of Commons should be relieved by resolution of the House of their obligation to wear wigs and gowns except on ceremonial occasions; he proposed to pursue discussions with the Speaker on this recommendation.

In discussion there was general agreement with the proposals for changing the procedure of the House of Commons and the following principal points were made:

(a) Finance Bill. It was suggested that a decision might be deferred on whether the Finance Bill in the coming Session should necessarily be referred to the proposed Grand Committee, but there was general agreement that the balance of advantage lay in introducing the change in time for the next year's Finance Bill. It was essential that the proposed arrangements for timetabling the Committee and Report stages of Bills should apply to the Finance Bill and it was to be understood that the Grand Committee would not sit in the morning, although formally this would be a matter for the Committee itself.

(b) Timetabling of Committee and Report stages. The proposed procedure should be tried experimentally on a major Bill. Consideration should be given to selecting the Transport Bill, but this as a controversial measure might not be suitable. It was agreed that further consideration should be given to this problem.

(c) Report stage of Second Reading Committee Bills. It was suggested, with particular reference to Scottish Grand Committee Bills, that the power to rectify on the floor of the House amendments which had been carried in committee should be adequately safeguarded. The adequacy of the safeguards in relation to Scottish Bills should be further considered by the Lord President, in consultation with the Secretary of State for Scotland.

(d) Third Readings. The proposal to take Third Readings without debate, unless an amendment had been tabled over the names of six members, would be more acceptable if Finance Bills were excepted, since the Third Reading of such Bills could provide an opportunity for general debate on economic affairs. Moreover the Third Reading of Bills founded on Ways and Means Resolutions could not, under existing Standing Orders, be taken on the same day as Report stage. It was agreed that the proposal to take Third Reading without debate should not apply to Finance Bills.

(e) Statutory Instruments. If the Select Committee on Statutory Instruments were empowered to report on drafting defects, statutory instruments urgently required might be delayed. It was agreed that the Committee should not be so empowered.
Standing Order No. 9. Although the Speaker would have regard to the views expressed by the Select Committee on Procedure on the exercise of his discretion in granting debates under the Standing Order, he would be unduly exposed to pressure to concede debates if, as proposed, he were freed from past precedent and also exempted from giving reasons for refusing debates. While the Speaker should be freed from past precedent he should continue to be required to give his reasons for refusing debates; at least it should be left open to him to do so. It was agreed that the Lord President should ascertain the views of the Speaker on this suggestion and report them to the Prime Minister.

House Officers' dress. It was agreed that it would be desirable to relieve the Clerks of the House of the obligation to wear wigs and gowns except on ceremonial occasions, such as the Opening of Parliament. The Lord President should discuss this proposal further with the Speaker. Corresponding changes in the House of Lords should be considered by the Lord Chancellor and the Lord Privy Seal.

Select Committee on Procedure. It was agreed that the Lord Chancellor and the Lord Privy Seal should consider in consultation with the Lord President the implications for the House of Lords of the proposal to reappoint the Select Committee on Procedure to review the use of Private Members' time in the House of Commons.

Hours of sittings. In presenting the proposal for suspension of sittings after 10 p.m. until the following morning, it would be important not to concede that the establishment of regular morning sittings had been abandoned as a long-term objective. It was pointed out, however, that even in the long term, if the use of committees were expanded, and if late night sittings were largely eliminated, it might well be found convenient to leave mornings free for committee work and to continue to take business on the floor of the House in the afternoons and evenings.

Select Committee on Agriculture. It was agreed that in the circumstances the Select Committee on Agriculture should be reappointed, but it should be made clear that this was for only one year to enable it to discharge the task for which it had been created. It had already been explained to the Chairmen of Committees that Departments could not enter into discussion with them on matters which were currently the subject of sensitive negotiation so that the farm price review would not be open to investigation until after it had been completed. Agriculture in Scotland should continue to be excluded from the Committee's field of study. Early consideration should be given to the form of the reply to the Select Committee's recent report.

Select Committee on Foreign Affairs. It would be undesirable to appoint a Select Committee on Foreign Affairs with a wide remit but there were both practical and presentational difficulties in establishing a limited field within which it could
operate. It was therefore agreed that a Select Committee on Foreign Affairs should not be appointed in the coming Session.

(i) Select Committee on Science and Technology. This Committee had expressed the wish to investigate research for defence purposes. It was, however, clearly established that Select Committees should not have access to information affecting national security. The matter should be discussed by the Secretary of State for Defence with the Chairman of the Committee.

(m) Select Committee on Productivity. It was suggested that a Committee on productivity should be established. In view of the existence of the Select Committee on the Nationalised Industries, such a Committee could in practice be expected to concentrate on private industry, and could be used in connection with the Industrial Expansion Bill. It was pointed out, however, that the establishment of a Committee with wide terms of reference might disturb working relations with the Economic Development Councils and with private industry. It might be preferable to limit the terms of reference to Government action in relation to productivity. A decision on this proposal would, however, fall to be taken in the context of the Cabinet's discussion of the proposed White Paper on the Industrial Expansion Bill.

(n) Pre-legislation Committee. It was agreed that it might be appropriate for proposals for legislation which were not the subject of party controversy but raised important social issues to be referred on the initiative of the Government to a pre-legislation Committee. Care should be taken to avoid any implication that a pre-legislation Committee could appropriately consider proposals for legislation outside this restricted field.

The Prime Minister, summing up the discussion, said that the Cabinet approved the proposals for changes in House of Commons procedure set out in C (67) 152, subject to the points agreed in the course of discussion. The Lord President should settle the details of the proposals in relation to the Finance Bill in consultation with the Chancellor of the Exchequer. The Lord President should also arrange for the Ministerial Committee on Parliamentary Procedure to review the present arrangements for replying to the requests of Select Committees, which involved considerable delay before the Government's answer to a Committee's criticism was made public. The Ministerial Committee should also consider urgently in consultation with the Ministers primarily concerned the reply to the recent report of the Select Committee on Agriculture. The opportunity should be taken to secure the publication of the Ministerial correspondence establishing agreement that the Select Committee would not investigate matters which were the subject of sensitive negotiations.

The Cabinet—

(1) Approved C (67) 152, subject to the points agreed in discussion.

(2) Invited the Lord President to discuss further with the Speaker of the House of Commons the points made at (f) and (g) of their discussion.
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The Cabinet—

(1) Approved C (67) 152, subject to the points agreed in discussion.

(2) Invited the Lord President to discuss further with the Speaker of the House of Commons the points made at (f) and (g) of their discussion.
(3) Invited the Lord President to discuss with the Chancellor of the Exchequer the details of the proposals affecting the Finance Bill and with the other Ministers concerned the points made at (c) and (h) of their discussion.

(4) Invited the Lord President to arrange for the Ministerial Committee on Parliamentary Procedure in the light of the Prime Minister's summing up:
   (i) to give early consideration, in consultation with the Foreign Secretary and the Minister of Agriculture, to the reply to be sent to the Select Committee on Agriculture on their recent report;
   (ii) to review the arrangements for replying to reports of Select Committees and the Public Accounts Committee.

4. The Cabinet considered a memorandum by the Minister of Technology (C (67) 153) to which was attached a draft White Paper, revised in the light of discussion by the Ministerial Steering Committee on Economic Policy, setting out proposals for an Industrial Expansion Bill.

The Prime Minister said that his colleagues would wish to know the attitude of the Confederation of British Industry (CBI) towards the Government's proposals as this had emerged from his recent discussions with their representatives. The Grand Council of the CBI had unfortunately chosen to take a doctrinaire line in opposition to the Government's proposals and had instructed the officers of the Confederation that they were not to discuss with the Government any possible safeguards or improvements; they were authorised only to seek clarification of the Government's objectives and to propose alternative ways of achieving them. He had seen representatives of the CBI the previous evening, when they had emphasised the strength of feeling amongst their members, claiming that even the more moderate elements were completely opposed to the Government's plans. Two main grounds for objection had been put forward. First, the CBI representatives had argued that Parliamentary scrutiny of projects promoted under the Industrial Expansion Bill would be too perfunctory: projects should be authorised by the full legislative procedure. In reply to this he had emphasised the need for speed in dealing with situations which could not be foreseen, and had instanced the Government's recent actions in arranging assistance to the Cunard Company. Second, the CBI representatives had objected on ideological grounds to the Government taking powers to purchase equity shares by agreement with the firms concerned; it had emerged in discussion that this, rather than fear of inadequate Parliamentary control, was the CBI's fundamental objection to the proposals. The representatives...
of the CBI had maintained that for the Government to proceed with the Bill would damage both industrial confidence and the relations between the Government and industry. They had conceded under pressure that it was unlikely that employers would in practice allow their investment plans, especially those involving Government assistance, to be influenced by the enactment of the Bill and, while they still maintained that some deterioration in relations with the CBI was inevitable, this would only be temporary. The CBI representatives had, however, eventually accepted that they could not refuse indefinitely to discuss the provisions of the Bill and would at some point need to seek a fresh mandate from their members in order to do so. The position of the CBI would probably be that, while they would initially maintain their opposition in principle, once it was clear that Parliament would enact the Bill they would subsequently co-operate with the Government in seeking ways of improving it. The CBI representatives had accepted that the Government could not tolerate a veto on their actions and must now make their own decisions in the matter.

He proposed to refer to the Government's proposals in his speech to the Labour Party Conference in the following week, and it would be desirable, immediately following his speech, for the Minister of Technology to arrange for fuller briefing of the industrial correspondents of the Press on lobby terms. The Cabinet might wish to consider whether it would be wise to publish a White Paper at all; to do so might simply give more scope to the Government's critics, and it might be sufficient if a full explanatory memorandum were published with the Bill. If, however, the Cabinet thought that a White Paper was desirable, it would be necessary to consider the timing of publication: one possibility would be for the Bill to be mentioned in The Queen's Speech at the Opening of the new Parliamentary Session, for him to describe the Government's plans in his speech during the Debate on the Address, and for a White Paper and the Bill to be published shortly thereafter.

In discussion, there was general agreement that the Government should not be deterred from proceeding with the Bill by the opposition of the CBI. The lack of powers such as the Bill would confer had already caused difficulties with a number of projects where Ministers had been obliged to take the risks of proceeding in advance of securing Parliamentary authority. It was necessary to be able to take action swiftly on proposals for Government assistance initiated by industry itself, and this would be impracticable if separate legislation had to be introduced in each case.

In further discussion it was the general view that the Government should publish a White Paper setting out their proposals. There was considerable genuine misapprehension about the Government's intentions, and a White Paper would be the best means of dispelling it. As regards timing, there was some support for the view that publication soon after the Government's proposals
had been considered by the National Economic Development Council (NEDC) at its meeting on 9th October would be desirable, lest the Government's case should go by default. On the other hand it was recognised that other considerations might point to deferring publication until after The Queen's Speech. It would be desirable to defer a decision on this matter until the reactions of the NEDC could be assessed.

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

(a) The main fear of the CBI in relation to acquisition by the Government of equity holdings was that such holdings would be used to influence the policy and position of the firms concerned. Consideration should be given to the desirability of stating in the White Paper that the Government proposed to limit itself to participation in the profits of enterprises in which it held shares, and would not seek to influence the policy of the managements concerned: this would mean that the Government would follow the practice commonly adopted by insurance companies in relation to firms in which they held shares.

(b) Consideration should be given to the desirability of setting up an advisory council, with representation from industry, to advise the Government on the exercise of the powers in the Bill. If this were accepted, an appropriate reference should be included in the White Paper.

(c) It might be possible to find better examples than those given in paragraph 4 of the draft of projects in which the Industrial Reorganisation Corporation (IRC) and the National Research and Development Corporation had participated. In particular, the reference to the Hovercraft would not be popular with some interests and might be omitted.

(d) The drafting of the second sentence in paragraph 5 should be improved.

(e) The reference in lines 11-12 of paragraph 7 to sustaining investment “in key sectors” should be qualified. In a number of key sectors, for example chemicals, it was not practicable to take such action and the drafting should reflect this.

(f) It would be preferable in the last two sentences of paragraph 7 to refer to the delays involved in seeking legislation rather than to the difficulty of legislating.

(g) Paragraph 8 listed a number of types of project where action by the IRC would not be suitable. It should be made clear that the Government would nevertheless often want to seek the advice of the IRC in cases of this kind.

(h) In line 6 on page 5, after the words “social policy” there should be inserted the words “particularly regional policy”.

(i) A number of references to Parliamentary procedure were too imprecise. In the last sentence of paragraph 9, there should be substituted for the phrase “Parliamentary authority” the words
specific legislation” or some similar phrase. The reference at the beginning of paragraph 11 to “a faster and more flexible Parliamentary procedure” should be amplified to make clear that the essential point was to obviate the need for a series of separate Bills, and to distinguish the two concepts of “timing” and “control” which were run together in the draft; and the effectiveness of the form of Parliamentary control proposed should be fully brought out. The reference in line 8 of paragraph 15 to opportunity for Parliamentary debate should be amended to state specifically the procedure envisaged.

(j) Paragraph 10 of the draft should be reconsidered. The passage on page 6 gave an unfortunate impression that the Government would be prepared to assist firms or projects irrespective of their commercial viability. This was inconsistent with what was said in paragraph 16 about the intention to subject projects under the Bill to stringent examination.

(k) Further thought should be given to the financial procedures referred to in paragraph 13.

(l) Paragraph 16, which stressed the importance of a successful private sector in industry, should come earlier in the draft, possibly after paragraph 1. This paragraph was important from the point of view of the impact of the proposals on industry, and the wording should be further examined to see if it could be strengthened.

(m) In line 3 on page 9, the words “partnership in” should be inserted before “launching”.

(n) All the references in the draft to the proposal for a Select Committee to examine projects promoted under the Bill should be regarded as provisional, pending further consideration of a Select Committee on Productivity.

(o) Much of the misgiving felt by the CBI was due to their fear that equity participation by the Government in particular firms might in a number of ways give those firms an unfair advantage over their competitors—though in fact the same difficulty arose equally in respect of existing forms of Government assistance not involving equity participation. Given that selective intervention was the Government’s settled policy, it might not be possible to say anything in the White Paper to allay the fears of the CBI on this point, but the Government would have to be prepared to deal with this criticism in defending the Bill.

The Prime Minister, summing up the discussion, said the Cabinet agreed that a White Paper should be published setting out the Government’s proposals for the Industrial Expansion Bill, and that the timing of publication should be further considered in the light of the reactions of the NEDC at its meeting on 9th October. The Secretary of State for Economic Affairs, in consultation with the Lord President, the President of the Board of Trade, the Minister of Technology and the Chief Secretary, Treasury, should now arrange for the draft White Paper to be revised in the light of the discussion and recirculated to the Cabinet as soon as possible. The need for a flexible procedure would best be met if he, in consultation
with the Ministers concerned with the revision of the draft, were authorised to arrange publication of the White Paper, if political considerations made this desirable, shortly after the NEDC meeting on 9th October; otherwise the Cabinet would decide on the timing of publication as soon as possible thereafter.

The Cabinet—

(1) Invited the Secretary of State for Economic Affairs to arrange in consultation with the other Ministers concerned for a revised draft of the White Paper annexed to C-(67) 152 to be circulated to the Cabinet.

(2) Agreed that the timing of publication of the White Paper should be determined as proposed by the Prime Minister in his summing-up.

Cabinet Office, S.W.1.
28th September, 1967.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Wednesday, 11th October, 1967, 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. 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, President of the Board of Trade
The Right Hon. PETER SHORE, M P, Secretary of State for Economic Affairs
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 following were also present:

Mr. NIALL MACDERMOT, QC, M P, Attorney-General (Items 3 and 4)
Mr. NIALL MACDERMOT, QC, M P, Minister of State, Ministry of Housing and Local Government (Items 3 and 4)
Mr. ELWYN JONES, QC, M P, Attorney-General (Items 3 and 4)
Mr. E. M. ROSE, Parliamentary Secretary, Treasury

Secretariat:

SIR BURKE TREND
MISS J. J. NUNN
MR. E. M. ROSE
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1. The Prime Minister said that the Cabinet would wish at their first meeting since the death of Lord Attlee on 8th October to record their sense of the outstanding services which he had rendered to the country and to the Labour Movement, and their sympathy with the members of his family in their loss. He proposed that he should send an appropriate message to the late Lord Attlee's family on behalf of the Cabinet and arrange for flowers to be sent to the funeral in the Government's name.

The funeral, later that day, would be private; but members of the Cabinet would have an opportunity to pay their own tribute to Lord Attlee on the occasion of the Memorial Service and the interment of his ashes in Westminster Abbey on 7th November.

The Cabinet—

(1) Concurred in the Prime Minister's reference to the late Lord Attlee's services.

(2) Endorsed the proposal that a message of sympathy should be sent to the late Lord Attlee's family, and that flowers should be sent in the Government's name to his funeral.

2. The Foreign Secretary said that consideration by the European Economic Community (EEC) of our application for membership was now moving to a further, and perhaps critical, stage; and it would be right to give some consideration to what our tactics should be. The Ministerial Council of the EEC had now received the Opinion on our application which they had requested the Commission to provide. Their discussion of it at the Ministerial Council on 2nd/3rd October had been purely formal; but they would be giving substantive consideration to it at the next meeting on 24th/25th October. The Commission's Opinion, which was an unanimous one, was for the most part helpful to us and recommended that there should be early negotiations on our application. It contained, however, a critical section, which had been much publicised, on the economic and financial position of the United Kingdom, which reflected many of the points which the French President had taken in resisting our claims for membership. This section of the Commission's report, however, whilst raising serious problems as to the compatibility of our present economic and financial position with membership of the Community, did not go so far as to say that these problems made membership impossible; and the general recommendation in favour of early negotiations was, like the economic and financial section, agreed to unanimously by all the Commissioners.

A further factor to be taken into account was that the French President had taken an unusual initiative in sending for HM Ambassador in Paris for an interview on Thursday, 5th October, and in bringing forward the time of the interview from the evening to the morning. This was the more interesting in that the President was no
doubt aware of the debate on European policy which was taking place at that time at the Annual Conference of the Labour Party at Scarborough. It was difficult, however, to see what his objective had been in seeking this interview, since, whilst disclaiming any hostility to the United Kingdom, he had said nothing that was new, and nothing that was helpful, and certainly nothing to indicate that he intended to exercise an early veto on our application.

The next occasion which it was possible to use to further our application was the meeting of Western European Union (WEU) in London on 12th/13th October. For reasons unconnected with our application, however, all the Foreign Ministers of the WEU Powers, except Dr. Luns of the Netherlands and M. Gregoire of Luxembourg, would be unable to attend the meeting by reason of absence abroad. In view of the clear risk that this situation might be publicly misrepresented as a rebuff to the United Kingdom, he had advised Dr. Luns that in all the circumstances it might be wiser to arrange for the meeting to be held at a rather lower level. There were in any event other considerations which suggested that it would not have been right to make the WEU meeting a major occasion for pressing our claim for membership and early negotiations to that end.

The next two occasions which might be used for this purpose would come together, namely the visit of the Federal German Chancellor, Dr. Kiesinger, to London on 23rd/25th October, and the meeting of the Ministerial Council of the EEC on 24th/25th October, at which the Federal German Republic would be represented by the Foreign Minister, Herr Brandt, with the German Economic Minister, Dr. Schiller, in the chair. The Federal German Chancellor, whose attitude would be a key factor in this situation, would arrive in London just before the Ministerial meeting and it was of great importance to make the most of this opportunity. Much would depend on the outcome of the Ministerial Council; and he had arranged for appropriate contingency planning to take place to cover various possible eventualities (including the exercise of a French veto at that meeting, although this was perhaps unlikely), with the general objective that we should be able to maintain initiative and momentum in pursuit of our application.

In discussion the question was raised whether it was wise to take the line in public statements that we should continue to pursue our application for membership, however long resistance to it might be maintained; or, in rebutting French propaganda about the “Anglo-Saxons”, to write down our relationship with the United States of America, an attitude which might be open to interpretation as being positively anti-American. On the other hand the statements which had been made recently on both these questions were not different in substance from statements made by members of the Government on earlier occasions. Thus, the statement that “we would not take 'No' for an answer” to our application for membership of the EEC had been used repeatedly and was a correct description of our attitude over the past year or more: it was important, so far as possible, to maintain this attitude in relation to the French Government. As regards our relationship with the United States, recent statements,
although over-emphasised by certain sections of the Press, were consistent with the position which we had always maintained on this subject. The United States Administration were in no doubt about the relationship between the two countries and would not be moved by tendentious Press treatment of it. It would be advantageous, as a corrective to such Press treatment, for the text of the statement in question to be circulated for the information of the Cabinet.

It was also urged that it was important, especially in the context of the North Atlantic Treaty Organisation (NATO), to avoid giving the impression that we were unduly responsive to French pressure to change our position in the hope of easing our entry into the Community. On the other hand it was pointed out that the members of the Community were also members of NATO and that France was the only one whose adherence to it was less than wholehearted. The French President had been warned that his pursuit of an anti-American line might, in the circumstances just described, produce the opposite result to that which he intended; but it was clear that whilst he recognised the importance which his colleagues placed on their North Atlantic relationships, he did not allow himself to be in any way deflected by this.

In further discussion it was suggested that it was disquieting that the critical section of the Commission’s Opinion on our application for membership, concerning the alleged disequilibrium in the British economy, was unanimously approved; still more so the suggestion contained in it that we should concert with the Community, as part of any negotiations with them, the measures that should be taken to remedy that disequilibrium. It would be important to know more of what might underlie this suggestion, especially as it appeared to have some effect on opinion in the United Kingdom. There were two ways of looking at the problem of sterling and of the stability of the British economy, namely what measures we should take to restore stability if we were on our own and what measures we should take as members or potential members of the EEC. If our economic and financial position was to be a central feature of the negotiations, it would be important to know in advance to what position we should fall back if, as the Commission’s report suggested, we came under pressure to withdraw from our present line. It was pointed out, however, that this particular section of the Commission’s Opinion was very probably of French origin; and, whilst it had been unanimously approved by the other Commissioners, this could well be the price paid for securing unanimous agreement to the crucial recommendation that there should be early negotiations. Whilst we ourselves had not, of course, referred to these problems in the statement supporting our application, we had recognised that they would inevitably be brought into the negotiations and had expressed willingness to consider any questions which the Six wished to raise with us. The Commission’s Opinion was not that organisation’s last word, nor had it been accepted by the other members of the Community; and it was clear that the other major problems to which we had referred in the statement made in July at WEU on our
application would have to be the subject of negotiations, whereas it was possible that from their nature, the questions raised in the economic and financial section of the Commission's report might have at least in part to be dealt with separately. It would not in any event be in our interest to highlight still further, or to manifest concern about, the prominence given to our economic and financial position in the Commission's Opinion or to draw attention to the part the French were thought to have played on this. Indeed, it was of great importance to avoid anything which might magnify or give credence to sensational reports appearing in the Press about our economic position and what we might do to strengthen it.

The Cabinet—

(1) Took note with approval of the statement by the Secretary of State for Foreign Affairs.

(2) Took note that the Prime Minister would arrange for the circulation to the Cabinet of the text of the recent statement considered in their discussion.

The Foreign Secretary said that the Security Council of the United Nations might meet within the next few days to discuss the Middle East situation. There was a growing hope that the moderate Arab States would accept a balanced resolution providing not only for Israeli withdrawal from occupied Arab territory but also for recognition by the Arab States of Israel's right to exist. But the attitude of Israel was still uncertain.

In discussion attention was drawn to the importance of using all possible means to bring home to Israel that the Middle East crisis, and particularly the closure of the Suez Canal, was costing our balance of payments about £20 million a month, and that this was bound to affect our policy in the Middle East. India too was suffering severely. If Israel appeared to be responsible for prolonging the crisis, she would risk being isolated. It should be emphasised that her own best interests lay in bringing the crisis to an end.

The Prime Minister said that there had recently been speculation in the Press that the Commonwealth Secretary was about to begin further negotiations with the illegal régime in Rhodesia. This speculation had come at a time when the Commonwealth Secretary was considering details of his forthcoming tour of Africa and was under pressure from the Governor to visit Rhodesia. The fact was that there had been no sign in recent weeks of any movement towards a settlement on the part of the illegal régime. On the contrary, there were indications that the illegal régime were calling in question the Government's six principles. The Defence and Oversea Policy Committee would shortly be considering the position.

The Commonwealth Secretary said that we had withdrawn our representatives from Enugu, the capital of the Eastern Region, which was now effectively in the hands of Federal Government forces. Only about 100 United Kingdom nationals out of 3,500 now remained in the Eastern Region, and these had been strongly advised to go to the neighbouring State of Cameroun. Meanwhile, we were doing everything possible to persuade the Federal Government, on the basis
of their victories, to negotiate from strength and in the hope of avoiding massacres. We had had a favourable response from the Federal Government, but there had so far been no response from the authorities of the Eastern Region.

The Cabinet—
(3) Took note of the statements by the Foreign Secretary, the Prime Minister and the Commonwealth Secretary.

3. The Cabinet had before them a note by the Lord President of the Council (C (67) 155) to which was annexed the draft of The Queen’s Speech on the Prorogation of Parliament.

In discussion a number of amendments were agreed and the following points were made—
(a) The proposed reference to Hong Kong suggested that the Government’s attitude was purely passive. The passage should indicate that the Government “supported” the people of Hong Kong.

(b) There should be a reference in the paragraph on Rhodesia to the multiracial principles approved by Parliament.

The Cabinet—
Subject to the textual amendments agreed in discussion, approved the draft of The Queen’s Speech appended to C (67) 155.

4. The Cabinet had before them a note by the Lord President of the Council (C (67) 156) to which was annexed the draft of The Queen’s Speech on the Opening of Parliament.

In discussion a number of amendments were agreed and the following points were made—
(a) The reference to Rhodesia should be in the same terms as that in The Queen’s Speech on the Prorogation.

(b) It was proposed to include in the legislative programme for the coming Session a Bill enabling the Government to take action against dumping, in accordance with the code agreed in the Kennedy Round of trade negotiations. This would replace a Bill on employment agencies, which the Minister of Labour did not now wish to be included. A reference to legislation on dumping should therefore be included in the Speech.

(c) It was desirable to separate the proposed legislation on misleading trade descriptions, which was already in draft and could be introduced quickly in the House of Lords, from that on retail trade agreements with which it had no real connection. Since, however, the legislative programme was already over-full, a separate Retail
Trade Agreement Bill should be relegated to the Reserve List and considered in relation to other Bills already in that list. The Government should not, therefore, be committed to legislate on restrictive trade agreements by a reference in the Speech.

(d) The proposals for legislation on the social work services in Scotland had not been approved in principle, but were expected to be considered by the appropriate Ministerial Committee before the text of the Speech was submitted to The Queen.

(e) Since it was now proposed that provisions on appeals against immigration control should not be included in the Race Relations Bill but introduced separately, an Immigration Appeals Bill should be added to the Reserve List, but should not be mentioned in the Speech.

(f) The draft now contained no explicit reference to the aircraft industry or the financing of the Concord project, since the necessary powers would be taken in the Industrial Expansion Bill. The Government's intentions in this regard could be made clear in the course of the Debate on the Address.

The Cabinet—

(1) Agreed that the Government's intention to introduce legislation authorising measures against dumping should be mentioned in the Opening Speech.

(2) Subject to the amendments agreed in discussion, approved the draft Speech annexed to C (67) 156.

Cabinet Office, S.W.1,
11th October, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 12th October, 1967,
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. RICHARD CROSSMAN, M.P., Lord President of the Council
The Right Hon. PATRICK GORDON WALKER, M.P., Secretary of State for Education and Science
The Right Hon. PETER SHORE, M.P., Secretary of State for Economic Affairs
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport

The following were also present:

LORD BROWN, Minister of State, Board of Trade (Items 2)
The Right Hon. GORDON STOTT, Q.C., Lord Advocate (Item 3)

Secretariat:

Sir BURKE TREND
Mr. W. A. NIELD
Miss J. J. NUNN
Mr. L. ERRINGTON
Mr. P. E. THORNTON
Mr. K. BARNE
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Parliament Composition and Powers of the House of Lords (Previous Reference: CC (67) 54th Conclusions, Minute 5)

SECRET

1. The Cabinet had before them a note by the Lord Chancellor (C (67) 157) to which was annexed a report on the composition and powers of the House of Lords by the Ministerial Committee on the House of Lords.

The Lord Chancellor recalled that at their previous discussion the Cabinet had agreed that the Ministerial Committee on the House of Lords should consider proposals for changing the composition and functions of the Lords, without prejudice to a subsequent decision by the Cabinet on whether such changes should be made. The Ministerial Committee had reached agreement on the need for legislation in the coming session. The Government were committed by their election manifesto to the reform and modernisation of Parliament and specifically to deal with the power of the House of Lords to delay legislation which, the Cabinet were now agreed, could not be dealt with in isolation from the composition of that House. It was probable that, if the Government failed to take the initiative in the coming session, proposals would be put forward by one or other of the Opposition parties, and there would be practical and presentational advantages in taking the lead. Further, if the Government were to be sure of enacting legislation in time to remove the potential risk of their legislative programme being obstructed by the House of Lords in the final session of the Parliament, it was essential that this legislation should be introduced in the coming session.

The Ministerial Committee were also agreed on the general objectives of reform. They proposed that the hereditary basis of the House of Lords should be eliminated, thereby removing the in-built Conservative majority, and that the Government of the day should be able to secure a reasonable working majority over both Opposition parties. Since, however, there could be no absolute assurance of a Government majority in all circumstances, the Committee also proposed that the power of the Lords to delay legislation should be restricted and that their power to withhold consent to subordinate legislation against the will of the Commons should be abolished. The Committee proposed that within the framework of a modern Parliamentary system a reformed Second Chamber should play a part complementary, but subordinate, to that of the House of Commons; and that both the functions and the services of the two Houses should be more closely integrated.

The Committee considered that these major constitutional changes ought to be the subject of consultation with the Opposition. If agreement could be reached, it would not be necessary to force the legislation through under the Parliament Acts and the danger of disrupting the Government's legislative programme would be avoided. But it would be necessary to make clear in The Queen's Speech that the Government intended to introduce legislation to

* Previously recorded in a Confidential Annex.

SECRET
eliminate the hereditary basis of the House of Lords and to reduce its powers.

In respect of the composition of the reformed House, the Ministerial Committee considered that, in order to reach agreement with the Opposition while preserving the essential objectives of reform, the Government should be prepared to accept a two-writ system whereby existing peers by succession could continue to speak in the House of Lords, though they would cease to have any right to vote by virtue of their hereditary peerages. Voting writs would be confined to peers of first creation who undertook to attend the House regularly and play a full part in its work. Those who could not accept these obligations should be given speaking writs. Since the number of Conservative peers of first creation who attended regularly was insufficient to constitute an effective Opposition, it would be necessary once for all to give a number of Conservative hereditary peers life peerages, by virtue of which they could continue to be members of the House with voting rights. It would, however, be essential to avoid any concession to the hereditary principle such as, for example, giving peers by succession a right to elect voting members from their number. If negotiations broke down the Government would be free to proceed with their own legislation, possibly on more radical lines.

*The Lord President* said that the principal objective of reform should be to ensure the more efficient working of Parliament as a whole. It could not be assumed that the present situation, which on the whole had operated favourably to the Government, would continue, or that the issue of reform could be avoided. Since the Conservative leaders were prepared to abandon the hereditary principle, it should be possible to achieve reform by agreement on the lines of the proposed two-writ scheme. The Government were committed to reform and modernisation of Parliament, and this could not be complete or wholly effective unless it extended to the Lords. Further, these proposals, by enabling peers to be given speaking rights only, afforded a means of reconciling the need for a House in which the Government were normally assured of a voting majority with the desire to preserve the character of the House as a debating Chamber and to permit the continued participation of cross-benchers.

In discussion it was suggested that it would be inopportune to legislate at the present time since the Government would be criticised for diverting attention in the country and in Parliament to this issue at a time when there were other more pressing matters to be dealt with, especially in the economic field. The issue was one on which there would be a wide difference of view among Government supporters, and it was suggested that the risks inherent in the Ministerial Committee’s proposals should be further considered before the proposals were accepted. In particular it was suggested that, if the House of Lords were established on a more rational and reputable basis and with enlarged functions, its authority would be enhanced while the Government would still have insufficient control.
over it. The balance of voting power would lie with the cross-benchers and there were no sanctions which could be brought to bear on Government supporters comparable with those which could be applied in the Commons whose members had to stand for re-election. If he attended regularly a peer, once nominated, could continue to enjoy his voting writ for many years, even if he ceased to support his party. Consequently, the Government's majority might tend to disappear during the course of a Parliament, and they could not in any event count on a majority on critical issues. Further, the proposals might confer undue patronage on the party leaders, and the additional creations that would be necessary on a change of Government to give the incoming Government a majority would unduly enlarge the size of the voting House. It was uncertain how many peers of first creation would be able to undertake the obligations attendant on voting writs, and an estimate should therefore be made of the number of new creations of Conservative and Labour peers which would be required on the setting up of the new House and on a subsequent change of Government. It was further suggested that if it were left to the Conservatives to take the initiative, they might feel obliged to put forward more radical proposals which would make less concession to the hereditary principle.

On the other hand, it was pointed out that unless the legislation were introduced in the coming session, it would not be possible to ensure that the Lords were deprived in the present Parliament of their power to frustrate the Government's programme in the final session and to reject statutory instruments. It might be dangerous with regard to the economic situation, to leave the Lords with their powers over subordinate legislation, since it might be necessary to bring statutory instruments into operation quickly. There was considerable public support for institutional reform generally, and the Government would be open to criticism if they exempted the House of Lords, since its present composition was indefensible. It could be demonstrated that in the coming session Parliament would devote a very substantial amount of time to economic legislation and debate compared with the time that would be needed for legislation to reform the House of Lords.

In relation to the proposed two-writ scheme, it was also suggested that since the age of nominated peers would necessarily be high, the wastage through death and retirement was likely to obviate the risk of a progressive increase in the membership of the House. There was no reason to suppose that the loyalty of Government supporters in the Lords would be less than at present, and discipline might be stronger because of the obligations attached to acceptance of a voting writ. Voting writs would be issued for the duration of a Parliament, and the right of nomination would rest with the Prime Minister. The real powers of the Lords would be restricted and their enlarged functions as a scrutinising and revising Chamber would be exercised in a subordinate capacity only, subject to the clear overriding authority of the Commons.
In further discussion the following principal points were made:

(a) Peers by succession who, as an initial measure, were given voting rights, would receive those rights solely by virtue of a life peerage. They would not be required to renounce their hereditary peerage, which would cease to confer any voting rights whatever. Further consideration would, however, have to be given to the right of peers by succession, who were excluded from the House of Lords, to vote in Parliamentary elections and stand for election to the House of Commons.

(b) While existing peers by succession who could continue to speak in the House would disappear with time, it was envisaged that provision for nominated peers who could speak but not vote would be a permanent feature of the House. It was suggested, however, that this should be further considered, since it appeared to conflict with the concept of the reformed House of Lords as primarily a working House.

(c) Relatively few cross-benchers were likely to attend often enough to enable them to qualify for voting writs, since only 12 at present attended more than one-third of the sittings. Nevertheless further consideration should be given to the position of cross-benchers, particularly the bishops and the law lords, and their nomination for voting writs.

(d) It should also be considered further whether nomination as a peer entitled to a voting writ should be for life or for some shorter period; and whether there should be means of withdrawing a voting writ, and, if so, in what circumstances.

The Prime Minister, summing up the discussion, said that on balance the Cabinet accepted in principle the proposals of the Ministerial Committee on the House of Lords, subject to further consideration by the Ministerial Committee of the points made at (a), (b), (c) and (d) in the discussion and to further study of the number of peers who might have to be created from Conservative and Labour Party supporters at the outset and on a change of Government. The Cabinet agreed that a passage should be included in The Queen's Speech on the Opening of Parliament in the terms proposed by the Ministerial Committee. The Lord President should arrange for information to be made available, for use if necessary during the debate on The Queen's Speech, about the time likely to be devoted in the coming session to economic legislation and debate compared with the time likely to be occupied by legislation on the reform of the House of Lords. In consultation with the Lord Chancellor, the Lord President, and the Lord Privy Seal, he would himself consider the arrangements for conducting the negotiations with the Opposition parties.

The Cabinet—

(1) Invited the Lord Chancellor to arrange for the Ministerial Committee on the House of Lords to consider further the points made at (a), (b), (c) and (d) in their discussion and the number of peers who would have to be created on the
establishment of the new House of Lords and on a change of Government.

(2) Subject to Conclusion (1) approved in principle the proposals in C (67) 157.

(3) Invited the Lord President to report to the Prime Minister on the number of days likely to be devoted by Parliament in the coming session to debate on economic affairs compared with the time occupied by legislation to reform the House of Lords.

(4) Took note that the Prime Minister, in consultation with the Lord Chancellor, the Lord President and the Lord Privy Seal would make arrangements for the conduct of the negotiations with the Opposition parties on the reform of the House of Lords.

2. The Cabinet considered a memorandum by the Secretary of State for Economic Affairs (C (67) 158) to which was annexed a draft White Paper on the Industrial Expansion Bill.

The Secretary of State for Economic Affairs said that the White Paper had been redrafted in the light of the Cabinet’s previous discussion. The Government’s proposals for the Industrial Expansion Bill had been discussed earlier that week by the National Economic Development Council (NEDO), and the representatives of the Confederation of British Industry had reacted more equably than might have been expected from their previous attitude. A number of important points affecting the proposals remain to be settled. It was necessary to decide whether an Order subject to affirmative resolution should be required for every project promoted under the Bill which involved equity participation by the Government; whether a new Select Committee should be set up in connection with the Bill and if so what form it should take and what its terms of reference should be; and what consultative machinery should be established to evaluate projects under the Bill, and in particular to ensure fair conditions of competition. It was also desirable to clarify further the relation between the functions of the Industrial Reorganisation Corporation (IRC) and Government initiatives under the Bill; he would be discussing this with the Chairman of the IRC. It was not essential to reach precise decisions on all these points before the White Paper was published but it was probably desirable to delay publication for a little time to enable further work to be done on them.

The Cabinet first considered the timing of publication of the White Paper. It was argued that the critics of the Government’s proposals had been allowed to hold the field for too long; there was much genuine misapprehension about the Government’s intentions and the sooner a definitive statement was issued, the better. On the other hand it was argued that the presentation of the Government’s
case would be improved if study of the important issues still unresolved were first carried further; this pointed to publication shortly after The Queen's Speech on the Opening of Parliament, with simultaneous publication of the Bill itself if that proved practicable. Meanwhile, however, it would be useful if articles were published in one or more responsible newspapers giving an objective account of the Government's proposals, and were designed in particular to remove the fear that these proposals were a form of "backdoor nationalisation" and to emphasise the Government's firm intention that projects under the Bill would be undertaken only in partnership with industry. It would further be useful if the articles could draw attention to the fact that industry had originally opposed establishment of the IRC just as strongly as they were now opposing the Industrial Expansion Bill, but the IRC was now generally accepted as performing a valuable role. While the articles might include some reference to the importance attached by the Government to Parliamentary scrutiny of projects promoted under the Bill, no specific information should be conveyed to the Press about the Government's intentions as regards the matters referred to in paragraphs 13 and 14 of the draft White Paper, namely Parliamentary procedure and the establishment of a Select Committee.

In general discussion the following points were made:

(a) The proposals at present did not incorporate any financial limit on the action which the Government could take under the Bill. There were difficulties in devising a financial limit, notably because such a limit would have to be set very high if it had to accommodate current projects in the aircraft industry, and this might increase apprehensions about the Government's intentions rather than allay them. It was, however, the general view that some form of financial limit was essential if the Bill was to be acceptable to Parliament. Consideration should be given to excluding the aircraft projects from the Bill entirely and dealing with them in separate legislation; this would also avoid the difficulty that if they were to be covered by the Bill, the Government would be pressed during its passage to announce policy decisions affecting the aircraft industry which they were not yet ready to make. If, however, the complete exclusion of the aircraft projects raised too many difficulties, an alternative might be to incorporate in the Bill a financial limit which did not apply to the aircraft projects; the latter could be subject to a separate limit. As regards the financial limit for expenditure apart from the aircraft projects, one possibility would be to fix a limit initially which could subsequently be increased by Order.

(b) Further consideration should be given to the proposal made at the meeting of the NEDC that where the Government wished to participate in a project by means of an equity holding, it should do so by taking a holding in a subsidiary company established specially to carry out the particular project in question, rather than by taking a holding in the participating company or companies. There were some difficulties about this proposal and it might not always be easy to separate a particular project from the other operations of the
firms concerned. On the other hand to proceed in this way might give the Government more effective control than the alternative proposal for purchase of non-voting shares in participating firms. The Government needed to have power exceptionally to intervene in the management of a participating firm, e.g., in the event of a major crisis in the firm’s affairs, though normally the Government would rely on informal talks with management and not on formal intervention as a shareholder. If the Government proceeded on these lines it would broadly be following the practice of insurance companies which held shares in firms. For the purposes of the White Paper, however, it would be preferable for the Government not to be committed to any particular formula for equity participation since this was a matter which should be further discussed with industry.

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

(c) The beginning of the third sentence in paragraph 1 should be amended to read “A vigorous and successful private sector within a competitive economy is essential if a satisfactory rate of economic growth . . .”

(d) It was important that firms should continue to rely on existing financial institutions, rather than on Government finance: this point was made in paragraph 2 but in view of its importance it might be given more emphasis.

(e) Paragraph 9 should be reconsidered after consultations with the IRC. In the penultimate line the words “expected to” should be deleted.

(f) In the second line of paragraph 11, the words “with industry” should be inserted after the words “worked out”.

(g) At the end of paragraph 11, the words “there should be no doubt about the Government’s ability” should be deleted and there should be substituted the words “the Government must be able”.

(h) The substance of paragraphs 13 and 14 dealing with Parliamentary procedure would need further consideration. It was suggested that, since some projects involving equity participation by the Government might be relatively trivial, there should not be a requirement to seek an Order in every such case; there was, however, wide support for the view that it would not prove unduly onerous to require an Order in every case and that this would be desirable having regard to the sensitivity of industry on this matter. It was agreed that paragraphs 13 and 14 should come later in the draft, to follow paragraph 17.

(i) The last sentence of paragraph 15 should be amplified to make it clear that the Government did not intend to acquire shares freely in the market, but would purchase holdings only in agreement with the management of the firms concerned.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that the White Paper should be published shortly after The Queen’s Speech on the Opening of Parliament. Meanwhile,
the Secretary of State for Economic Affairs, in consultation with the
Lord President and the Minister of Technology, should arrange for
the Press to be briefed on the lines proposed in discussion. The
Secretary of State for Economic Affairs, in consultation with the
Chancellor of the Exchequer, the President of the Board of Trade
and the Minister of Technology, should now consider further the
outstanding policy questions, in particular the best means of
incorporating a financial limit or limits in the Bill, which was a major
Parliamentary issue, and the questions which had been raised in
discussion affecting the projects in the aircraft industry. The
Secretary of State for Economic Affairs should bring into
consultation the Lord President and the Chief Whip on the issues of
Parliamentary procedure and a possible Select Committee which
were dealt with in paragraphs 13 and 14 of the draft White Paper.
He should arrange for the draft White Paper to be revised in the light
of further consideration of these issues and should be free to make
any presentational or drafting changes which seemed desirable. The
revised draft should be considered by the Cabinet in time to allow
publication shortly after The Queen's Speech.

The Cabinet—

(1) Agreed that the White Paper on the Industrial Expansion
Bill should be published shortly after The Queen's Speech
on the Opening of Parliament.

(2) Invited the Secretary of State for Economic Affairs,
(i) in consultation with the Lord President and the
Minister of Technology, to arrange for the Press
to be briefed as indicated in the Prime Minister's
summing up;
(ii) in consultation with the Ministers concerned, to
consider further the outstanding policy issues; and
(iii) to circulate a revised draft of the White Paper for
consideration by the Cabinet.

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3. The Cabinet considered a memorandum by the Lord
Chancellor (C (67) 154) on the reform of the divorce law.

The Lord Chancellor said that there was widespread agreement
that the existing law on divorce was unsatisfactory. It had been
strongly criticised in recent reports by the Group appointed by the
Archbishop of Canterbury to consider divorce law reform, and by
the Law Commission for England and Wales. The Archbishop's
Group had initially proposed that the sole ground of divorce should
be the irretrievable breakdown of the marriage. This view had been
accepted by the Church Assembly, the Methodist Conference, and
a considerable body of public opinion. But it would involve the
court in conducting an inquest into the state of every marriage which
was the subject of a divorce petition, and neither judges nor courts
could be provided in the numbers required. Discussions between the Archbishop's Group and the Law Commission for England and Wales had, however, now produced agreed proposals that were not open to this objection. It was proposed that the court should grant a decree only if satisfied that the marriage had irretrievably broken down and that, unless the contrary were proved, the marriage should be presumed to have broken down if the court was satisfied that cohabitation could not be expected to continue because of either the adultery or other conduct of the respondent, or that the parties had been separated for at least two years and the respondent did not object to divorce, or that there had been separation for at least five years. An encouraging measure of agreement had now been reached, and he proposed that a Bill drafted by Parliamentary Counsel to the Law Commission should be handed to a Private Member; and that the Government, while remaining neutral on the merits of the proposals, should consider making Government time available for its discussion in Parliament in the light of the degree of support shown for it on Second Reading.

The Scottish Law Commission had also presented a report making recommendations not inconsistent with those put forward for England and Wales, and he proposed to discuss with the Secretary of State for Scotland and the Lord Advocate the question whether provisions appropriate to Scotland should be included in the English Bill.

The Lord Advocate said that he was anxious to keep open the possibility of legislation to amend the law of Scotland either in the English Bill or in a Scottish Bill in the same Session. It was undesirable that Scotland should appear to lag behind England and Wales in social reform merely because Parliamentary time could not be found for the Scottish counterparts of English Bills.

In discussion it was mentioned that the Home Affairs Committee had considered, but rejected, the alternative of introducing a Government Bill, but allowing a free vote. Such a procedure could create difficulty in the management of the Bill and lead to embarrassing pressure for a free vote on other Government measures. It might also place Ministers in personal difficulty if on grounds of conscience they felt unable to support the measure. If, however, the measure were introduced by a Private Member, the Government might find themselves committed to making Government time available in order to enable Parliament to come to a conclusion upon it. This, in addition to the provision of the draft of the Bill, would be an undeniable departure from neutrality, and there was some risk that the Government would be exposed to the criticism of those who, on either humanist or religious grounds, opposed, in particular, the proposals for divorce with consent after two years' separation and without consent after five. There was likely to be considerable opposition to the former from members of the Free Churches who feared that, by encouraging the tendency of young people to enter into marriage without proper regard for the sanctity of the marriage...
vow, it would endanger the stability of the institution of marriage. It was desirable that the Government should be seen to take a neutral attitude on the merits of the Bill and should not be placed, as they had been in respect of the Medical Termination of Pregnancy Bill, under the necessity to intervene in order to ensure that the Bill was put into a workable form. To provide a Private Member with a Bill which was in the proper form at the outset might reduce the extent of the Government’s involvement, and the public were increasingly coming to understand that to give a Private Member sufficient Government time to ensure that the consideration of his Bill did not depend on the hazards of the Ballot for Private Members’ time was a valuable way of bringing the resources of Parliament to bear on important social problems without implying the support of the Government for any particular proposals in the Bill.

The Prime Minister, summing up the discussion, said that, while some Ministers in their individual capacity had reservations about particular features of the proposed scheme, the Cabinet were agreed that a Bill on the lines proposed by the Lord Chancellor should be drafted for introduction by a Private Member in the House of Commons. If it appeared from the Second Reading debate that the Bill would receive substantial support, the Government should be prepared to make sufficient time available to enable the House to come to a conclusion on it. The Government would not be committed to a view either on the Bill as a whole or on the particular provisions, and Ministers would be free to vote according to their personal opinions. The Lord Chancellor should discuss with the Lord President, the Secretary of State for Scotland and the Lord Advocate the best means of handling the legislation in respect of Scotland, having regard both to the desirability of amending the law on both sides of the Border in the same Session and to the risk that the addition of Scottish provisions to an English Bill might add to the difficulties which the Private Member would face in piloting it through the House.

The Cabinet—

(1) Approved the proposals in C (67) 154 relating to legislation on divorce law reform to be introduced by a Private Member.

(2) Invited the Lord Chancellor to consider, in consultation with the Lord President, the Secretary of State for Scotland and the Lord Advocate, whether provisions relating to Scotland should be included in the English Bill or be introduced separately.

Cabinet Office, S.W.1.
12th October, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Monday, 23rd October, 1967, 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. DENIS HEALY, M.P., Secretary of State for Defence
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. ANTHONY CROSLAND, M.P., President of the Board of Trade
The Right Hon. PETER SHORE, M.P., Secretary of State for Economic Affairs
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. RICHARD MARSH, M.P., Minister of Power

The following were also present:
The Right Hon. SIR ELWYN JONES, Q.C., M.P., Attorney-General (Item 1)

The Right Hon. GEORGE THOMSON, M.P., Secretary of State for Commonwealth Affairs
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. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir Burke Trend
Miss J. J. Nunn
Mr. E. M. Rose
Mr. H. L. LAWRENCE-WILSON
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Rhodesia

1. The Cabinet had before them a note by the Secretary (C (67) 162) covering a memorandum by the Secretaries of State for Foreign and Commonwealth Affairs on Rhodesia to which was attached a note by officials.

The Commonwealth Secretary said that, in preparation for his forthcoming visits to African Commonwealth countries and to Rhodesia, the Defence and Oversea Policy Committee had in the previous week considered a report in which, on instructions from the Foreign Secretary and himself, officials had undertaken an appraisal of our present policies towards Rhodesia and of all conceivable alternatives.

The prospect was a sombre one with little room for manoeuvre. Economic sanctions had not so far brought about the political changes in Rhodesia at which they were aimed, and with South Africa supporting the Rhodesian economy there was no immediate prospect that they would do so even if, as was not the case at present, economic sanctions were fully enforced by member countries of the United Nations. We had ruled out the use of force against the illegal regime, and the practical and political arguments for this decision were if anything growing stronger; equally we could not afford to become involved in a confrontation with South Africa. At the other extreme we could not contemplate a settlement of the Rhodesian problem on any terms that currently seemed likely to be acceptable to the illegal regime, since this would mean going back on our declared principles and breaking public pledges. There seemed therefore to be no acceptable alternative to continuing with our present policies for Rhodesia while seeking to make existing economic sanctions more effective. In this connection various possibilities had been considered, including ways of enlisting the help of Commonwealth countries, of stopping gaps in existing sanctions, especially as regards oil, and of stepping up psychological pressure on the regime by, for example, forbidding the export of television material to Rhodesia. On his visit to Africa his object would be to convince both African Commonwealth countries and the Rhodesian illegal regime that, while we were ready to reach a just and honourable settlement, we stood firmly by our principles and were prepared, if necessary, to face a long haul. He would try to persuade Commonwealth countries that they could best help the policy of sanctions by bringing pressure to bear not on us but, in conjunction with us, on third countries. In Rhodesia he would aim to fortify the Governor's resolution and to ensure that, if there were no progress towards a settlement as a result of his visit, the blame was seen to be Mr. Smith's and not ours.

In discussion there was general agreement that the line proposed by the Commonwealth Secretary should form the basis for discussions during his visit to Africa, but that it would be necessary to re-examine our policy towards Rhodesia on his return.
The view was expressed that the effectiveness of our sanctions policy had been undermined by our concern to keep the door open to an honourable settlement. Our readiness to enter into discussions with the régime had been misinterpreted as weakness by the Europeans in Rhodesia and had thrown doubt on our determination to persevere with the policy of sanctions. Sanctions were not being effectively applied by many of our allies. The Secretary-General of the United Nations had now received reports on their operation but seemed reluctant to take action on these reports. For our part we had made representations, sometimes at the highest level, whenever we had reason to believe that sanctions were not being strictly applied. It had always been recognised that the flow of oil to Rhodesia through Mozambique was a weakness in our sanctions policy. But mandatory action could not be taken against Portugal in the United Nations for fear that it would lead to a demand for similar action against South Africa. At one time there had seemed to be a possibility that Portugal might voluntarily accept an arrangement whereby supplies of oil to Mozambique would be rationed to those necessary for Mozambique itself, and for the transit trade to South Africa, Malawi, Zambia and Botswana. This proposal had, however, required the co-operation of the French company, the Compagnie Francaise de Petroles (CFP), which was Mozambique's main supplier of oil; and in spite of all our efforts, including a personal approach from the Prime Minister to President de Gaulle, the French had refused to co-operate. It was now proposed to try to bring indirect pressure to bear on CFP through African Commonwealth countries in all of which the company operated; it might also perhaps be possible to make use of the fact that Iraq and Algeria were two of the company's major suppliers of crude oil. In considering the effectiveness of oil sanctions it must be borne in mind that oil played a much less important role in Rhodesia than in many countries; oil only supplied about 25 per cent of Rhodesia's energy requirements.

In further discussion it was agreed that there was need for more information about the working of sanctions and especially for better intelligence about individual transactions, which were often carried out through third countries. It was also important to have a reliable up-to-date assessment of the net cost to the United Kingdom of our sanctions policy. Some doubt was expressed whether it would be desirable to intensify sanctions if the only result were to inflict further damage on our economy without producing any further significant effect in Rhodesia. It must be admitted that our original hope that sanctions would produce an internal revolution in Rhodesia had been disappointed. On the contrary their effect had been to rally the European community behind the illegal régime. The question was now whether economic sanctions would induce the illegal régime to negotiate an acceptable settlement; this would need to be examined on the Commonwealth Secretary's return. We had in the past been ready to enter into talks with the illegal régime because it was possible that Mr. Smith might be induced to jettison the extremist members of his Cabinet. If, as
now seemed increasingly probable, he was the captive of his Right wing, there would be ground for reconsidering our attitude towards negotiations. Public opinion in this country, however, was on the whole in favour of a negotiated settlement. Meanwhile, it was important to emphasise to the Europeans in Rhodesia that “no independence before majority rule” did not mean immediate majority rule. It was evident from the Foreign Secretary’s recent conversations with the South African Foreign Minister, Dr. Muller, that this was understood by the South African Government and that they also realised the dangers of action against South Africa in the United Nations. Our hope that the South African Government would use their influence in favour of an honourable settlement had been made plain to Dr. Muller. But their attitude was not yet clear. There were attractions in Mr. Malcolm MacDonald’s proposal in his memorandum attached to the paper by officials that an honourable settlement might be based on an understanding that there would be “no independence before majority rule” and that there would be no majority rule before another 10 to 15 years during which efforts would be made to prepare the Africans for responsibility. But this was unlikely to be acceptable to the illegal régime.

_The Prime Minister_, summing up the discussion, said that the Cabinet were in general agreement with the proposals of the Commonwealth Secretary on the conduct of his visit to Africa. Some of the assumptions supporting our policy towards Rhodesia had changed; and the Cabinet would wish to reconsider our policies in the light of the Commonwealth Secretary’s findings. In the meantime it was desirable for the Cabinet to have further detailed information about the general effectiveness of sanctions.

The Cabinet—

(1) Took note of the Commonwealth Secretary’s statement and invited him to be guided by their discussion in his talks during his forthcoming visit to Africa.

(2) Agreed to resume their discussion on the Commonwealth Secretary’s return.

(3) Invited the Commonwealth Secretary, in consultation with the Foreign Secretary, the Chancellor of the Exchequer, the President of the Board of Trade and the Secretary of State for Economic Affairs, to examine and report on the present operation of mandatory sanctions against Rhodesia, dealing in particular with:

(i) The extent to which they were being generally enforced.

(ii) Their effect in Rhodesia.

(iii) Their cost to the United Kingdom.
2. The Minister of Labour said that, following the decision of the National Union of Railwaymen on 21st October to withdraw the ban on the performance of second-man duties by the guards of goods trains, an uneasy peace had been reached on the railways. He had that morning seen representatives of the British Railways Board and of the Executive Committee of the union, and the two sides had agreed to open negotiations that afternoon on a new bonus settlement for the guards. He would see them again in a week’s time if they had not reached agreement.

The Cabinet—

(1) Took note of the statement by the Minister of Labour.

The Minister of Labour said that a formula for the settlement of the dispute in the Liverpool docks had been agreed on Saturday morning after all-night negotiations, under the chairmanship of Mr. A. J. Scamp, between representatives of the Transport and General Workers’ Union and of the employers, and the ultimate intervention of the Prime Minister. There had not, however, been sufficient time before a meeting of the men later in the morning to explain the settlement fully to those members of the unofficial strike committee who had not been present during the negotiations, and some confusion had ensued. In the event the meeting had voted to continue the strike and to hold a further meeting on Wednesday. In the meantime Mr. Jack Jones, the Assistant Executive Secretary of the union, would explain the agreed formula fully to the strike committee and seek to obtain their united support in commending it to the men. There now seemed to be a prospect that they would return to work on Thursday.

The Prime Minister said that, being in Liverpool on other business, he had thought it right, in view of the serious effect which the strike was having on the country’s economy, to remain while the negotiations were going on. He had made it clear that he would not concern himself with the issues in dispute, but when it became apparent that the employers were going to break off negotiations in the early hours of Saturday he had insisted that they should continue them, if necessary over the weekend. Had they broken off at that point there would have been no basis for a return to work and the men might have been prepared to maintain the strike for several weeks. He had been impressed by the men’s appreciation of the humane way in which the Minister of Social Security had handled the claims for supplementary benefit arising out of the strike, and this might well be a factor in securing their return to work immediately after the meeting on Wednesday rather than at the beginning of the next week.

In discussion attention was drawn to the fact that overseas opinion was being given the impression that Britain was suffering from a wave of strikes and that our record in this respect was particularly bad, whereas in terms of lost man-hours our record was better than that of many industrial countries. The significant feature of the strikes in this country, however, was not so much their
extent as the fact that the great majority of them were unofficial and symptomatic of the weakness of the trade unions in failing to hold their members to agreements made on their behalf.

In further discussion the Home Secretary said that the Emergencies Committee had considered arrangements for proclaiming an emergency and drafting troops into the docks. It was now assumed that there would be no need for this unless the meeting in Liverpool on Wednesday failed to result in a return to work. It was unlikely, therefore, that after allowing for the necessary time to move the troops there would be any question of proclaiming an emergency before 30th October.

The Cabinet—

(2) Took note of the statements by the Prime Minister and the Minister of Labour.

(3) Invited the Home Secretary to arrange for the Emergencies Committee to review the situation in the light of developments during the week.

The Prime Minister said that, in view of the interest in the improvement of industrial relations stimulated by the recent strikes, it would be desirable to include a statement in The Queen's Speech on the Opening of Parliament that when the Government had received the report of the Royal Commission on Trade Unions and Employers' Associations they would bring their conclusions before Parliament. This could be done in the form of a White Paper, since there would be no opportunity for legislation in the coming Session.

The Cabinet—

(4) Took note that the Prime Minister, in consultation with the Lord President and the Minister of Labour, would insert in the draft of The Queen's Speech on the Opening of Parliament a passage on the lines he had proposed.

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3. The Prime Minister informed the Cabinet that he had established a Committee of Ministers “to co-ordinate in consultation with Departmental Ministers as appropriate, the public presentation of the Government's long-term domestic policies”. The Chairman was the Lord President of the Council, and the other members were the First Secretary of State, the Secretary of State for Economic Affairs and the Chief Whip.

The Cabinet—

Took note of the Prime Minister’s statement.

Cabinet Office, S.W.1.
23rd October, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 26th October, 1967, at 10 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister (Items 1-7)
The Right Hon. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs (in the Chair for Item 8)
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer (Items 1-7)
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. PETER SMOKE, M.P., Secretary of State for Economic Affairs
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. RICHARD MARSH, M.P., Minister of Power
The Right Hon. MICHAEL STEWART, M.P., First Secretary of State
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. PATRICK GORDON WALKER, M.P., Secretary of State for Education and Science
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. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology
The following were also present:
The Right Hon. REGINALD PRENTICE, M.P., Minister of Overseas Development (Item 8)
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Items 4-8)
Mr. GEORGE THOMAS, M.P., Minister of State for Commonwealth Affairs (Items 3 and 8)

Secretariat:
Sir BURKE TREND
Mr. W. A. NIELD
Miss J. J. NUNN
Mr. E. M. ROSE
Mr. K. BARNES
Mr. P. E. THORNTON

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1. The Cabinet discussed the final text of The Queen’s Speech on the Opening of Parliament.

The Cabinet considered arrangements for the Debate on the Address.

2. The Minister of Labour informed the Cabinet that at a meeting on the previous day the dockers in Liverpool had refused to return to work. Mr. Jack Jones, the Assistant Executive Secretary of the Transport and General Workers’ Union, had not been permitted to address the meeting, and the men had apparently been influenced by six dissident members of the unofficial strike committee who advised them not to accept the settlement reached with the employers on the previous Saturday. There was to be a further meeting the next day, and Mr. Jones was endeavouring both to secure unanimity in the strike committee and to inform the men, by advertising in a local newspaper, of the details of the agreement accepted by the Union. If, at the next meeting, the men still refused to return to work, it seemed probable that the strike would continue for some time.

There was also a risk that the dock strike in London would be aggravated by an unwise decision of the employers to dismiss unofficial strikers, and that sympathetic strikes might occur elsewhere. He had asked the employers’ organisation to discuss this at the Ministry of Labour on the following day.

In discussion it was pointed out that the confusion in Liverpool indicated that both the unions and the unofficial strike committee had lost control of the men. There was reason to think that the Communist Party was acting in concert with Trotskyist elements and that there was increasing violence and intimidation. In view of the serious consequences of the strike for the economy, and of the risk of increasing unemployment, the Government should consider employing troops at Liverpool if no decision to return to work were taken on the following day. Although the practical effect of the introduction of troops would not be seen until they had become accustomed to handling the dockside equipment, their presence might bring home to the men that a continuation of the strike would not procure further concessions and hence result in a drift back to work. It would be useful to let it be known in Liverpool that both employers and the unions had been warned during the negotiations that if the
unrest continued the Government might find it difficult to justify their decision to approve large development schemes for the docks. If it became necessary to proclaim a state of emergency before the Opening of Parliament it might be desirable to insert a reference to the proclamation in The Queen's Speech.

The Cabinet—
(1) Took note of the statement by the Minister of Labour.
(2) Invited the Home Secretary—
(a) To arrange for the Emergencies Committee to consider, after the strikers' meeting on 27th October, whether immediate arrangements should be made for the employment of troops in Liverpool.
(b) To report to the Prime Minister on whether a reference to the proclamation of a state of emergency should be added to The Queen's Speech on the Opening of Parliament.

The Minister of Labour reported that there was a risk of industrial action by the printing unions in London if the employers dismissed men who were refusing to work overtime. The unrest would be felt in the first instance by firms undertaking Government printing, but there was a risk that the newspapers also would be affected. He would continue to keep in touch with both sides, but the outlook was not promising.

The Cabinet—
(3) Took note of the statement by the Minister of Labour.

The Foreign Secretary said that he would be making a statement in the House of Commons that afternoon on our position following the consideration of our application for membership of the European Economic Community (EEC) by the Ministerial Council of the EEC in Luxembourg on 23rd/24th October. His statement would follow closely the lines of the Answer given by the Prime Minister in the House of Commons on Tuesday, 24th October. The Ministerial Council of the EEC had adjourned further consideration of our application until 20th November, and the main point of his statement would be to emphasise that we did not regard the objections to our application which had been raised by the French Foreign Minister at the Luxembourg meeting as amounting in effect to a veto on our application.

The Prime Minister said that pending the next meeting of the Ministerial Council we would maintain pressure on our friends in the Community to support our application. It was of particular importance that, in so far as it was necessary for Ministers to refer publicly to the difficulties raised by the French in regard to our economic and financial position, they should follow closely the speech...
which the Chancellor of the Exchequer would make at the Lord
Mayor’s Banquet for Merchants and Bankers of the City of London
that night. This speech should therefore be circulated to all members
of the Cabinet. If consideration of our application by the EEC were
unduly delayed, or a veto or some equivalent obstacle were imposed,
we would need to consider how to protect our own interests in the
interim, and how far we might make use of our national advantages
in the technological field to maintain and develop support for our
application. He had accordingly given instructions for officials to
explore these possibilities urgently.

The Cabinet—

(1) Took note, with approval, of the statements of the Prime
Minister and the Foreign Secretary.

(2) Invited the Chancellor of the Exchequer to make available
to Ministers the text of his speech to the Lord Mayor’s
Banquet for Merchants and Bankers of the City of London.

The Foreign Secretary said that he had no reliable information
about the conversations between the Prime Minister of South Africa,
Mr. Vorster, and Mr. Ian Smith at their meeting in Pretoria on
21st October. But there were grounds for thinking that the meeting
had resulted from the talks which the South African Foreign Minister,
Dr. Muller, had had with the Prime Minister and himself in London
and that its purpose had been to impress on Mr. Smith the importance
of reaching a settlement.

The Minister of State for Commonwealth Affairs said that as a
result of an initiative by Mr. Arnold Smith, the Secretary-General of
the Commonwealth Secretariat, talks were due to open in London
on Monday, 30th October, between representatives of the Federal
Government and of the Eastern Region under the auspices of the
Secretariat. The latter claimed that they would have full powers to
negotiate on the substance of the dispute as well as on procedure.
The leaders of the Eastern Region seemed to be anxious to start
talks before the Region had been completely defeated. Even if
hostilities stopped immediately it would be several months before
Nigerian oil could begin to flow again. The oil terminal at Bonny
would probably need repair; the Bonny Channel would need to be
dredged; and it would be necessary to check the oilfield installations
which might have suffered from disuse even if they had not been
damaged.

The Cabinet—

(3) Took note of the statements by the Foreign Secretary and
the Minister of State for Commonwealth Affairs.

The Foreign Secretary said that attention in the United Nations
was now focused on the two recent breaches of the cease-fire—the
sinking of the Israeli destroyer Eilat by Egyptian missiles on
21st October and the Israeli bombardment of Suez on 24th October.
It was not certain whether, as alleged by the United Arab Republic
(UAR), the Eilat was within Egyptian territorial waters when it was fired on; but in patrolling up and down the coast it had been provocative. There was little doubt that in the second incident Israeli forces had opened fire first. The Soviet Union was continuing to supply all arms except heavy bombers to the UAR. It was hard to believe that the Soviet Union were deliberately encouraging the UAR to resume hostilities; but their support for the UAR gave added urgency to the search for a solution in the United Nations. The recent incidents had increased the difficulty of reaching agreement in the Security Council on a balanced resolution providing not only for Israeli withdrawal from occupied Arab territory but also for recognition by the Arab States of Israel's right to exist. The Israeli Foreign Minister, Mr. Eban, whom he had seen on 21st October, had said that Israel was still opposed to a resolution of this kind and would prefer one confined to appointing a Special Representative of the Secretary-General of the United Nations to go to the Middle East. Israel appeared to hope that time would either oblige the present Governments in the UAR and Jordan to agree to direct negotiations or bring about their replacement by more moderate regimes. But it was more likely that successor regimes would be more extremist. There was still a good hope of securing a balanced resolution in the Security Council. We should be in a better position to influence the Arab States to this end, and perhaps also to prevent further incidents, if we resumed relations with the UAR. As a result of Sir Harold Beeley's recent visit to Cairo it was clear that the UAR were willing to resume relations. There were no obstacles in the way and the UAR had discussed the matter with the other African States which had broken off relations with us at the same time. Relations could probably be resumed early in December.

In discussion the view was expressed that a resumption of relations between ourselves and the UAR might be misunderstood by opinion in this country and elsewhere; and, especially if it took place when tension was rising, might be regarded as taking sides in the dispute between Israel and the Arab States. The UAR had been responsible for breaking off relations with us. But now we were taking the initiative in seeking their resumption. Our interest was to secure the reopening of the Suez Canal. A necessary condition was Israel's withdrawal from the banks of the Canal. It was open to question what effect our resumption of relations with the UAR would have on Israel's assessment of her own security and consequently whether it would contribute towards reopening the Canal. On the other hand, it was pointed out that the UAR had broken relations on account of Rhodesia and not of the Middle East, and their resumption could not therefore be regarded as taking sides in the dispute between the Arab countries and Israel. The Israeli Foreign Minister had not reacted unfavourably to the proposal to resume relations although he feared it might strengthen the position of President Nasser. It was a British interest that we should be able to exert influence in the UAR and thus help towards the reopening of the Suez Canal and a Middle East settlement. The present situation was dangerously inflammable and Israel's behaviour was
often provocative. It was of urgent importance to make the first
move towards a settlement. Israel did not want to keep her forces
on the Canal and accepted the need for withdrawal, provided it did
not involve going back to the former armistice lines. It would be
necessary to proceed by stages. The first step might be a balanced
resolution in the United Nations which might lead in due course to
the withdrawal of Israeli forces, some act of recognition of Israel by
the Arab States and possibly a four-Power guarantee of any final
settlement. There was no reason why work on clearing the Canal
should not proceed at the same time as action in the United Nations.
There was no evidence to suggest that the resumption of diplomatic
relations with the UAR would set back the reopening of the Canal.
Our hand might be strengthened if it became clear that we were
taking steps to make ourselves less dependent on the Canal.

The Prime Minister, summing up the discussion, said that there
was general agreement that our primary interest was to secure the
reopening of the Suez Canal and that our policy should be directed
to that end. The Cabinet would wish to have an opportunity to
consider this question further before an announcement was made
about the resumption of diplomatic relations with the UAR.
Meanwhile it was important to discourage speculation about the
attitude of the Government on the question.

The Cabinet—

(4) Took note of the Foreign Secretary’s statement and invited
him to circulate at an appropriate time a memorandum
on the resumption of diplomatic relations with the UAR.

4. The Cabinet considered a memorandum by the Chancellor
of the Exchequer (C (67) 167) to which was attached a draft White
Paper on the Economic and Financial Objectives of the Nationalised
Industries.

The Chancellor of the Exchequer said that the draft White
Paper set out the principles which the nationalised industries were
expected to adopt in settling their investment and pricing policies,
and the purpose and method of operation of the system of financial
targets. The draft had been circulated to all Departments concerned
as well as to the Confederation of British Industry (CBI), the Trades
Union Congress (TUC), and the chairmen of the boards of the
nationalised industries. The draft now before the Cabinet had been
revised to take account of the comments which had been received.

In discussion the following points were made:

(a) The TUC had suggested that more emphasis should be
placed on the contribution which the nationalised industries could
make to the Government’s economic strategy, for example in
furthering the Government’s regional policy. It would be helpful if
the White Paper stated that, in so far as this was compatible with their other obligations, the nationalised industries would be encouraged to take account of the Government's regional policies in making their purchasing and investment decisions. On the other hand, it was urged that the White Paper was not concerned with the role of the nationalised industries in the national economy but with the relatively limited issues of their economic and financial objectives, and accordingly it would be inappropriate to make more than a brief reference to regional policy in this White Paper.

(b) The White Paper might refer to the need for the nationalised industries to draw up longer-term corporate plans of the kind which were commonly prepared in large, well-managed companies in private industry. On the other hand, it was argued that this was an area in which the nationalised industries in general were probably more advanced than private industry and no reference to this was called for.

(c) The Steering Committee on Economic Policy had suggested that the presentation was not easy to follow and the intended message was not brought out as clearly as it might be; and this criticism still seemed valid. The presentation would be considerably improved if paragraphs 37 to 40, which did set out the issues involved very clearly, were brought forward to the beginning of the White Paper.

(d) The section on prices referred to the need to avoid undesirable cross-subsidisation. British European Airways (BEA) found cross-subsidisation necessary, for example to maintain its services in Northern Scotland. It would be helpful if the draft could indirectly cover the circumstances of BEA by amending the second sentence of paragraph 17 to read: "The circumstances of different industries vary greatly; much depends on the competitive environment in which they operate."

(e) It was suggested that paragraph 26, which described the arrangements for formalising consultation with Ministers about the prices charged by nationalised industries, should be qualified to take account of the special position of the air transport corporations. The fares charged on international routes were determined by international agreement and the Air Transport Licensing Board determined internal air fares. It was suggested that the first line of paragraph 26 should therefore be amended to read as follows: "Arrangements for consultation with Ministers on prices, where there is no statutory or international procedure, . . . " On the other hand, while it was agreed that the international control of overseas air fares was an exceptional circumstance, the qualification relating to statutory procedures for other products of nationalised industries, such as domestic air fares, should not be included.

The Chancellor of the Exchequer undertook to consider amendments to meet the points made. He added that the TUC, in commenting on the draft White Paper, had asked to be consulted about the targets for the gas industry and the Post Office before they were sent to the National Board for Prices in Incomes. In fixing targets for the nationalised industries the Government needed to
consider a great many issues, for example taxation. If the TUC expected to be brought into full consideration of these matters it would be extending the bounds of consultation beyond reasonable limits. Moreover, the TUC might well prefer not to be consulted about some targets, for example those based on assumed rates of manpower reduction. Accordingly he proposed to inform the TUC that it was for the Government to fix the level of the targets for the nationalised industries.

In discussion there was general agreement with this view, though no doubt the TUC might be informed of the targets for the gas industry and the Post Office at the same time as the National Board for Prices and Incomes. If the TUC considered that any particular target was too high it would be open to them to seek to discuss the matter with the Minister concerned.

The Prime Minister, summing up the discussion, said that there was general agreement with the White Paper, and the Chancellor of the Exchequer had undertaken to consider the inclusion in the draft of the points raised in discussion. The Chancellor of the Exchequer should consult the Lord President about timing of the publication of the White Paper, which should be considered in relation to that of the White Papers on Fuel Policy and on the Railways. The way was now open for the National Board for Prices and Incomes to be informed of the financial targets for the gas industry and for the Post Office.

The Cabinet—
(1) Invited the Chancellor of the Exchequer, in consultation with the Lord President, to amend the White Paper in the light of the points made in discussion and to arrange for its publication.
(2) Invited the Secretary of State for Economic Affairs to inform the National Board for Prices and Incomes, and the Chancellor of the Exchequer to inform the Trades Union Congress at the same time, of the financial targets which the Government had set the gas industry and the Post Office.

5. The Cabinet considered a memorandum by the Minister of Power (C (67) 165) to which was attached a draft White Paper on Fuel Policy.

The Minister of Power said that the draft White Paper had been revised following discussion in the Steering Committee on Economic Policy on 18th October, 1967; in accordance with the suggestion made by that Committee he had also arranged for a popular version of the White Paper to be prepared. He had given further consideration to the criticism, advanced in the Steering Committee
on Economic Policy, that while there was very full supporting argument in respect of most of the issues discussed, this did not apply to the same extent in respect of oil because of the national security interests involved. He accordingly proposed the addition at the end of paragraph 5 of the draft of the following sentence:

"The calculations and argumentation are in many cases complex but it has been felt desirable in this White Paper to provide as full information as possible in explanation of the Government's conclusions, except where this would run counter to the national interest as on certain aspects of the security and cost of oil supplies."

There was general agreement with the addition proposed by the Minister of Power. The following further points were made in discussion:

(a) The White Paper contained a large number of detailed forecasts of the future pattern of demand and while this greatly increased its usefulness it correspondingly gave hostages to fortune; it was for consideration whether the warning in paragraph 6 of the draft, that some forecasts would prove wrong, was entirely adequate in the circumstances. It was the general view that the White Paper need not be amended to deal with this, but that the Minister of Power should underline this warning both in presenting the White Paper to the House of Commons and in his subsequent Press conference.

(b) It was not wise to give an assurance—even in the qualified form which it took in the sentence at the bottom of page 38—that the oil tax would not be increased. The Minister of Power undertook to consider whether to delete entirely the last complete sentence on page 38 or whether it would be better to replace it by a sentence to the effect that no reasonable increase in the oil tax would reduce the consumption of oil.

(c) Paragraph 107 as at present drafted appeared to contradict paragraph 39, which stated that oil was gaining markets at the expense of coal despite the oil tax. This point might be met by substituting "there is the protection afforded by the 2s. 2d. a gallon . . ." for "coal is helped by the 2s. 2d. a gallon . . ." in the second sentence of paragraph 107.

(d) In the third sentence of paragraph 123 Cumberland should be included among the development areas listed; and in the sixth line of paragraph 125 "and Cumberland" should be added after "Scotland."

(e) The fuel industries were very large purchasers of goods and services from other industries and they should therefore be encouraged to place their contracts so far as possible, and consistent with their commercial obligations, with companies situated in the development areas. The White Paper should make clear that the Government expected the fuel industries to pursue procurement policies consistent with the Government's regional policies.

The Prime Minister, summing up the discussion, said that the Minister of Power, in consultation with the Secretary of State for Economic Affairs, should insert in the White Paper a section to cover the point at (e) above and make the amendments necessary to meet
the other points made in discussion. He should also consult with the Lord President about the timing of the publication of the White Paper, which would need to be considered in relation to the other White Papers which were coming forward for publication at the same time.

The Cabinet—

(1) Invited the Minister of Power to amend the draft White Paper in the light of their discussion.

(2) Invited the Minister of Power to arrange, in consultation with the Lord President, for the publication of the White Paper and of its popular version.

6. The Cabinet considered a memorandum by the Secretary of State for Economic Affairs (C (67) 168) on the Industrial Expansion Bill, to which was annexed a draft White Paper on Industrial Expansion.

The Secretary of State for Economic Affairs recalled that at their meeting on 12th October the Cabinet had invited him, in consultation with the Ministers mainly concerned, to consider a number of outstanding policy questions on the Industrial Expansion Bill and to circulate a draft of the White Paper on Industrial Expansion revised in the light of the Cabinet's previous discussion. The draft White Paper annexed to his memorandum took account of the points made by the Cabinet. As regards the outstanding policy issues, the Ministers concerned had agreed that the proposal to set up a Select Committee to examine schemes promoted under the Bill should be abandoned: prior references to a Select Committee would involve unacceptable delays, and references made after a project had been otherwise agreed might well involve sensitive issues not appropriate for examination by a Select Committee. Parliamentary control of action under the Bill would, however, be ensured by a requirement that schemes involving the use of the new powers conferred by the Bill should in all cases be subject to affirmative resolution in Parliament. As regards the aircraft industry, the Ministers concerned agreed that the Bill should deal specifically with expenditure on the Concord aircraft, and that it should be so drafted that the new powers could be used for the acquisition of the Beagle Aircraft Company, and if need be (and subject to the satisfactory conclusion of negotiations with the companies concerned) for the proposed merger of the major firms in the airframe industry. It was desirable to establish some form of advisory machinery to evaluate schemes promoted under the Bill: this would help to allay the concern felt by industry about the Government's intentions. It was therefore proposed that there should be a panel of advisers drawn from members of the Industrial Reorganisation Corporation...
(IRC) and the National Research and Development Corporation (NRDC). It was not necessary to make statutory provision for this machinery, nor should the Government be committed to using the panel for every scheme. It would be necessary to clear this proposal, if the Cabinet approved it, with the IRC and the NRDC. It would also be desirable to clarify with the IRC the relation between their normal functions and action under the Bill: while they would continue to be concerned primarily with securing the rationalisation of industry through mergers, the Government would wish to make full use of their expertise in respect of schemes under the Bill. The Ministers concerned proposed that there should be a single financial limit on expenditure under the Bill for all purposes, including expenditure on aircraft projects. He invited his colleagues to endorse these proposals and to approve the text of the draft White Paper, subject to clearance of the relevant passages with the IRC and the NRDC, for publication as soon as possible after The Queen's Speech.

In discussion it was pointed out that a number of major policy issues, in addition to those referred to by the Secretary of State for Economic Affairs, still remained unresolved. It was essential that before the White Paper was published Ministers should be agreed on the line to be taken on these issues so that they could deal fully and consistently with the questions and criticisms which the White Paper would provoke. While it was desirable that the White Paper should be published as soon as possible in order to put the Government's case fully and to remove misconceptions about their intentions, it would on balance be preferable to defer publication until the main policy issues were resolved.

In further discussion the following points were made:

(a) There was general agreement that the proposal for a Select Committee to examine schemes promoted under the Bill should be abandoned, and that all schemes under the Bill should, as proposed in C(67) 168, be subject to affirmative resolution in Parliament: though it was contemplated that a single Order might be made to cover a group of like projects.

(b) There was agreement in principle that advisory machinery to evaluate schemes under the Bill should be established on the lines proposed in C(67) 168. Further consideration should, however, be given to the questions whether reference to the advisory panel of all schemes under the Bill should be mandatory, and whether it might be desirable to keep open the possibility that membership of the advisory panel should not be confined to members of the IRC and NRDC but might include other representatives of industry, especially if the Confederation of British Industry became prepared to consider constructively the Bill and schemes to be made under it.

(c) It would be necessary to decide before publication of the White Paper which industries should be covered by the Bill, in particular whether the nationalised industries and distribution and service industries should be within its scope.

(d) There was general agreement that it would not be acceptable to fix a single financial limit for all expenditure under the Bill: such a limit would have to cover the cost of the development of Concord.
and this would necessitate such a high limit that suspicions of the Government's intentions for action under the Bill generally would be intensified. The Bill should therefore incorporate a separate financial limit either for expenditure on Concord, or for expenditure on aircraft projects generally.

(e) It was necessary to decide whether the provisions in the Bill relating to expenditure on Concord should cover the costs of full production in addition to the costs of producing the prototypes; it was arguable that the decision to proceed with full production was too far-reaching to be implemented merely by Order.

(f) The Board of Trade had proposed that legislative provision for the further assistance to the Cunard Shipping Company recently agreed by the Government should not be included in the Industrial Expansion Bill but should form the subject of separate legislation: the Board argued first, that it would give an unfortunate impression of the aims of the Industrial Expansion Bill if one of the first projects to be promoted under it was directed not to industrial expansion but to helping a firm in financial difficulties; and second, that further finance would need to be made available to Cunard before the Bill was passed. On the other hand it was argued that the immediate financial needs of Cunard might properly be met by advances from the Civil Contingencies Fund once the Industrial Expansion Bill had received a Second Reading; that the Government's assistance to Cunard (to which special considerations applied) was unlikely to be criticised on merits; and that it was important to prevent further congestion of the Parliamentary timetable by introducing separate legislation of a kind which the Industrial Expansion Bill was designed to avoid.

(g) The latter part of paragraph 14 of the draft White Paper annexed to C (67) 168 should be reconsidered. It was doubtful whether it was wise for the Government to appear to be defending themselves in advance against criticisms which might be made; moreover, the paragraph as now drafted might tie the Government's hands too closely if they should wish to bring influence to bear on firms receiving assistance under the provisions of the Bill.

The Prime Minister, summing up the discussion, said the Cabinet agreed that there were a number of major policy issues which should be resolved before the White Paper was published. The Secretary of State for Economic Affairs should arrange for a group of officials of the Departments principally concerned to consider these issues urgently; in particular, they should consider:

(i) The membership of the proposed advisory panel and the question whether references to it should be mandatory.

(ii) The industries to be covered by the Bill.

(iii) Whether the separate financial limit on expenditure on aircraft projects which the Cabinet had approved should relate to expenditure on the Concord only or to expenditure on all aircraft projects.
(iv) Whether the Bill should cover the full production costs of the Concord.
(v) Whether the Bill should cover Government assistance to the Cunard Shipping Company.

The group of officials should make clear recommendations on these matters and on amendments required to the draft White Paper in consequence of their recommendations and in the light of the Cabinet's discussion. Their report should be considered at a meeting of the Ministers mainly concerned, under the chairmanship of the Secretary of State for Economic Affairs, who should circulate a note of their conclusions for consideration by the Cabinet. It should be the aim to circulate the note not later than Wednesday, 1st November, for consideration by the Cabinet on the following day: this would still leave time for the White Paper to be published soon after The Queen's Speech, which was desirable provided the outstanding issues could be resolved in time. If, however, it proved impossible to adhere to this timetable, the report to the Cabinet should be considered as soon as possible after 2nd November and the timing of publication of the White Paper would have to be determined accordingly. All Ministers should ensure that any points they wished to raise on the outstanding policy issues or on the drafting of the White Paper were conveyed urgently to the Secretary of State for Economic Affairs so that they could be considered before the further report was made to the Cabinet.

The Cabinet—

(1) Invited the Secretary of State for Economic Affairs to report to the Cabinet the conclusions of the Ministers concerned on the outstanding policy issues relating to the Industrial Expansion Bill and on the drafting of the White Paper, as indicated in the Prime Minister's summing up.

*During their discussion of the memorandum by the Secretary of State for Economic Affairs (C (67) 168) on the Industrial Expansion Bill, the Cabinet were informed that the Minister of Technology was considering putting to his colleagues proposals for a change of policy on the future of the airframe industry. These would involve abandoning the policy hitherto agreed for a Government minority holding in a single airframe company formed by merging the major firms concerned, and proceeding instead to the complete public acquisition of these companies: this would amount to nationalisation of the airframe industry. A decision on this matter would fall to be taken later, but if it were decided to go for outright public ownership, it would not be acceptable to make the necessary legislative provision in the Industrial Expansion Bill and separate legislation would be needed. If on the other hand the Government adhered to the existing policy for a merger of the major companies, the necessary provision could be made in the Industrial Expansion Bill. In view of these alternative possibilities, any reference to the aircraft industry in the White Paper should be in guarded terms so as to avoid committing the Government to a definite course of action at this stage.

* Previously recorded in a Confidential Annex.
be necessary to ensure, pending a decision on future policy, that the provisions of the Bill (including the financial limits) were adequate to cover the action the Government would need to take if they decided to adhere to the present policy for a merger of the airframe companies with a Government minority holding.

The Prime Minister, summing up this part of the Cabinet's discussion, said that the group of officials who were to consider policy issues outstanding in respect of the Industrial Expansion Bill should examine the provision to be made in the Industrial Expansion Bill for action in respect of the aircraft industry, and what should be said on this matter in the White Paper, having regard to the proposals for a possible change of policy on the airframe industry which the Minister of Technology was considering.

The Cabinet—

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

7. The Cabinet considered a report by the Chancellor of the Exchequer (C (67) 166) on public expenditure.

The Chancellor of the Exchequer said that his memorandum showed how policy decisions taken during recent months, together with rephasing of some expenditure and revised estimates of the cost of some agreed policies, were combining to pre-empt the contingency allowances for future years which were fixed as a result of the Cabinet's review earlier in the year of public expenditure programmes to 1970–71. Even over such a brief period commitments to future expenditure had increased substantially. On the basis of the present expectation that the economy would expand at an annual rate of about 3 per cent, the level of public expenditure now in prospect might well necessitate higher taxation. He had circulated his memorandum to apprise his colleagues of the position, since it was important that the background should be kept in mind when further specific proposals for expenditure came to be considered. He proposed to circulate similar reports to the Cabinet from time to time.

In discussion the following points were made:

(a) There was a danger that new proposals for expenditure which were brought forward after the completion of the main annual review of expenditure programmes would in effect be at an advantage over proposals scrutinised in the main review since they were considered in isolation and might therefore not be subjected to the rigorous comparison with other projects which took place during the annual review. It was in the main inescapable that new projects should be considered individually as they arose, but it was essential that they should be looked at no less rigorously than proposals
covered by the annual review, and should not start with an advantage deriving solely from the timing of their presentation.

(b) On present plans, the increase in public expenditure would be much sharper in 1968–69 than in the following two years, though the plans for the later years could be expected to expand as time went on. The Treasury were exploring the possibilities of postponing expenditure from 1968–69 to later years, but the scope for this was now limited.

(c) Part of the increase in planned expenditure was due to revised estimates of the cost of agreed measures. All estimates were carefully criticised by the Treasury at the time they were first made, but revisions resulting from later information were sometimes unavoidable.

The Prime Minister, summing up the discussion, said that the Cabinet had taken careful note of the position revealed in C (67) 166. The Chancellor of the Exchequer would shortly be reporting to the Cabinet the results of the examination by officials, following the Cabinet's main review of future programmes earlier in the year, of the possibilities of securing a reduction of £25 million in miscellaneous heads of expenditure which were not considered in detail during the main review. It would be useful if this report could be accompanied by an up-to-date survey of future commitments, set against the programmes to 1970–71 agreed by the Cabinet in the main review. It would also be useful as a continuing arrangement if reports similar to C (67) 166 were circulated to the Cabinet from time to time.

The Cabinet—

Invited the Chancellor of the Exchequer to arrange for further reports on public expenditure to be circulated to the Cabinet as indicated in the Prime Minister's summing up

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8. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C (67) 163) on long-term financial assistance for overseas students.

The Chief Secretary, Treasury, said that when the fees of overseas students undertaking higher and further education courses in this country had been increased following a decision of the Cabinet in November 1966 a number of short-term measures had been taken to avoid hardship to existing students. The Committee on Overseas Development had recently discussed a long-term scheme for scholarships to help future students not financed by the United Kingdom; the cost would be £500,000 a year. Treasury Ministers were not opposed to such a scheme in principle, but considered that it should be financed either out of money already allocated to the aid programme (since it was a form of aid), or by transfer of an
appropriate sum from the total allocated for education to that
provided for aid. In view of the difficulty, which was already
apparent, of keeping expenditure in 1970-71 within the agreed
limits, there should be no increase in total public expenditure and no
encroachments on the estimated long-term saving of £5 million a year
in expenditure on education announced in December 1966.

The First Secretary of State said that the Committee on Overseas
Development had been firmly of the view, subject to the position of
the Chancellor of the Exchequer, that the proposed scheme ought
to be financed by an addition to public expenditure, and not by
drawing on the sums allocated to either the Ministry of Overseas
Development or the Department of Education and Science. They
had been led to this view partly by the fact that the previous Secretary
of State for Education and Science had undertaken to review the
position of overseas students in the light of evidence of the effect of
the increase in fees. While not much evidence was yet available,
our High Commissioners in developing countries had reported that
an increasing proportion of students was coming from the wealthier
families. Undoubtedly the issue would be raised at the forthcoming
Commonwealth Education Conference.

In discussion it was pointed out that the saving achieved by
increasing the fees of overseas students had been regarded as a saving
on the Education Vote, and it would consequently be unfair that the
aid programme, which was already fully committed, should also bear
the cost of long-term measures to mitigate the effects of the increase.
On the other hand, if the cost were to be met out of sums at present
allocated for education, less would be available to meet our own
educational requirements.

The Foreign Secretary, summing up the discussion, said that the
Cabinet were reluctant that the cost of the new scheme should be
met out of the money which it had been agreed in the course of the
Public Expenditure Survey should be devoted, on the one hand, to
education and, on the other, to aid, and were on balance agreed that
the necessary money should be treated as a net addition to public
expenditure.

The Cabinet—
Agreed that the cost of the proposed long-term scheme for
scholarships for overseas students should be regarded as
an increase in public expenditure over and above the sums
allocated in the Public Expenditure Survey.

Cabinet Office, S.W.1.
26th October, 1967.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Monday, 30th October, 1967,
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. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. William Ross, M.P., Secretary of State for Scotland
The Right Hon. Anthony Crossland, 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 following were also present:
The Right Hon. Reginald Prentice, M.P., Minister of Overseas Development (Item 2)
The Right Hon. John Silkin, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir Burke Trend
Miss J. J. Nunn
Mr. E. M. Rose
Mr. H. L. Lawrence-Wilson
Mr. K. Barnes
Mr. F. G. Burrett
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1. The Minister of Labour reported that the men were returning to work that morning in the Liverpool docks, but the strike in the London docks continued. He was meeting the British Railways Board and representatives of the National Union of Railwaymen later in the day and would press the Union to accept the current proposals for ending the dispute about the duties of guards. The proposal seemed to him to be an acceptable basis for agreement.

The Prime Minister said that in the circumstances no question of declaring a state of emergency arose, though the situation in the London docks should be kept under review.

The Cabinet—

Took note of the statements by the Minister of Labour and the Prime Minister.

2. The Cabinet had before them a memorandum by the Foreign Secretary (C (67) 169) on our policy for South Arabia.

The Foreign Secretary said that the situation in South Arabia had changed drastically since the Cabinet had decided on our policy for the area earlier in the year. Although it had seemed doubtful even then whether the South Arabian Federal Government would succeed in maintaining its authority up to and beyond independence, there had been no real alternative to continuing to back the Federal Government, while at the same time seeking to broaden its composition to include representatives of other shades of opinion in South Arabia. It was on this basis that the decisions had been taken to complete the withdrawal of our forces from the mainland of South Arabia early in January 1968 and to provide maritime and air support for the new State against external aggression for a period after independence. The disintegration of the Federal Government and the failure of the Rulers to maintain their authority even in their own States had left the National Liberation Front (NLF) and the Front for the Liberation of Occupied South Yemen (FLOSY) as the dominant political forces in South Arabia. Negotiations had been taking place for some time in Cairo between the NLF and FLOSY about the formation of a government for South Arabia but no agreement was yet in sight. There was thus no government to which we could hand over our responsibilities in South Arabia nor was it clear that there would be one even by the end of the year. In the meantime there was a risk that the South Arabian Army, which had been the main stabilising influence in the country in recent months, might split into NLF and FLOSY factions. The run-down of our forces in South Arabia, and the removal of our military stores, had gone according to plan and would be completed by mid-November.
apart from those required for the final period before withdrawal; the external threat to South Arabia was being reduced by the withdrawal of United Arab Republic (UAR) forces from the Yemen, which would be completed by early December, and there was no likelihood that if we were to speed up our own withdrawal the UAR would attempt to intervene in South Arabia.

Our policy must be adjusted to meet the new situation. In particular, there was no advantage in retaining our forces in South Arabia until January 1968; in the period between now and the end of the year they would be exposed to increasing risk from acts of terrorism as their strength declined and as the competing factions in South Arabia sought credit by attacking them. It might well be that a political settlement in South Arabia would be hastened by a rapid withdrawal of our forces.

He proposed that we should bring forward the date for the final withdrawal of our forces from South Arabia into the second half of November and that we should announce that this was our intention; planning would proceed for withdrawal on the earliest possible date, which was 22nd November, but we should leave open for the next two weeks the possibility of postponement until the end of November should developments make this desirable. We should also decide and announce that we were withdrawing our offer to provide maritime and air support to South Arabia against external aggression for a period after independence. The disappearance of the Federal Government had removed any obligation on us to maintain this offer; the withdrawal of UAR forces from the Yemen had made such support unnecessary and no successor régime in South Arabia was likely to want it. Some naval forces should, however, remain in the vicinity of Aden for a short period after our withdrawal in case it became necessary to evacuate the 800 British subjects who would remain in Aden.

Since it was important to maintain the cohesion of the South Arabian forces and their co-operation with us, we were continuing to send them the supplies of military equipment which had already been arranged. But we should seek, if possible, to avoid providing them with Hunter aircraft as had previously been intended; other questions of military and civil aid to South Arabia after independence should be left for later consideration. We must also decide what action should be taken about the 80,000 inhabitants of South Arabia who had citizenship of the United Kingdom and Colonies but no other connection with this country. He proposed that we should provide against the risk that they might seek to come to this country in large numbers by making an Order in Council that would give them citizenship of South Arabia and by taking powers at the same time to deprive them of citizenship of the United Kingdom and Colonies, though leaving for later a decision whether to exercise these powers. Finally we should accept that there was no prospect that the United Nations would agree to accept responsibility for Perim, and we should decide that the Kuria Muria islands should revert to the Sultanate of Muscat and Oman and that Kamaran should remain part of South Arabia.
We were now in sight of achieving the main objective of our policy, which was to withdraw our forces from South Arabia in an orderly manner; although there seemed little prospect that there would be a political authority to which we could hand over our responsibilities, the civil service in South Arabia, which consisted mainly of local staff, was holding together. Our actions had been criticised by King Faisal of Saudi Arabia who feared that they might have repercussions for the Rulers of the Persian Gulf States and there would be criticism in some quarters in this country when our plans were announced. Our policies were, however, likely to command general agreement in Parliament and in the country and could easily be defended.

The Cabinet were informed that the Foreign Secretary's proposals had been endorsed by the Defence and Oversea Policy Committee in the previous week. In discussion there was general agreement with them, but the Foreign Secretary undertook to examine further the position of the small Jewish community in Aden in the context of his proposals for dealing with the nationality problem there.

The Prime Minister, summing up the discussion said that the Cabinet approved the proposals for our policy for South Arabia set out in C (67) 169. There had been speculation in the Press, following the meeting of the Defence and Oversea Policy Committee in the previous week, about impending changes in our policy for South Arabia, but it appeared likely that this was no more than intelligent guesswork.

The Cabinet—
Approved C (67) 169.

3. The Cabinet considered a memorandum by the Minister of Transport (C (67) 170) to which was annexed a draft White Paper on Railway Policy.

The Minister of Transport recalled that the Cabinet had agreed at their meeting on 25th July to accept the recommendations in the Report from the Joint Steering Group under the chairmanship of the Joint Parliamentary Secretary, Ministry of Transport (Mr. John Morris) which she and the Chairman of the British Railways Board (BRB) had set up to review future railway policy; the Cabinet had agreed that the necessary provisions should be included in the forthcoming Transport Bill. The Cabinet had also invited her to consult the appropriate Ministerial Committee on the timing and manner of publication of the recommendations of the Joint Steering Group. As regards the manner of publication, the best course would be to publish the Group's Report in full. For this purpose the Group had prepared, at her request, a slightly revised version of the...
report which they had submitted in July 1967 including only the minimum editorial changes but incorporating their earlier Interim Report. The revised version should now be regarded as the substantive Report of the Group, and the two earlier reports would remain confidential. The BRB had agreed to the publication of the substantive Report and she proposed that it should form an Annex to the White Paper. The main text of the White Paper set out the background to the new railway policy, described the main recommendations by the Group and announced the Government's decision to accept all these recommendations.

Publication had now become urgent because of developments affecting the future of the Chairman of the BRB, Sir Stanley Raymond. It had previously been decided that he should be replaced as Chairman of the Board and should be invited to take appointment as Chairman of the proposed Freight Integration Council (FIC). It had been her intention to defer action on this matter until after the present critical stage of negotiations between the BRB and the unions. However, she had learned during the previous week that the Press had gained some advance information of what was proposed and that reports were about to be published that the Chairman was to be dismissed. In order to forestall such misleading reports, it had been necessary to bring matters quickly to a head. She had therefore, after consultation with the Prime Minister, seen Sir Stanley Raymond, to offer him appointment as Chairman of the FIC, and this had been announced. It was now imperative to publish the White Paper quickly in order that the public should be informed about the policy background to the change in the chairmanship of the BRB and in order to minimise undesirable speculation about Sir Stanley Raymond's successor. She therefore recommended that the White Paper, subject to any amendments which the Cabinet wished to make, should be published on Thursday, 2nd November. The draft annexed to C (67) 170 had had to be prepared quickly, and it would be helpful if her colleagues would give her discretion to make any amendments of a purely drafting character which might be desirable.

In discussion it was suggested that the circumstances in which the Chairman of BRB had been informed that his appointment was to be terminated were unfortunate. On the other hand it had been essential to act immediately and to offer him the post of Chairman of the FIC to prevent misleading reports in the Press on the following day.

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

(a) It was stated in paragraph 3 that the decision, published in March 1967, to adopt a basic railway network of some 11,000 route miles would call a halt to the drastic reductions in route miles which would have been necessary under the term of the 1962 Transport Act. This statement could be regarded as a firm commitment in all circumstances to a network of not less than 11,000 route miles, although further reductions might be needed at some time in the future. While any direct suggestion that further reductions were contemplated would impair the confidence and sense of security which
it was important to foster in the industry, the wording of paragraph 3 was too inflexible. It would be preferable to substitute a statement on the lines that the decision on the basic network brought to an end the phase of drastic reductions under the Act of 1962. The Minister of Transport in consultation with the Secretary of State for Economic Affairs and the Chief Secretary, Treasury, should give further consideration to the drafting of this passage.

(b) Paragraph 5 stated that the Joint Steering Group had submitted their main report in July 1967 and that the full text, which incorporated an interim report, was being published as an annex to the White Paper. This, however, was inaccurate since what it was now proposed to publish was a revised version of the July Report. The present Report incorporated only minor changes from the July Report which were entirely the work of the Joint Group themselves. Nevertheless, it was essential to avoid any possible suggestion that the Government had for its own ends suppressed an earlier report. Therefore the present Report should not be dated July, which was incorrect, but should bear the date on which the Group had approved the modifications to their July Report, and if necessary the Chairman of the Group should be asked to sign a fresh copy bearing the correct date. Paragraph 5 of the draft White Paper should be amended to make it clear that the Group had submitted a first draft of their Report in July and that the Group themselves then revised this draft before submitting their final Report as produced in the Annex to the White Paper.

(c) In paragraph 8 it was perhaps misleading to suggest that it would be the community which consciously decided whether the social benefit to be obtained from the maintenance of a particular service was sufficient to justify the cost of continuing it. It was agreed that line 7 should be redrafted so as to omit the reference to "the community".

(d) Reference should be included in paragraph 8 to the part played by Regional Economic Planning Councils in consultation on closure of railway lines.

(e) It was important to ensure that the Departments concerned with regional policy, including the Scottish and Welsh Offices where their interests were affected, were brought into consultation about possible rail closures at an early stage.

(f) Paragraph 8 should be amended to make it clear that it was open to the Minister of Transport to take the initiative in proposing a grant for unremunerative passenger services as an alternative to closure.

(g) In paragraph 8 after the words "Directorate General of Economic Planning", there should be inserted the words "in the Ministry of Transport".

(h) The word "much" should be omitted from line 2 of paragraph 13.

(i) The figure of £159 million in parentheses in line 19 of paragraph 14 should be omitted.
(j) In paragraph 15, line 4, the word “liabilities” should be substituted for “debt.” The second sentence should end at “Minister” in line 8 and the third sentence should be omitted entirely.

(k) Paragraph 19 should be amended to make clear that although, in general, members of the reorganised Railways Board would not be executively responsible for particular functions, one member would continue as at present to be responsible for industrial relations.

(l) The last two sentences of paragraph 21, referring to the abolition of Regional Railway Boards, would be likely to cause some dismay in the regions. It was pointed out, however, that the present draft made clear that the regions would not cease to exist as management units; it was, moreover, essential to announce the decision to abolish Regional Railway Boards and it would be difficult to tone down paragraph 21 without impairing the powers of the reconstructed Board to conduct a far-reaching review of the management structure. On the other hand the Report of the Joint Steering Group referred to the need for “dispersed management” and it might be possible to improve the presentation by inserting after the reference in the penultimate sentence to the Transport Act, 1962, a passage to the effect that the Regional Railway Boards as such were not necessary to the dispersed management which the report regarded as essential. The remainder of the sentence could then stand, with the insertion of “railway” before “regions” and the deletion of “have to” in the penultimate line.

(m) In paragraph 5.33 of its Report the Joint Steering Group expressed the view that substantial improvements would be required in the level of remuneration both of Board members and of chief officers and they proposed to make recommendations on this matter in a later report. The payment of higher salaries to the senior staff and members of the BRB would have repercussions on the salaries of members of the boards of other nationalised industries which were, in any case, due to be reviewed. Although it was important to take early decisions on BRB salary levels, it was necessary to consider the question of salary increases for members of the boards of nationalised industries as a whole. The best course would be for Treasury Ministers, in consultation with the other Ministers concerned, to put forward proposals covering the whole field for early consideration by Ministers collectively.

The Cabinet then considered the timing of the publication of the White Paper. It was agreed that the balance of advantage lay in publication on Monday, 6th November, either early in the day so that reports would appear in the Press that evening, or late in the day so that reports would appear the following morning.

The Cabinet—

(1) Invited the Minister of Transport—

(i) in consultation as necessary with the Ministers concerned, to revise the draft White Paper on Railway Policy circulated with C (67) 170, taking account of the points made in discussion;
(ii) to arrange for the final Report of the Joint Steering Group to bear the date on which it was approved by the Group;

(iii) to arrange for the publication of the revised White Paper on Monday, 6th November, at a time to be decided in consultation with the Lord President of the Council;

(iv) to ensure that Departments concerned with regional policy were brought into early consultation on possible rail closures, as proposed in discussion.

(2) Invited the Chief Secretary, Treasury, after consultation with the Secretary of State for Economic Affairs and the Ministers responsible for the nationalised industries, to arrange for proposals on the salaries to be paid in future to members of the Boards of nationalised industries, including the reorganised British Railways Board, to be put forward for consideration by Ministers collectively.

Cabinet Office, S.W.1,
30th October, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 2nd November, 1967,
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. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
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. PATRICK GORDON WALKER, M.P., Secretary of State for Education and Science
The Right Hon. PETER SHORE, M.P., Secretary of State for Economic Affairs
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. CLEIDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:
Mr. GEORGE THOMAS, M.P., Minister of State for Commonwealth Affairs (Item 3)
Mr. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Miss J. J. NUNN
Mr. E. M. ROSE
Mr. H. LAWRENCE-WILSON
Mr. L. ERRINGTON
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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 Labour said that there were disturbing features about the situation in the London docks, and there was some risk that the strike there might spread. He had seen representatives of the port employers’ organisation, who were anxious lest they should not be able to restrain some of their members who wished to dismiss men on unofficial strike. The employers had sent a letter to each docker individually explaining the issues in dispute, but this might well not be effective in securing a return to work, and if on Monday the men did not return and some were dismissed there was an undoubted risk that the strike would spread. There was also some restiveness among employers who were employing men, for example lightermen, for whom there was no work, and he had been warned that if they ceased to do so the lightermen’s union might declare an official strike. Meanwhile the Transport and General Workers’ Union had revived their claim for £17 a week fall-back pay for dockers in London. If this claim were conceded there would be corresponding demands from other ports, with grave consequences to the prices and incomes policy. If, however, it were not conceded there was a possibility that the Transport and General Workers’ Union would call an official strike in an attempt to regain the Union’s authority with the men. He would keep the situation under review, but for the present there did not appear to be any action which he could usefully take.

The Cabinet—

Took note of the statement by the Minister of Labour.

3. The Minister of State for Commonwealth Affairs said that the talks in London between representatives of the Federal Government of Nigeria and of the Eastern Region under the auspices of the Commonwealth Secretariat had run into difficulties. The Federal representatives had returned to Lagos. The Eastern Region representatives had gone to Paris. The Commonwealth Secretariat were continuing their efforts to bring the two sides together; but it was doubtful whether there could be another meeting before the following week. The Federal Government had agreed to accept in mid-November the visit of a consultative mission of African Heads of State appointed by the Organisation of African Unity in September. Meanwhile, arrangements were being made for emergency action to restore the flow of oil as soon as the oilfields and the installations came into the hands of the Federal Government.
The Cabinet—

Took note of the statement by the Minister of State for Commonwealth Affairs.

4. The Cabinet had before them a memorandum by the Foreign Secretary (C (67) 172) on the resumption of diplomatic relations with the United Arab Republic (UAR).

The Foreign Secretary said that the United Arab Republic was still the most influential Arab State and was certain to remain so. She could now be counted among the moderates. Her attitude would be crucial to a satisfactory Middle East settlement and to the reopening of the Suez Canal. It was therefore in our interests to resume diplomatic relations so that we could exert influence there.

On 21st October Sir Harold Beeley had been able to reach agreement with President Nasser that diplomatic relations at Ambassadorial level should be restored in the first half of December. The UAR had made no attempt to extract concessions from us; and there was no question of our offering aid. Although it would probably be difficult, in view of the UAR's economic situation, to secure the repayment of the UAR's existing debts to us, it should be possible at least to resume normal trading on the basis that the UAR's net indebtedness to us was not increased. The UAR Government seemed anxious to improve relations. They had already agreed to the resumption of overflights by British aircraft to Aden; and they seemed to be using their influence to persuade the two South Arabian nationalist groups, the National Liberation Front and the Front for the Liberation of Occupied South Yemen, to reach agreement on the formation of a government for South Arabia. The resumption of diplomatic relations would not be opposed by Israel. This had been indicated by the Israeli Foreign Minister, Mr. Eban, and also more recently by the Israeli Defence Minister, General Dayan, in a Press conference at which he had said that an improvement in relations between ourselves and Egypt would be helpful for Israel too. It was proposed therefore that we should resume diplomatic relations with the UAR early in December.

In discussion there was general agreement with the Foreign Secretary's proposals. Attention was drawn to the possibility that the UAR's current oil shortage might be exploited to persuade her to reopen the Suez Canal. As a result of the recent Israel bombardment of the oil refinery at Suez the UAR had lost 75 per cent of her total oil supplies and was left with only four weeks' stocks. The UAR had proposed that Egyptian crude oil should be processed in the Aden refinery and the products brought by tanker to the UAR. British Petroleum and Shell were now negotiating with the UAR to supply oil on a commercial basis. A Mobil Oil Company tanker of British registration had recently carried oil to Alexandria. This was the first breach in the ban on British ships entering UAR ports. There was an international demand, in which even the Soviet
Union seemed to share, for the reopening of the Canal. It was argued that even if the Canal were reopened, Israel might obstruct shipping unless Israeli ships were allowed to pass through. The UAR might nevertheless be wise to reopen the Canal and leave Israel, if she wished, to take the blame for stopping ships. There were already indications that the UAR were beginning to think about the problems involved in the reopening of the Canal and that the work of clearing the Canal, once started, would now take a matter of weeks and not months. Nevertheless, the UAR probably still hoped to use the continued closure of the Canal as a means of securing an acceptable Middle East settlement in the United Nations. There was now a reasonable prospect that agreement might be reached in the next week or so in New York on a balanced resolution providing for Israeli withdrawal from occupied territory, for recognition by the Arab States of Israel’s right to exist, and for the appointment of a representative of the Secretary-General of the United Nations to go to the Middle East. Once such a resolution had been passed and negotiations started between the two sides through the medium of the Secretary-General’s representative, the first practical steps might be expected to be the withdrawal of Israeli forces from the Suez Canal and the reopening of the Canal. If things went well, it was not impossible that the Canal might be reopened early in the new year. Even if no agreement were reached in the United Nations, the UAR’s own economic difficulties might still oblige her to reopen the Canal.

In further discussion the following points were made:

(a) The UAR’s proposal to use the Aden refinery would give her an interest in working for an early settlement and the establishment of a stable regime in South Arabia.

(b) A test of the UAR’s intentions would be whether Cairo Radio continued to attack us and especially our position in the Persian Gulf. The UAR authorities had denied that attacks on us were continuing; but Cairo broadcasts were being monitored so that appropriate representations could if necessary be made.

The Prime Minister, summing up the discussion, said that the Cabinet agreed with the Foreign Secretary’s proposal to resume full diplomatic relations with the UAR in the first half of December. It was important to continue our efforts to secure the early reopening of the Suez Canal. The UAR’s urgent need for oil supplies and the current negotiations with British Petroleum and Shell might afford an opening which could be exploited to this end. The proposal to use the Aden refinery could also be used to engage UAR interest in the future stability of South Arabia.

The Cabinet—

Approved C (67) 172.
5. The Cabinet considered a memorandum by the Lord Chancellor (C (67) 164) on the age of majority.

The Lord Chancellor said that the Committee on the Age of Majority, under the chairmanship of Mr. Justice Latey, had, with his approval, dealt with most of the branches of the law which made special provision in regard to persons under 21, apart from the criminal law, and the franchise, which was under consideration by the Speaker's Conference, and the related question of jury service. On the question whether the age of full legal capacity should be reduced below 21, the Latey Committee were divided. The majority recommended the reduction to 18 for all purposes: a minority of two recommended that the requirement of parental consent to marriage and the wardship jurisdiction of the Chancery Division should continue to 21, and that people under that age should be able to claim relief from harsh or oppressive contracts to which they had become parties. There was unanimous agreement that people over 18 should be able to acquire a legal estate in land and to dispose of their property by will, and on a number of minor recommendations, particularly in regard to minors under 18. The recommendations of the majority were based on evidence from a number of bodies, including the British Medical Association and the Chancery judges, that young people now matured earlier both physically and intellectually, that the large majority of them were capable of managing their own affairs at 18, and that it could be harmful to withhold responsibility from people who were fit to bear it. The Home Affairs Committee had agreed with the recommendations of the majority of the Latey Committee, but had suggested that it would be useful to arrange for the Report to be debated in Parliament, and a debate had been arranged in the House of Lords on 22nd November. The Government would be expected to state their views in that debate, and he did not think that to do so would prejudge the question of the voting age on which the Speaker's Conference was expected to report before long. There were a number of minor issues arising out of the Latey Report which he proposed to ask the Law Commission to consider, and others which could be more conveniently considered in the context of legislation on guardianship, children, and the powers of the magistrates' courts. Proposals on boy entrants to the Armed Forces, and the fiscal aspects of the Report, were still under consideration, but, subject to this, he proposed that the necessary legislative provisions to implement the Latey Report should be included in a Law Reform (Miscellaneous Provisions) Bill to be introduced in the current Session.

The First Secretary of State said that the Home Affairs Committee had taken the view that the proposals ought to be submitted to the Cabinet, since, if the age of full legal capacity were reduced to 18, it would be difficult to resist the conclusion that the voting age should be similarly reduced. The Committee had been unanimously in favour of accepting the recommendations of the majority of the Latey Committee on the age of consent to marriage and on wardship, but had discussed at some length the question
whether people of 18 were sufficiently experienced to resist pressure to enter into oppressive contracts. They had concluded that this type of experience was not necessarily acquired by the age of 21 and that the appropriate way of dealing with the problem was to improve the protection of consumers generally.

In discussion it was suggested that there was force in the arguments advanced by the minority of the Latey Committee against reducing the age at which young people could marry without parental consent. In Scotland, where parental consent to marriage was unnecessary, the divorce rate among young people was substantially higher than in England and Wales. The instability of teenage marriages might be increased when the school leaving age was put up in 1970. Whereas 30 years ago young people had had seven years of adult life after leaving school before they were considered fit to contract a marriage without parental consent, reduction of the age to 18 combined with the raising of the school leaving age would reduce this interval to two years, which was not long enough to develop the experience necessary before entering into a lifelong marriage. It was argued, on the other hand, that it was not clear that where consent to early marriage was at present refused the consequences for those concerned were any better than if they had been allowed to marry. Public opinion was strongly in favour of according more rights to the young, and experience in Scotland did not suggest that a general lowering of the age of legal capacity to 18 would have harmful effects.

There was support for the view that, whatever the merits of the Latey Committee's proposals, to accept them could not avoid prejudging the question of the appropriate age for the franchise. It would be preferable to delay a decision until the Report had been debated in the House of Commons, and there was reason to think that the Speaker's Conference would welcome an opportunity to consider the views of the House on the Report before reaching their own conclusions on the age of voting. A debate might be arranged on a Motion to take note of the Report, and the Government spokesman could say that while the Government were sympathetic to the proposals of the majority of the Latey Committee they would wish to consider the views of the House before coming to a decision. The question of the voting age was a separate issue on which it would be useful for the Cabinet to consider a memorandum in due course.

In further discussion the following principal points were made:

(a) It would be relevant, in considering the voting age, to remember that, since, in accordance with the recommendations of the Committee on Jury Service (the Morris Committee), eligibility for jury service was to be related to that for the franchise, a reduction in the voting age would automatically produce a further reduction in the average age of juries which would already have been reduced by the abandonment of the householder qualification.
(b) Under income tax law if a parent settled money on a minor the income was treated as the income of the parent. Consequently lowering the age of majority could involve a substantial loss of revenue. It might be possible to offset the loss to some extent by a reduction in child tax allowances, but the problem would need further consideration.

(c) A reduction in the age of majority might also have unfortunate consequences for the Government's policy on prices and incomes, since there might well be pressure for the payment of adult wages to youths of 18, or at least to those who had completed their apprenticeship. A large number of wage agreements would be affected and it had not been possible to estimate the potential increase in the wages bill, but it might be of the order of £100 million a year.

The Prime Minister, summing up the discussion, said that the Cabinet were, on balance, in favour of the proposals of the majority of the Latey Committee, but that they should reach final decision in the light of debates in both Houses of Parliament and of further consideration of the voting age and of possible repercussions on the wages of young people under 21. Both these matters should be examined by the Home Affairs Committee before they were brought back to the Cabinet. In the meantime the Government spokesmen in the debates should say that the Government were broadly in sympathy with the recommendations of the majority of the Latey Committee, and indicate that the Government would wish to hear the views of Parliament, particularly on the detailed recommendations, before reaching their own decision.

The Cabinet—

(1) Invited the Lord President—

(i) in consultation with the Chief Whip, to arrange a debate in the House of Commons on a Motion to take note of the Report of the Committee on the Age of Majority;

(ii) to bring before the Home Affairs Committee a memorandum on the age of voting.

(2) Invited the Secretary of State for Economic Affairs, in consultation with the Secretary of State for Scotland and the Minister of Labour, to bring before the Home Affairs Committee a memorandum on the probable effect, in the light of experience in Scotland, of a reduction in the age of majority on the wages of young persons between 18 and 21.

(3) Agreed that the Government spokesmen in the debates on the Report of the Committee on the Age of Majority should adopt the position indicated in the Prime Minister's summing up.

CONFIDENTIAL
The Cabinet considered a memorandum by the Lord President (C (67) 171) proposing an experiment in the broadcasting of Parliamentary business on closed circuit radio.

The Lord President recalled that in the previous Session the House of Commons had rejected by a single vote the proposal for a combined experiment in radio and television coverage of House of Commons debates which had been recommended by the Select Committee and approved by the Cabinet. The rewiring of the microphone system in the House of Commons for the purposes of the official reporters now provided an opportunity for reopening the issue and for proposing an experiment in closed circuit sound radio. He proposed that the experiment should take the form of broadcasting the proceedings of the House to a number of points where Members, but not the public, could listen to them. The BBC would supply a small staff which would prepare experimental national and regional programmes, including a version of "To-day in Parliament" with live extracts from speeches. These experimental programmes would be played back each night in rooms where Members could listen to them, but they would not be available to the general public. After a fortnight or three weeks the House might be asked to decide whether the service should be made permanent and available to the public. The BBC had, however, made it clear to him that they would need to conduct a technical test of the existing microphone installations in the House before they could be sure that these installations would produce a realistic representation of a live broadcast. They had also told him that, whatever might be done for experimental purposes, they would not favour transforming "To-day in Parliament" into a programme consisting mainly of recorded extracts, and that it was possible that they might create another programme on Radio 3 which would contain recorded extracts. Further the BBC themselves would hope to be allowed to appraise the results of the experiment before final decisions were taken. The Opposition parties would support an experiment on the lines proposed. A decision about televising the proceedings of the House could be taken at leisure and in the light of the experiment that would be conducted in the House of Lords in February 1968.

In discussion the following main points were made:

(a) If the arrangements for broadcasting the proceedings live on a closed circuit were continued after the experiment, there might be advantage in enabling members of the public who were waiting for admission to the Public Gallery to listen in. It was pointed out, however, that there was at present no room that could be made available for this purpose.

(b) It would be necessary before proceedings of the House could be publicly broadcast, to consider the problems of law and Parliamentary privilege which might arise. The Select Committees of the House of Lords and of the House of Commons which had considered the question of broadcasting and televising proceedings...
of Parliament, had both drawn attention to the unsatisfactory state of the law in this respect. It was desirable that the matter should be referred for early consideration by a Joint Select Committee so that if the House decided that proceedings should be broadcast the decision could be implemented with the minimum of delay.

(c) The Chancellor of the Exchequer should be consulted at an early stage if there were any question of the cost of the service falling on the House of Commons vote.

The Prime Minister, summing up the discussion, said that, subject to confirmation by the BBC that the proposed experiment was technically feasible, and to the point made at (c) of their discussion, the Cabinet approved C (67) 171. It should further be proposed to Parliament that a Joint Select Committee should be set up to consider the questions of law and privilege which would arise from broadcasting the proceedings of the House.

The Cabinet—

(1) Subject to confirmation by the BBC of the technical feasibility of the proposed experiment and to the point made at (c) of their discussion, approved C (67) 171.

(2) Invited the Lord President, in consultation with the Lord Chancellor and the Lord Privy Seal, to propose the appointment of a Joint Select Committee to consider the questions of law and privilege that would arise from broadcasting the proceedings of Parliament.

Cabinet Office, S.W.1.
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 9th November, 1967,
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. JAMES CALLAGHAN, M P, Chancellor of the Exchequer
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. PATRICK GORDON WALKER, M P, Secretary of State for Education and Science
The Right Hon. PETER SHORE, M P, Secretary of State for Economic Affairs
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. ANTHONY WEDGWOOD BENN, M P, Minister of Technology

The following were also present:
The Right Hon. JOHN DIAMOND, M P, Mr. GEORGE THOMAS, M P, Minister of Chief Secretary, Treasury (Items 3-6) State for Commonwealth Affairs (Item 2)
The Right Hon. JOHNSILKIN, M P, Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. W. A. NIELD
Miss J. J. NUNN
Mr. E. M. ROSE
Mr. K. BARNES
Mr. P. E. THORNTON

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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 the progress of the Government's legislative programme for the new Session was being endangered because Bills which Ministers had undertaken to have ready for introduction early in the Session were not yet available. Several major Bills which should receive Second Reading before Christmas would not in fact do so, and the Transport Bill could be available in time only if he could arrange for an extra draftsman to work on it at the cost of delaying some other Bill required after Christmas. The result of failure to bring major Bills forward early was that time available for legislation at the beginning of the Session was in effect being wasted. As a consequence it would be necessary either to prolong Parliamentary sittings into August, or to bring the House back earlier than would otherwise be necessary in October. If neither of these were acceptable, some Bills would have to be dropped from the programme. The delays appeared to arise largely because the main policy decisions were not taken early enough and subsidiary questions of policy were not resolved quickly thereafter.

   The Prime Minister said that the situation disclosed by the Lord President was serious, particularly in view of his own request earlier in the year that Ministers should make themselves personally responsible for seeing that adequate time was allowed at all stages for the preparation of Bills. It would be unreasonable to ask Parliament to sit longer in the summer because the Government had been unable to have their Bills ready in time, and in future it might be necessary to stipulate that if Bills were not ready when they were required they would have to be dropped. The Future Legislation Committee should review the current programme and decide whether any Bills would need to be deferred until a later Session, and, if so, which.

   The Cabinet—
   (1) Took note of the statements by the Lord President and the Prime Minister.
   (2) Invited the Lord President to arrange for the Future Legislation Committee to review the legislative programme and to decide whether any Bills would need to be deferred to a later Session, and, if so, which.

2. The Foreign Secretary said that two alternative draft resolutions on the Arab/Israel conflict had been tabled in the Security Council. One was a United States draft which we and Israel could accept but to which the Arab States were opposed; and the other an Indian draft which we and the Arab States could accept but which was not acceptable to Israel and the United States. Neither draft looked like commanding a majority. He was discussing
with the United Kingdom Representative at the United Nations, Lord Caradon, what attitude we should take in the face of this deadlock. One possibility was that we might table a resolution ourselves.

The Cabinet—
(1) Took note of the Foreign Secretary’s statement.

The Foreign Secretary said that the National Liberation Front (NLF) had publicly announced on 8th November that we must formally recognise it as the sole representative of the South Arabian people before negotiations on the transfer of power in South Arabia could begin. The High Commissioner, Sir Humphrey Trevelyan, favoured such recognition. But if we were the first to recognise the NLF in this way, we might be accused by other Arab States, such as Saudi Arabia and Kuwait, of preventing the formation of a broad-based Government, and we could not be sure of a satisfactory response from the NLF. Meanwhile our withdrawal was proceeding according to plan. The most probable date for final withdrawal was 22nd November, but if negotiations could be started with the NLF, it might be postponed until 30th November.

In discussion the point was made that it was important not to miss any chance there might be of negotiating with the NLF; but that an early decision was necessary if our final withdrawal was to be postponed until 30th November.

The Cabinet—
(2) Took note of the Foreign Secretary’s statement and the point made in discussion.

The Cabinet—
(3) Agreed to take an early opportunity to review the Government’s policy in regard to Vietnam and Greece.

The Minister of State for Commonwealth Affairs said that on 8th November the Commonwealth Secretary had had four hours’ discussion in Salisbury with Mr. Ian Smith about a possible settlement. They had not reached deadlock, but although Mr. Smith had clarified his position on a number of points in regard to the proposed Constitution, he seemed to be going back on several aspects on the settlement provisionally agreed on HMS Tiger in December 1966. The talks were continuing that day with officials present.

The Minister of State for Commonwealth Affairs said that at a Press conference in London on 7th November representatives of the Eastern Region had called on the Commonwealth Secretariat to initiate talks between the Federal Government and the Eastern Region. Their object seemed to be either to destroy the chance of
talks taking place or to bring pressure on the Federal Government to compromise. Nevertheless the Commonwealth Secretariat were still trying to find a basis for the two sides to meet.

The Minister of State for Commonwealth Affairs said that there had recently been two meetings, both on the Chinese side of the frontier, between the Hong Kong authorities and Chinese frontier officials. Provisional agreement had been reached on the return of the Inspector of the Hong Kong Police who had been abducted by the Chinese in October. But the Chinese had then raised further unspecified points. It was now hoped to resume the talks.

The Cabinet—

(4) Took note of the statements by the Minister of State for Commonwealth Affairs.

CONFIDENTIAL

3. The Cabinet considered a memorandum by the President of the Board of Trade and the Minister of Housing and Local Government about the third London airport (C (67) 173).

The President of the Board of Trade said that since the Cabinet had approved the choice of Stansted there had been a number of developments which made it desirable for them to reconsider the matter. It had been discovered that realignment of the runways at Stansted would greatly diminish the disadvantages of the site; recent cost/benefit studies had suggested a possible alternative site; and it was apparent that there would be strong opposition to Stansted in the House of Lords. Of the alternatives set out in the memorandum the practical choice lay between postponing the laying of the Special Development Order (SDO) for upwards of two months in order to consider the realignment of the runways at Stansted, and a full independent public inquiry into the best site for the third London airport. The other possibilities mentioned—a further inter-departmental inquiry with or without publication of its findings, and an independent inquiry limited to sites in the Stansted area—had no attraction.

He suggested that the case for a full independent inquiry was that, despite many years of investigation, new facts affecting the issue had recently come to light which cast serious doubts on the thoroughness of previous investigations. If the Government were to announce that they had now discovered—since the debate in the House of Commons in June—that a realignment of the runways at Stansted would markedly improve the site, this would simply reinforce existing anxieties and doubts on the part of a powerful body of informed public opinion—quite independent of the Stansted lobby—about the thoroughness of the Government’s examination of the whole matter. The siting of the airport was a crucial decision affecting a great many people and a wide area of country for many years ahead, and there would be a favourable public reaction to the
announcement of an inquiry to meet the legitimate doubts which had been so widely expressed. The main case against the inquiry, apart from the charge of Government vacillation which could be satisfactorily answered, appeared to be the cost involved in delay. However, if the independent inquiry found in favour of Stansted the airport would be ready when it was needed. It was only if another site was preferred that there would be delay. An inquiry lasting 18 months followed by six years for construction would bring the third airport into operation in mid-1975 and the costs of delay would in that event be insignificant. If on the other hand inquiry and construction together took $9\frac{1}{2}$ years, i.e., to mid-1977, the cost of delay would be £10 million. A reasonable estimate might be that an airport on an alternative site, recommended by the inquiry, would be operational by mid-1976, in which event the cost of delay would be £2 million. He thought it would be generally agreed that £2 million would be a reasonable price for finding the right site and for satisfying public opinion that the right site had been found. He therefore favoured an immediate announcement to the House of Commons that a small independent committee, consisting of perhaps three or four persons, would be established forthwith to advise on the siting of the third airport.

The Minister of Housing and Local Government said that although, as Minister responsible for planning, he had never liked the choice of Stansted, he had been persuaded after thorough and prolonged examination that there was no practical alternative. The issues involved had been considered by Ministers collectively on a number of occasions and the Government had firmly announced its decision in favour of Stansted both in a White Paper (Cmnd. 3259, May 1967) and in the debate in the House of Commons on 29th June, 1967. Since then cost/benefit studies had reaffirmed that Stansted was the best site and that realignment of its runways would make it even better than they had thought in June. The alternative site proposed at Nuthampstead was no better than Stansted with runways realigned. Although the South-East Economic Planning Council had not been consulted, and had been opposed to the decision, their chairman had now publicly recognised that the decision must be implemented, and without delay. The East Anglian Economic Planning Council favoured the choice of Stansted as did a significant number of the local inhabitants. A good deal of the opposition had come from quarters influenced by special interests and he did not think that "there was now widespread opposition among well-informed, independent public opinion. There was no reason to suppose that further inquiry would produce a better site than Stansted and it was important that the Government should not appear at this stage to vacillate: vacillation on this issue would lead to increasing pressures on the Government to reverse their stand on other, even more important, questions. Finally the Government would be able to take credit for the realignment of the runways at Stansted, which would be evidence of the attention they had paid to the views of the critics, particularly the local authorities and other organisations whom they had undertaken in the White Paper to
consult. He therefore favoured delaying the SDO to give time to consider runway realignment at Stansted.

In discussion the following principal points were made:

(a) There had been a large number of investigations over the years and all of them had come down in favour of Stansted. The latest interdepartmental cost/benefit study showed that allowing for possible margins of error Stansted had a significant advantage over its nearest competitor. On the other hand, Ministers had been informed in the summer that the matter had been so exhaustively studied that nothing new would be elicited by further studies. But it now transpired that no cost/benefit analysis had in fact been made until after the Government's decision had been announced, and two new possibilities—Nuthampstead and the realignment of the runways at Stansted—had now come to light following a necessarily hurried analysis. It was not possible to be sure in these circumstances that even now all the relevant facts were available to Ministers.

(b) It seemed that, unless Stansted were chosen, the minimum delay caused by an inquiry would be some nine years if a non-estuarial site resulted; and perhaps 11 years for an estuarial site. Table 5 of Appendix C to the memorandum showed the discounted costs of delay. But the actual costs incurred by delay if the airport were not operational until mid-1977 or mid-1978 were £18 million and £44 million respectively.

(c) There was strong opposition in the House of Lords to the choice of Stansted and it would be helpful if the Government felt able to take account of this by instituting an inquiry, particularly in view of the possible repercussions of conflict over Stansted in the negotiations on reform of the House of Lords. However, in the latter connection, the delay in bringing the SDO before Parliament which would result from a decision to examine realignment of the Stansted runways might be of some help.

(d) The main case for an inquiry now was that it would meet pressures for further public examination of the issues involved and for more published information about them. Moreover, the Government would be ill-advised to press on with a decision, which seemed at the least a doubtful one, simply in order to avoid any suggestion of vacillation. On the other hand if an inquiry recommended a site on the London/Birmingham axis or near the Shoeburyness gunnery range, the Government would then be faced with equally difficult and time-consuming problems of re-siting existing military airfields and the gunnery range. The delays which would be involved in reopening the question had probably been seriously under-estimated. The publication of a refined version of the latest cost/benefit analysis would go some way to meet the public demand for more information. No one was seriously expecting the Government to change the decision.

The Prime Minister, summing up the discussion, said that there was broad agreement that the balance of the argument pointed against a public inquiry and in favour of considering the realignment
Industrial Policy
Industrial Expansion Bill: Draft White Paper
(Previous Reference: CC (67) 61st
Conclusions, Minute 6)
Corporation (NRDC). It was desirable that the Advisory Committee should be serviced mainly by these bodies instead of establishing new machinery for which there might not be an even flow of work; it was also important to associate the IRC with the Advisory Committee since there would be a close relation between the normal functions of the IRC and action taken under the Bill. But the composition of the Advisory Committee should be such as to reassure industry that the financial and technical appraisal of projects would be competent and thorough, and from this point of view it would be undesirable to restrict its composition to members of the IRC and NRDC. It was recommended that reference of projects to the Advisory Committee should not be mandatory.

It was proposed that the powers under the Bill should be available not only to finance individual projects but also to enable a Minister by Order under the Bill to set up a Board to advise on and perhaps supervise a series of related projects to be undertaken within a single industry. Such Industry Boards should be set up only where there was a continuing industry-wide operation to be carried through comparable with the action now being taken in shipbuilding by the Shipbuilding Industry Board. It was further proposed that Boards should be set up only after there had been a preliminary inquiry into the industry concerned. The Boards should not have spending power of their own and their proposals for expenditure would be subject to approval, within the limits of a general Order, by the Minister concerned. A reference to Industry Boards should be included in the White Paper.

As regards the scope of the Bill, the report recommended that it should provide for support of eligible projects in any industry (including transport, distribution and other services) in the private sector. On the question whether the powers should extend to assisting projects in the public sector, it could be argued that, if the public sector were to be covered by the Bill, this would intensify the opposition to the Government's proposals as a whole. On the other hand, it would be politically difficult to defend the exclusion of the nationalised industries. There was a case for a compromise whereby the main activities of the nationalised industries would be excluded, since they were governed by existing legislative provisions and by the policy set out in the recent White Paper on the Economic and Financial Objectives of the Nationalised Industries (Cmnd. 3437 of 1967); but the subsidiary manufacturing activities of the industries would be included and would thus be treated in the same way as private industry, as they already were for a number of other purposes, such as payment of investment grants.

The report further recommended that the Bill should provide in a separate clause the necessary authority for Government assistance to the Cunard Company; this would avoid expending Parliamentary time on separate legislation. The Bill should also provide in a separate clause the authority needed for financing the production costs of the Concord aircraft; there should be a limit of £100 million
with provision to increase the amount by Order by £25 million. The Bill should also incorporate a financial limit on expenditure generally, excluding the provision for assistance to Cunard and for the production costs of Concord; and the limit here should be £100 million with provision for an increase by Order by £50 million, either once (to £150 million), or twice (to £200 million); he himself favoured the latter.

The Cabinet considered in turn the recommendations in the report by officials.

Advisory Committee

In discussion there was general agreement with the recommendations of the report, subject to the modification, proposed by the Secretary of State for Economic Affairs in his covering memorandum, of the reference in the last sentence of paragraph 4 to the role of the Advisory Committee in advising on the extent to which projects involved discrimination between competing firms.

The Cabinet—

(1) Agreed that the composition of the proposed Advisory Committee should not be confined to members of the IRC and NRDC and that reference of projects to the Committee should not be mandatory.

Industry Boards

It was suggested that for the Government to take power to establish Boards on the lines proposed would increase the suspicion with which industry already regarded the Government's plans. On the other hand, this method of proceeding might have advantages for a number of industries, and it was possible that industry would be less apprehensive about industry-wide projects if they were administered through Industry Boards than if they were administered direct by the Minister concerned. There was general agreement that Boards should only be set up after a preliminary inquiry into the industry concerned, though the inquiry need not necessarily take the form of an independent committee on the lines of the Geddes Committee for shipbuilding; it would be acceptable to establish a Board following other forms of inquiry, for example a report by the Economic Development Committee of the industry concerned.

The Cabinet—

(2) Agreed that the Industrial Expansion Bill should include provision for the setting up of Industry Boards as proposed in paragraph 7 of the report by officials annexed to C (67) 175.

(3) Invited the Secretary of State for Economic Affairs, in consultation with the Minister of Technology, to incorporate a reference to Industry Boards in the White Paper on Industrial Expansion, reflecting as appropriate the points made in their discussion.
Scope of the Bill

There was general agreement that the Bill should cover industries generally in the private sector, including transport, distribution and other services, but excluding shipbuilding which was already covered by recent legislation. It was argued that power should also be taken to assist projects in the nationalised industries since it might from time to time be desirable for these industries to undertake projects which, though justified in the national interest, would not be consistent with their financial obligations. On the other hand, it was argued that to include the nationalised industries would confuse the main purpose of the Bill, which was to help the private sector, and would increase hostility towards the Government's proposals. An attempt to distinguish in the Bill between the main and ancillary activities of the nationalised industries would lead to great difficulties. The powers available under existing legislation were sufficient to ensure that the nationalised industries could undertake any projects which it was desirable they should undertake in the national interest, though in considering projects which did not come within their main activities it would be important to have regard to the need for the available managerial capacity in the industries to concentrate on their main functions. Where the nationalised industries undertook projects jointly with private interests, such projects would in any case be eligible for assistance under the Bill.

The Prime Minister, summing up this part of the discussion, said the Cabinet agreed on balance that the nationalised industries should be completely excluded from the Bill.

The Cabinet—

(4) Agreed that the Industrial Expansion Bill should cover all industries in the private sector (including service industries), except for shipbuilding.

(5) Agreed that the nationalised industries should be excluded from the Industrial Expansion Bill.

Cunard

It was suggested that it would be undesirable to provide in the Bill for Government assistance to Cunard, since this was a rescue operation of a kind quite foreign to the main objects of the Bill, and to provide for it in the Bill would tend to substantiate fears that the Bill would be used to support projects which were not viable. On the other hand, it was the general view that it was desirable to avoid the loss of Parliamentary time which would be entailed if separate legislation on Cunard had to be introduced, and that the inclusion of provisions relating to Cunard should be defended on the grounds that it was reasonable to use the Bill in this instance as a vehicle for implementing a past commitment.
The Cabinet—

(6) Agreed that provision for assistance by the Government to the Cunard Company should be included in a separate clause in the Industrial Expansion Bill.

Aircraft projects

The Cabinet—

(7) Agreed that authority for financing the production costs of Concord should be provided in a separate clause of the Industrial Expansion Bill, with a financial limit for expenditure on Concord alone of £100 million with provision to increase it by Order by £25 million.

Financial limits

The Cabinet—

(8) Invited the Secretary of State for Economic Affairs to consider further with the Minister of Technology and the Chief Secretary, Treasury, the limit to be incorporated in the Industrial Expansion Bill on expenditure under the Bill, other than expenditure on assistance to Cunard and on the production costs of Concord.

The Cabinet then considered the draft White Paper annexed to C (67) 175. There was general agreement with the substance of the draft, subject to the amendments and additions which would be necessary following the Cabinet's decisions on the outstanding policy issues. It was noted that the Ministers mainly concerned would wish to propose a number of drafting amendments.

There was general agreement that it would be desirable to defer publication of the White Paper until shortly before the publication of the Bill itself. If the White Paper were published not more than about 10 days before the publication of the Bill, it would then be possible to resist any pressure for a Parliamentary debate on the White Paper separately from debate on the Bill.

The Cabinet—

(9) Invited the Secretary of State for Economic Affairs—

(i) in consultation with the Lord President, the President of the Board of Trade, the Minister of Technology and the Chief Secretary, Treasury, to revise the draft White Paper annexed to C (67) 175 in the light of their discussion, incorporating any drafting amendments which seemed desirable, and to clear the relevant passages with the IRC and NRDC as envisaged in his memorandum;

(ii) in consultation with the Lord President and the Minister of Technology, to arrange for publication of the White Paper, subject to revision as at (i) above, and to be guided as to the timing of publication by the relevant part of their discussion.
5. The Cabinet considered a memorandum by the Minister of Transport (C (67) 174) to which was annexed a draft White Paper on the Transport of Freight.

The Minister of Transport said that her proposals for the establishment of a national freight organisation had been approved by the former Ministerial Committee on Economic Policy and announced to Parliament earlier in the year. Her colleagues had also approved her proposals for revision of the road haulage carriers' licensing system. These two sets of proposals formed the basis for the White Paper on policies for freight transport which she proposed should be published in advance of the forthcoming Transport Bill. She hoped to lay the Bill before Parliament at the beginning of December. The draft White Paper also included reference to the new charges to be imposed on lorries in respect of abnormal loads and wear and tear, in pursuance of the decision by the Cabinet on 20th July, 1967, in the course of their review of public expenditure.

In preliminary discussion, it emerged that a number of specific policy issues had not yet been satisfactorily resolved between Departments. The Ministry of Agriculture wished to discuss further with the Ministry of Transport the possibility of fixing the limit for goods vehicles exempted from carrier licensing above the limit of 30 cwt. unladen weight specified in paragraph 43 of the draft White Paper. There were also points which had not been resolved relating to the proposed charges on goods vehicles.

The Prime Minister said that in the circumstances it would be preferable for the Cabinet to postpone consideration of the draft White Paper until their meeting on Tuesday, 14th November. The Ministers concerned should ensure that the necessary consideration was given before then to the issues outstanding. The aim should be to publish the White Paper on Thursday, 16th November, but the Cabinet would wish to take a final decision on this at their meeting on 14th November.

The Cabinet—
(1) Invited the Ministers concerned to arrange for any outstanding policy issues affecting the draft White Paper on Transport of Freight to be discussed with the Ministry of Transport before Tuesday, 14th November.
(2) Agreed to resume their discussion of the draft White Paper on that date.

6. The Chancellor of the Exchequer informed the Cabinet that Bank Rate would be increased that day from 6 per cent to 6½ per cent.

The Cabinet—
Took note of the statement by the Chancellor of the Exchequer.
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Tuesday, 14th November, 1967,
at 9.45 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. 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. PATRICK GORDON WALKER, M.P., Secretary of State for Education and Science
The Right Hon. PETER SHORE, M.P., Secretary of State for Economic Affairs
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. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Item 3)
The Right Hon. Sir ELWYN JONES, Q.C., M.P., Attorney-General (Items 1 and 2)

Secretariat:
Miss J. J. NUNN
Mr. E. M. ROSE
Mr. H. L. LAWRENCE WILSON
Mr. K. BARNES

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The Transport of Freight: Draft White Paper
1. The Home Secretary suggested that it would be useful for the Cabinet to have a general discussion in the near future about the economic situation.

The Prime Minister said that he had in mind to arrange such a discussion shortly and would consult the Chancellor of the Exchequer about timing.

The Cabinet—

Took note of the statement by the Prime Minister.

2. The Commonwealth Secretary said that in the course of his visit to Africa he had seen eight African Heads of Government in addition to the South African Foreign Minister, Dr. Muller, and Mr. Ian Smith. To the African leaders he had explained that while we maintained our refusal to negotiate a settlement of the Rhodesian problem at the expense of the African population, we could not contemplate the use of force or an escalation of economic sanctions which might lead to economic confrontation between the United Kingdom and South Africa. He had on the whole found a realistic understanding of our position. But some African leaders still feared that we might be willing to sacrifice the interests of the 4 million Rhodesian Africans. Distrust of our policy was particularly strong in Zambia. In Tanzania he had met President Nyerere and had the impression that he was actively looking for an opportunity to resume relations.

He had explained to Dr. Muller the strong feelings which had been aroused in the United Kingdom by the despatch of South African security forces to Rhodesia. Dr. Muller had indicated that the South African Government would be happy to withdraw these forces if they had reason to believe that there would be no further infiltration of terrorists from Zambia. Dr. Muller had said that South Africa regarded it as in her interests to promote a settlement of the Rhodesian problem before the illegal régime declared a republic, and would if necessary be ready to bring pressure to bear on the illegal régime to that end, but he had been unwilling to go into further detail.

The Commonwealth Secretary said that he had spent nearly 10 hours in Salisbury with Mr. Smith. As a result it was clear that the terms of the proposed constitution were now the main obstacle to a settlement and not the arrangements for a return to legality. The illegal régime wished to make four main changes in the constitution as provisionally agreed between the Prime Minister and Mr. Smith on HMS Tiger: (i) the abolition of cross voting, which in the opinion of Mr. Smith would add five years to the period before majority rule; (ii) the restriction of African membership of the Senate to Chiefs, which would mean that elected Africans would not be able to command a blocking quarter in the legislature to prevent retrogressive amendment of the constitution; (iii) a reduction in the
number of “B” Roll seats from 17 to 15 and an increase in the number of “A” Roll seats from 33 to 35; and (iv) omission of the right of appeal to the Judicial Committee of the Privy Council against amendments of the constitution.

The Commonwealth Secretary said that he had made clear to Mr. Smith that, far from showing the kind of substantial change that would enable us to commend a settlement to Parliament and to the Commonwealth, the effect of these changes was to derogate from the agreement reached on HMS Tiger and to aggravate the difficulties of a settlement. Nevertheless, he had agreed with Mr. Smith that neither would say anything in public to suggest that the talks had broken down. He had therefore been surprised at the attack on the United Kingdom Government in Mr. Smith’s speech on 11th November. It was a clear breach of their agreement. His general conclusion was that Mr. Smith would like a settlement; that he recognised that sanctions would have the effect of preventing Rhodesia’s economic growth; but that he relied on South Africa and Portugal to see Rhodesia through her economic difficulties; and that he was not prepared to accept a settlement which did not provide for indefinite European control. Nevertheless, the Commonwealth Secretary was not in favour of an immediate announcement of a break. This would lead to the resignation of the Governor. We needed, moreover, to explore further with the South African Government how far they were prepared to go in promoting a settlement.

In discussion the view was expressed that the constitutional changes proposed by Mr. Smith and his speech on 11th November had radically transformed the situation and made it impossible for us to continue negotiating with him. There might be advantage in making this clear in the statement which the Commonwealth Secretary was to make in the House of Commons that afternoon. On the other hand it was argued that the circumstances in which a break took place needed careful thought. We might be open to criticism if we broke off negotiations before it was clear we had explored all alternative possibilities; and it was important that the Governor should not resign in circumstances where the responsibility could be laid on us.

The Prime Minister, summing up the discussion, said that we needed time to consider our future policy. This should first be discussed by the Defence and Oversea Policy Committee. The clarification which Mr. Smith had given to the Commonwealth Secretary of the changes that he wished to see in the “Tiger Constitution” meant that he was repudiating points that he had previously accepted. This weakened his position tactically and improved our own, particularly in relation to those in this country who favoured reaching a settlement with the illegal regime, since Mr. Smith was pressing for a constitution for Rhodesia inconsistent with the principles established by successive British Governments. In his forthcoming statement in the House of Commons the Commonwealth Secretary should make it clear that Mr. Smith had retreated from the Tiger constitutional arrangements; he should not,
however, finally close the door to further exchanges but should take the line that we were now considering all aspects of our policy towards Rhodesia in the light of the new situation.

The Cabinet—
(1) Took note of the Commonwealth Secretary's statement.
(2) Invited the Commonwealth Secretary in making his statement in the House of Commons to be guided by the Prime Minister's summing up of their discussion.

3. The Cabinet resumed their consideration of a memorandum by the Minister of Transport (C (67) 174) to which was annexed a draft White Paper on the Transport of Freight.

The Minister of Transport recalled that on 9th November the Cabinet had broken off their consideration of the draft White Paper in order to enable outstanding points to be resolved between Departments. This had now been done. She wished to propose a small number of amendments, of which those arising out of the discussions since the Cabinet's previous meeting were acceptable to the Ministers concerned. The points which had been raised by the Ministry of Agriculture did not affect the drafting of the White Paper or the Transport Bill, but related to the provisions of subordinate legislation under the Bill.

In discussion of the draft White Paper certain drafting amendments were approved and the following principal points were made:

(a) It would be desirable to expand the reference at the end of paragraph 67 to charges which other European countries proposed to apply to the use of heavier goods vehicles. This might possibly be done by inserting a separate paragraph which would incorporate the substance of the present Appendix 3 to the draft. There should then be a new Appendix 3 giving fuller details of developments on road haulage charges in European countries. The wording of the new material should be agreed with the Treasury.

(b) At the end of paragraph 71, there should be added the words "and accepts the principle that competition between coastal shipping and the railways must be fair".

(c) The last two sentences in paragraph 78 should be deleted and the following substituted:

"It is the Government's intention that the greater efficiency in the provision of freight services which will flow from the creation of the NFC should enable resources to be made available for, among other things, such improvements in staff conditions, including progress at a reasonable rate towards common conditions of service for those on comparable work within the new organisation."
(d) The Secretary of State for Scotland should be consulted, in view of his special responsibility, on appointments due to be made shortly in the nationalised transport industry.

In further discussion, the Secretary of State for Scotland said that he was concerned about the effect of the proposed wear-and-tear charge on heavy lorries on the remoter parts of Scotland, for example the Highlands and Islands, which were especially dependent on road transport and had no alternative rail facilities. It was undesirable to place an additional burden on transport costs in those areas. It would considerably ease the position if the charge were to be confined to goods vehicles of over 5 tons unladen weight, instead of over 3 tons as proposed in the draft White Paper.

It was pointed out, however, that the proposal for a wear-and-tear charge on heavy lorries followed from a decision taken by the Cabinet in the course of their review of public expenditure earlier in the year. If the charge were confined to goods vehicles of over 5 tons, it would fall on only some 100,000 vehicles as compared with 350,000 if it applied to all vehicles over 3 tons; in these circumstances if the charge were to produce the amount of revenue envisaged in the review of public expenditure, the rate would have to be raised to an unacceptable level and this would be particularly damaging to industry in Scotland, which depended heavily on long distance road haulage. There was general agreement that it would not be practicable to introduce different rates of charge in respect of different areas, and that the charge should be applied to all goods vehicles of over 3 tons unladen weight as proposed in the draft White Paper. However, the charge might have disproportionate effects on the cost of living in remote areas which were especially dependent on road transport. A full assessment of its effects on such areas was needed, in the light of which consideration should be given to mitigating its impact on the cost of living in those areas by other measures of regional policy; an increase in the amount of subsidy to shipping services in the Scottish Islands was one possibility.

The Prime Minister, summing up the discussion, said that the Cabinet approved the draft White Paper subject to the amendments agreed in discussion and any further drafting amendments which the Minister of Transport might think desirable. The Minister of Transport should now arrange, in consultation with the Lord President, for the publication of the White Paper either in the present week or the week beginning 20th November. While the proposal in the White Paper for the wear-and-tear charge on road vehicles should stand, further consideration should be given to measures to mitigate its impact on certain areas, on the lines proposed in discussion.

The Cabinet—

(I) Invited the Minister of Transport, in consultation with the Lord President, to arrange for early publication of the White Paper on Transport of Freight, subject to the amendments agreed in discussion.
(2) Invited the Secretary of State for Economic Affairs to arrange for the Ministerial Committee on Environmental Planning to consider what measures might be taken to mitigate the impact of the proposed wear-and-tear charge on heavy goods vehicles in areas especially dependent on road transport, taking account of the points made in discussion.

Cabinet Office, S.W.1,
14th November, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 16th November, 1967, 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. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. RICHARD CROSSMAN, M.P., First Secretary of State for Foreign Affairs
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. PATRICK GORDON WALKER, M.P., Secretary of State for Education and Science
The Right Hon. GEORGE THOMSON, M.P., Secretary of State for Commonwealth Affairs
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
The Right Hon. LORD GARDINER, Lord Chancellor
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. ANTHONY CROSLAND, M.P., President of the Board of Trade
The Right Hon. PETER SHERE, M.P., Secretary of State for Economic Affairs
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PARTRIDGE, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWIN 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
TOP SECRET

Secretariat:
Sir Burke Trend
Miss J. J. Nunn
Mr. W. A. Nield
Mr. E. M. Rose
Mr. K. Barnes

Subject:
ECONOMIC SITUATION
Devaluation of Sterling
The Prime Minister said it would be necessary for the Cabinet to put aside the items of business on the circulated agenda, which could be dealt with later in the meeting, if time permitted. He proposed, instead, to invite the Chancellor of the Exchequer to address the Cabinet on an issue of great importance and extreme secrecy, which had so far been discussed only among the Ministers immediately concerned.

The Chancellor of the Exchequer said that he recommended to the Cabinet that sterling should be devalued on the following Saturday, 18th November, to a new fixed parity of $2.40 to the pound.

It had not been easy for him to decide to make this recommendation to his colleagues, since in one sense it marked the end of the economic strategy which the Government had been pursuing hitherto; and he was prepared to draw the necessary conclusion as regards his personal position. But, although we still had considerable reserves of foreign exchange and were not being compelled to devalue by sheer insufficiency of liquid resources, there had nevertheless been serious speculation against the pound in recent weeks, which on particular days had reached grave proportions. If we attempted to hold the present parity, therefore, we should be liable to exhaust the reserves still available and should then be unable to defend even a reduced parity. The stability of the currency depended partly on confidence abroad and the general climate of opinion about the present parity. But our position had been undermined on both these counts; and this had intensified the more fundamental difficulties stemming from our unsatisfactory balance of payments prospect. There had been persistent advocacy of devaluation in some sections of the Press and in other quarters; and this, too, had created a climate in which confidence could no longer be sustained. Industrial disputes, notably the seamen's strike of 1966 and the recent dock strike, had further aggravated our difficulties; and we had suffered heavily from the crisis in the Middle East and from the closure of the Suez Canal, which now seemed likely to continue for a substantial period. The operation of all these various factors had created a position in which we could avoid devaluation only by securing international support for sterling on a scale which would be quite unprecedented; and there was no prospect that such support would be provided.

If the Cabinet decided in principle to devalue the pound, the right time to do so would be the evening of Saturday, 18th November. It should be possible to prevent premature disclosure of our intentions (which would have the most damaging financial consequences) up to that time. We were doing nothing to discourage the prevalent impression that further arrangements for support of the pound might emerge from the current discussions in Paris under the auspices of the Organisation for Economic Co-operation and Development (OECD); and so far we had had reasonable success.

* Previously recorded in a Confidential Annex.
in maintaining the position of sterling despite the adverse trade figures for October. The discussions in Paris, however, would finish at the end of the week; and, if devaluation were postponed for a further week, there was a serious risk that the situation would pass out of our control. It would be imperative to preserve complete secrecy about our intentions right up to the time of the public announcement on the evening of 18th November, particularly since the financial markets in the Middle East did not close on that day until 3.30 p.m.

During the two preceding weeks he had arranged for confidential soundings to be taken about the probable reactions of other countries if we devalued sterling. The United States authorities were unlikely to follow us. While the reactions of the French Government were uncertain, strong pressure would be brought on them to maintain their parity by the other members of the European Economic Community, who would not wish to devalue their own currencies provided that the reduction in our parity was not excessive in amount. Most of the African countries were likely to devalue, with the exception of Zambia. The Caribbean countries would follow us. So would Pakistan; but, probably, not India. New Zealand would be liable to devalue; but it was more doubtful whether Australia would do so. Their reaction would depend to some extent on that of Japan, which would be pressed by the International Monetary Fund (IMF) to avoid a devaluation.

He had maintained close contact with the United States authorities at the highest levels. While they had at first seemed ready to accept a devaluation of sterling with reasonable equanimity, they had more recently shown greater anxiety and had put increasing pressure on us not to devalue. But they were motivated primarily by concern about the United States dollar; and there seemed no prospect that they would be prepared to offer support for a sufficiently long period and on the scale which would be necessary to enable us to avoid devaluation.

It might be possible for us to obtain further short-term support from the international monetary community and to maintain the parity for a few months on this basis. This, however, would not be acceptable. When the short-term credits were exhausted we should again be faced with the same situation as at present; and we should also require considerable standby support from the IMF, which we could only hope to secure if we were prepared to accept conditions involving an unacceptably stringent international surveillance of our economic policies.

It was for these reasons that he proposed a devaluation of just under 15 per cent. Anything less than this would raise doubts abroad about our ability to maintain the new parity; and we should then incur the danger of a second devaluation. On the other hand to devalue by more than 15 per cent would involve the risk that other major countries would devalue in turn. Moreover, if we carried out a more drastic devaluation, we should run the risk of forfeiting the international support which we should need in the
coming months. The new rate which he proposed should give our exporting industries an adequate opportunity to increase their competitiveness to the required extent.

He had concluded, after full consideration, that it would be wrong to offer any guarantee at the new parity to the holders of sterling balances. To do so would be unnecessary at this stage, although we might need to reconsider the matter later in the light of reactions in the countries concerned.

It would be necessary for the Government to throw their united efforts into the creation of confidence in the new parity in order to ensure that we should avoid a second change. The aim of the devaluation would be to improve our balance of payments position by £500 million in 1969. Even so, we should probably still be in deficit in the first half of 1968, possibly to the extent of £100 million in each of the first two quarters; and we should therefore need international support during that time. If we were to secure such support, it was essential that the Government should take, and should be seen to take, adequate action to free productive resources for exports and import saving. Some of the measures required for this purpose would begin to operate immediately; but their maximum total effect would be achieved in 1969. They would be designed to redploy our resources and not to bring about further deflation. In fact, the economy was probably now expanding at a faster rate than was commonly realised and was likely to grow at the rate of 4½ per cent or more over the next 12 months, unemployment falling to 1½ per cent by autumn 1968 and perhaps further in the following year. Even if there had been no question of devaluation, this situation would have called for action next year to reduce demand to the extent of some £200-£300 million. But, making allowance for devaluation and taking into account the consequent need both to improve the balance of payments and to restrain inflationary pressures, it was estimated that demand would have to be reduced by some £850 million in 1969. Of this sum the increase in prices resulting from devaluation would automatically yield a reduction of some £350 million; but special measures would be needed to secure the balance.

It would be essential to seek to strengthen the incomes policy, although it would probably be impracticable to introduce further legislation and we should have to rely on voluntary co-operation. It would be difficult to restrain excessive growth in incomes, since we faced the prospect of a rise in the index of retail prices of up to 6 per cent, of which 2½–3 per cent would represent the consequences of devaluation. It would be very important, however, to prevent increases in incomes from whittling away the advantages of devaluation.

He proposed the following measures to restrict demand:

(i) Bank Rate should be increased to 8 per cent simultaneously with the devaluation. It should be possible, however, to reduce it
again after a short period, as soon as confidence in the new parity had been established. Monday, 20th November, would be a Bank Holiday; and the Stock Exchanges too should be closed on that day.

(i) Restrictions should be imposed on bank credit and should be concentrated on personal loans and advances; priority would be given to credit for exports, import substitution, agriculture and the development areas on the same lines as had obtained before the recent credit relaxations. The effect of these restrictions on demand, coupled with the increase in Bank Rate, would be a reduction of £100 million.

(ii) We should restore hire purchase regulations on motor-cars to the position obtaining before September 1967—i.e., a requirement for repayment over a maximum of 30 months and a minimum down-payment of 30 per cent. There should be consultations with the motor firms to ensure that they switched resources to exports to the maximum extent in order to take advantage of the favourable opportunities which devaluation would present.

(iv) The fuel oil tax should be increased either by 50 per cent (1.1d. per gallon) or by 100 per cent (2.2d. per gallon), which would yield an increase in revenue of £40 million or £80 million respectively. An increase of 50 per cent would be preferable. The increase would represent a measure of protection for the coal industry in addition to the protection which would be afforded by the increase in the cost of oil imports which would result from devaluation.

(v) Corporation Tax should be increased from 40 per cent to 42½ per cent, yielding additional revenue of £85 million. This should be announced immediately but would have to be implemented in the next Budget. Devaluation was likely to increase the profits of many firms; and it might be necessary to consider later the possibility of a larger increase in Corporation Tax. There would be no advantage in introducing a tax on dividends, since the same result could be achieved more effectively by increases in Corporation Tax, combined with the operation of the Capital Gains Tax.

(vi) The premium of 7s. 6d. payable under the Selective Employment Tax (SET) to manufacturing industry should be withdrawn, except in the development areas. The premium was originally designed as a concealed export subsidy and would no longer be appropriate in the circumstances of devaluation. This would produce a saving of £100 million.

(vii) We should announce immediately that the export rebate would be abolished in the next Budget. The rebate had caused resentment in other countries and would no longer be justified after devaluation. This would save £100 million.

(viii) He had been discussing since last August with the Defence Secretary the possibility of further cuts in defence expenditure. The Defence Secretary had now indicated that he could secure reductions of £110 million in the planned expenditure for 1968-69. A reduction of this order would bring the total expenditure on defence in that year below this year’s expenditure in money terms; and this would be the first time that we should have achieved a year-to-year reduction of this kind.

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He proposed reductions in investment by the nationalised industries totalling some £87 million, to operate in full in 1969. It would be necessary to consider with the Ministers concerned how this total should be constituted; one major contribution might be obtained by deferring the new power station planned for Seaton Carew.

He proposed reductions of £55 million in civil public expenditure. This was composed of a number of small items and two major ones. First, we might save £30 million by holding expenditure under the rate support grant to the present level, instead of increasing it, as planned, in 1969-70. Second, it was for consideration whether we should defer the raising of the school-leaving age from 1971 until 1975, with a saving of £25 million in 1968-69 and £40 million in the following year.

These proposals in aggregate would secure a reduction in demand of some £450 million. But this was insufficient; and the balance would have to be made good by increases in taxation, e.g. an increase of 3d. or 6d. on the standard rate of income tax or an increase in SET. It would be undesirable, however, to announce specific tax increases now, since more time was needed to determine what form they should take and to assess the psychological reaction of the public towards devaluation. We should announce immediately, however, that we intended to abolish the export rebate and the SET premium at the next Budget.

The Cabinet might wish in due course to consider whether supplementary measures of a wider character should be taken following devaluation, e.g. action in the field of industrial relations. These, however, could not be regarded as an alternative to the proposed measures to restrict demand.

The preliminary action necessary to effect a devaluation on 18th November had been put in hand; and it would be necessary for the Cabinet to reach a final decision that day.

The Prime Minister said that he agreed with the Chancellor of the Exchequer that devaluation was now necessary. The main risk in this course was that too many other countries, particularly France, would also devalue. If the United States devalued the dollar, all the major countries would then follow and the objects of our own devaluation would be completely frustrated. The holders of sterling balances might then conclude that we should be forced into a second devaluation; and a serious flight from sterling would result. But, from the soundings which had been taken it seemed likely that devaluations by other countries would not be so extensive as to frustrate our own intentions. The only alternative course which we could contemplate would be to secure international support on such a scale as would assure the stability of the pound for a period of three to four years. There were no signs that support of this kind could be obtained; and in any event it was likely to be subject to unacceptable conditions which would inhibit the conduct of our social
and economic policies. It was possible, alternatively, that we could obtain sufficient fresh support to enable us to hold the present parity for a few more months; but this would simply be to repeat the experiences of the past and would mean that we should again face the prospect of devaluation when the support was exhausted. It was arguable that our economy was not in fundamental disequilibrium; and the increase in our exports to the most competitive markets over the last two years was evidence of this. The basic problem, however, was one of confidence—we had now reached a point at which there was continued speculation about our economic position, our every action was closely scrutinised and adverse developments such as strikes were given a disproportionate significance in assessing the stability of sterling.

As regards the reception of devaluation by the public and by the Government's supporters in Parliament, the first reaction might well be one of relief, coupled with a feeling that we could now make a fresh start. Much would depend on the way in which the decision was presented. It would be necessary to emphasise that devaluation would mean that we should be more in control of our own destiny and less at the mercy of foreign opinion. Some of the present anxieties which beset us, in particular the fear of prolonged unemployment and balance of payments constraint on our economic growth, should be largely removed, since devaluation should enable us to maintain a higher growth rate while moving at the same time into a period of export-led boom. While prices would increase, earnings opportunities should also increase (e.g. as the result of additional overtime) and should help to prevent any reduction in real incomes. In some quarters there might be a sense of shock at the domestic measures with which the Government proposed to buttress devaluation, since a large body of popular opinion supposed that devaluation was a panacea which would transform our economic prospects without more ado. On the whole, however, given careful public presentation, the Government should be able to count on a wide measure of support.

The Cabinet should consider first the basic question whether we should proceed with devaluation; second, whether, if we did so, we should move to a fixed or floating rate; third, if we were to move to a new fixed parity, what that parity should be; and finally, how the measures to be taken in order to reduce demand should be selected.

In discussion there was general support for a devaluation, to be effected on 18th November. A change in the parity should facilitate the maintenance of an acceptable growth rate in the economy; and the accompanying measures which would have to be taken would primarily be directed not to holding back growth but to securing the necessary shift of resources into exports and import saving. While it would be necessary to acknowledge that devaluation was a setback to the policies which the Government had pursued hitherto, it would be essential to present it not as a step which nullified the motivation of those policies but rather as an opportunity for the country to break out from the balance of payments constraint which had inhibited them.
The Prime Minister, summing up this part of the discussion, said that the Cabinet were unanimously agreed that sterling should be devalued on 18th November.

The Cabinet then considered the question whether the new parity should be a fixed or a floating rate of exchange.

The Chancellor of the Exchequer said that several arguments favoured a floating rate. In particular, it might provide us with some protection against the possibility of devaluations by other countries, since it would enable us to ensure that our rate would remain below theirs. Nevertheless, the objections to a floating rate were overriding. It would run counter to the basic philosophy of international exchange rates and would therefore incur the active hostility of the IMF and the international monetary community, who would not be prepared to give us the support which we should need to control the situation. In those circumstances the rate might sink to an unacceptably low level; and even though it might eventually recover, the damage to the system of international trade and payments in the interim could be very grave indeed. The risks of a floating rate were too great; and we should therefore move to a new fixed parity.

In discussion it was argued that, despite the risks, serious consideration should be given to a floating rate. If we moved to a new fixed rate, the Government would still be in the position of being obliged to give priority in their management of the economy to the maintenance of a fixed parity and, therefore, to accept the consequential need to maintain a policy of deflation. Moreover, the rise in prices which would result from devaluation would entail, if the Government's incomes policy were maintained, a reduction in real wages. In the light of these considerations the Government could not afford to pay too much regard to the susceptibilities of the international monetary community and should not be deterred on that account from moving to a floating rate. In any case it was arguable that we should adopt a floating rate for a temporary period in order to establish by experience the right level for a new fixed parity.

On the other hand it was argued that there was a fundamental difference between the restricted posture which the Government had been compelled to adopt for the last three years and the position which they could hope to enjoy after devaluation, when they would be defending the new parity in a context of full employment and freedom from balance of payments constraint. To adopt a floating rate, however, would be to ensure the hostility of other countries; and, if they too adopted floating rates in retaliation, we should be prevented from reaping the advantages of a lower parity. If, as a result, sterling sank to very low levels in terms of other major currencies, the very steep rise in domestic prices which would result might not quickly be reversed. The main argument in favour of a floating rate—namely, that it offered some protection against the
loss of the advantages of a lower parity as a result of competitive devaluations by other countries—was nullified by our confidential soundings, which suggested that relatively few other countries of importance were likely to react in this way. The decisive consideration was the fact that our reserves of foreign exchange were inadequate to control the situation which might develop if we adopted a floating rate and that we should not be able, in the face of the hostility which we should have provoked, to secure the necessary international support. Nor should we be assisted in establishing the right level for a new fixed parity by allowing the rate to float temporarily, given the uncertain and artificial conditions which this would entail.

The Prime Minister, summing up this part of the discussion, said the Cabinet agreed that we should move to a new fixed parity.

The Cabinet then considered the level of the new rate. It was arguable that this should be lower than the $2.40 proposed by the Chancellor of the Exchequer. While our exports were basically competitive, it was essential to make them substantially more profitable if we were to secure the necessary shift of resources from domestic consumption to exports. A devaluation of the order of 20 per cent would be more effective for this purpose than the proposed devaluation of 14.3 per cent; and the effect on domestic prices would still not be unmanageable. On the other hand, it was the general view that, if we were to devalue by as much as 20 per cent, this would almost inevitably entail competitive devaluations by other major countries. Moreover, they would be likely to devalue not simply by the 5 per cent necessary to reduce the relative devaluation of the pound to 15 per cent but possibly by 10 or 15 per cent; and we should then be in a worse position than if we had devalued by 15 per cent and other major countries had either not devalued at all or had devalued by only a small amount. Moreover, a devaluation in excess of 15 per cent would be liable to antagonise the IMF, on whom we should still be dependent for support of the new parity. Finally, the more drastic the devaluation, the more severe would need to be the additional measures to restrain domestic demand, since the shift of resources required to exploit the devaluation would be correspondingly greater.

The Prime Minister, summing up this part of the discussion, said that the Cabinet agreed that we should move to a new fixed rate of $2.40 to the pound.

Accompanying Measures

The Prime Minister invited the Cabinet to discuss the economic measures which should accompany a change in the parity of the order now agreed. These measures should be designed to have a dual effect—first, to create confidence that the new rate of exchange could be maintained; second, to permit the Government's decisions as a whole to be presented positively, as affording a new opportunity to break out of our basic economic constraints, rather than in a form which might exert a depressing effect on confidence. It would also
be necessary to include measures to alleviate hardship to the poorer sections of the community, such as an increase in supplementary benefits and, perhaps, additional assistance for large families. But action of this kind in the field of social security must not be allowed to undermine confidence that the new rate could be held; and it would therefore be necessary to include appropriate measures to reduce public expenditure on the lines proposed by the Chancellor of the Exchequer.

In discussion it was suggested that, if devaluation were accompanied by additional restrictive measures, it would be open to criticism as a repetition of the Government's previous deflationary policies, intensified this time by a devaluation. The proposed measures should therefore be examined separately to see whether each was essential and whether it was necessary to announce it at once. While it was not disputed that devaluation would require a considerable shift of resources to exports, public opinion might react against the imposition of restrictive measures to that end at a time when there were clearly unused resources which should be brought into production. Similarly, although it was now generally accepted in informed circles that a future growth rate in excess of 4 or 5 per cent was in prospect, the public at large was not yet aware of this and was conscious only of the margin of resources at present unused. It might therefore be preferable to introduce the proposed measures in a phased progression, only as and when the pressure of demand made them necessary. On the other hand the main purpose of the devaluation would be frustrated if it were not seen to be accompanied by measures which would decisively ensure the necessary shift of resources into exports and import saving. Otherwise, a resumption of attacks on the new parity was inevitable.

The Prime Minister, summing up this part of the discussion, said that it would be necessary to announce measures which in the aggregate would yield a convincing impression of the Government's determination to extract the maximum of advantage from the devaluation, even though their effect would be cumulative and progressive over the next 18 months or so, as the slack in the economy was gradually taken up.

The Cabinet then turned to discussion of the individual measures proposed by the Chancellor of the Exchequer.

(a) As regards credit restrictions there was general acceptance of the proposal that Bank Rate should be raised to 8 per cent on Monday, 20th November, and that further credit restrictions should be introduced at the same time, on the understanding that priority credit facilities would continue to be provided for essential purposes such as exports, import saving, and agricultural production. These measures of credit restrictions should be announced at the same time as devaluation.

(b) Hire Purchase Restrictions in respect of motor cars would in any event have to be intensified in the next three months; and it would therefore be advisable to introduce the necessary regulations...
forthwith in order to exert pressure on the industry to increase the proportion of output which was exported. It was suggested that a sudden reversal of the easement of hire purchase restrictions which had been announced only the previous September would be a serious blow to the industry and that it might therefore be preferable to seek to negotiate with the motor manufacturers an arrangement whereby they would undertake to increase their export effort to the extent desired on the understanding that, at the point at which this resulted in a shortage in the home market, the necessary measures to curb demand would be taken. On the other hand such an arrangement might result in attempts to forestall the impending restrictions and would also be liable to imperil conviction that the accompanying measures would be sufficient to enable the new parity to be defended. It was therefore agreed that, on balance, the right course would be to introduce and to announce forthwith hire purchase restrictions on a scale designed to achieve a reduction in hire purchase debt of £100 million.

(c) The tax on fuel oil for industrial purposes should also be increased; and if the increase were announced at once, it should take immediate effect in order to avoid forestalling. Whether the increase should be 50 per cent or 100 per cent required further consideration; but neither amount should prejudice the Government's fuel policy, while either would be politically advantageous in relation to opinion among the miners, who could be expected to welcome an increase in the cost of imported oil. On the other hand an increase in the duty would be liable to have an adverse effect on industrial costs, particularly since it would be superimposed on the surcharge which had been introduced a few months earlier as a result of the recent war between Israel and the Arab States, and the resultant closure of the Suez Canal and interruption of Middle Eastern oil supplies. An additional burden on industry would therefore be likely to be self-defeating as regards exports; and small businesses in sectors of the economy where fuel oil accounted for a considerable proportion of manufacturing costs would be particularly hard hit. On the other hand only the steel, glass, pottery and cement industries would be significantly affected; the tax did not affect fuel oil for transport; and the "Middle East surcharge" could be expected to be reduced in the not too distant future. It would therefore be reasonable to increase the tax as part of the measures to accompany devaluation, although the extent and timing of the increase should be further considered by the Chancellor of the Exchequer in consultation with the Minister of Power and other Ministers principally concerned.

(d) An increase in major taxes might also be necessary if the accompanying measures were to be adequate in their totality. There were several possibilities in this respect. Thus, the standard rate of income tax might be increased by 3d. or 6d.; the Corporation Tax might be increased by 2½ per cent; and the Selective Employment Tax (SET) might also be increased—or, alternatively, the 7s. 6d. premium under SET for manufacturing industry outside development areas might be withdrawn. It was arguable that increases in major taxes should be reserved for the Budget and that, in particular, a
change in income tax should not be made without careful prior consideration of its implications in terms of the changes which might be required in the related structure of personal allowances. Moreover, it would be liable to act as a disincentive to further effort; and international opinion would be critical of it on this score. An increase in SET would also be disadvantageous in the light of its inevitable effect on prices, since experience had shown that the suppliers of goods and services were apt to use it as an excuse for unnecessary or undue price increases, frequently in areas where these affected the public directly. On the other hand it would not be possible to assemble a convincing aggregate of accompanying measures without some increase in the major taxes. Withdrawal of the SET 7s. 6d. premium (save in development areas) would therefore be justified, since the indirect subsidy to exports which had been the main purpose of this premium should become unnecessary once the parity had been changed. An increase in Corporation Tax would also be appropriate, in the light of the increase in industrial profits which must be expected over the next few years as a result of the industrial recovery which was now clearly in progress and would be reinforced by the change in the rate of exchange. In these circumstances it would be both reasonable on merits and defensible as a measure of public equity to increase the tax on distributions of profit; and, since Corporation Tax had been introduced in order to differentiate between distributed and undistributed profits and a special tax on dividends appeared to be impracticable, an increase in Corporation Tax would be wholly justified. Indeed, in the light of the considerable increase in profits now in prospect, a case could be made out for a larger increase than the proposed 2\% per cent. On the other hand if the measures to accompany devaluation were seen to include two increases in taxation (i.e., on fuel oil and on profits) both of which could be argued to affect industry adversely, an increase of more than 2\% per cent in Corporation Tax might be held to be excessive and, therefore, to depress industrial morale. On balance, therefore, the wisest course would be to abolish the SET 7s. 6d. premium, save in development areas, and to increase Corporation Tax by 2\% per cent. These changes would be made in the 1968 Budget but should be announced at once as part of the measures in support of devaluation.

(e) The Export Rebate had been designed to provide, as far as was possible consistently without international obligations, an export subsidy. But it had been severely criticised by many countries; and its retention after a devaluation of 14-3 per cent could not be justified. It should therefore be abolished. Legislation would be necessary for this purpose. But, provided that the decision was announced at once as part of the measures accompanying devaluation, statutory action could be taken in the 1968 Finance Bill.

(f) Reductions in defence expenditure had been under discussion between the Chancellor of the Exchequer and the Secretary of State for Defence since the summer, with the purpose of achieving a saving of some £60 million. In present circumstances it would be right to
substitute a more exacting target, particularly since the restrictive measures consequential upon a change in the parity would not be politically acceptable without further economies in defence expenditure. An additional saving of some £50 million, making a total of some £110 million in all, could be achieved without significant changes in foreign commitments and policy, mainly by reductions in the rate of re-equipment of our forces and in research and development expenditure. A reduction of this size would bring defence expenditure in 1968–69 not only below the target set for 1970 but also below probable actual expenditure in 1967–68.

(g) Investment in the nationalised industries should make a contribution to the reduction of demand. The Treasury had drawn up provisional proposals for reductions totalling £87 million in 1968–69, equivalent to a reduction in demand of £75 million. The specific reductions to be imposed would need to be discussed with the Ministers concerned as soon as security requirements permitted; but among the proposals which should be considered were the following: cancellation of the Seaton Carew power station, due to be started in 1968, with a saving of associated expenditure on distribution of electricity; a slowing down of investment in the introduction of North Sea gas (£10 million); a reduction in investment in collieries (£7 million); a deferral of work on port installations (£2 million); a reduction in the investment programme of the British Steel Corporation (up to £10 million); a reduction in railway investment (£5 million); economies in the replacement of bases by the publicly-owned companies; a deferral of the extension of the Brixton underground line; an extension in the waiting list for telephones; a reduction in Government building; economies in airports, sound broadcasting and investment by the Atomic Energy Authority; and a decision against development of the BAC 2-11 aircraft.

It was not proposed that expenditure under the forthcoming Coal Industry Bill should be affected. The interests of the development areas should be safeguarded so far as possible in determining the programme of reductions.

(h) Reductions should be sought in civil public expenditure. These should comprise a few major items rather than a larger number of small savings. Two major items were discussed:

(i) A saving of £30 million could be secured by holding the rate support grant in 1969 to the present level, instead of increasing it in that year as was at present planned. In discussion it was suggested that this would simply reduce Central Government expenditure by transferring the burden to local rates, which would make it more difficult for local authorities to avoid increases in council house rents and would do nothing to divert resources into exports and import saving. In any event, since the measure would not take effect until 1969, there would be no advantage in announcing it now. On the other hand it was argued that, if the grant was not increased in 1969, this would imply that the Government would need to
reduce their demands on local authorities at that time and the latter would then have an incentive to reduce their expenditure in order to avoid increases in rates, thus releasing real resources. In further discussion, there was general agreement that the Government should seek to secure a saving of £30 million in the local authority field in 1969; and it was agreed that the Lord President of the Council, the Secretary of State for Scotland and the Minister of Housing should consult with the Chancellor of the Exchequer with a view to deciding as soon as possible whether this saving should be achieved by holding the rate support grant to its present level or whether there were other preferable means of securing an economy of this order in local authority expenditure. Whatever means were finally approved, credit should be taken for a saving of £30 million in this respect in the announcement to be made after devaluation.

(ii) It was suggested that the raising of the school-leaving age should be postponed from 1970 to 1975. On the other hand it was urged that it would be wrong to seek to decide a major issue of this kind without more mature consideration, particularly since, if the critical date was once deferred, it might prove to have been postponed indefinitely. There was general agreement that there should be no reference to this measure in the announcement after devaluation but that the Cabinet should reconsider the matter at an early date thereafter, bearing in mind the overriding need to convince international opinion that the measures to be taken would suffice, in their totality, to exert adequate restraint on domestic demand (after allowing for any improvement in social security benefits which might be agreed) to secure the necessary diversion of resources to exports.

(f) It was agreed that it would be essential to include in the announcement some indication that steps would be taken to assist those sections of the community who would be most adversely affected by price increases. These might include increases in supplementary benefit and/or family allowances. The First Secretary of State, in consultation with the Chancellor of the Exchequer and the Minister of Social Security, should consider the terms in which this issue should be dealt with in the announcement following devaluation.

The Prime Minister, summing up this part of the discussion, said that the measures which the Cabinet had now approved (including an economy of some £30 million in the field of local authority expenditure but without prejudice to the decision on the deferment of the raising of the school-leaving age) should effect a reduction of demand in the region of £450 million. The means by which this figure could, if necessary, be increased could await further
The Cabinet should now consider the timetable of action required to give effect to their decisions.

It would be necessary to announce the decision to devalue at about 9.30 p.m. or 10 p.m. on Saturday evening, 18th November, when financial markets throughout the world, including the critical area of the Middle East, would be closed. He would be expected to make a television broadcast at that time; and he would also arrange, with the Chancellor of the Exchequer, to meet appropriate representatives of the Press on the following morning, Sunday, 19th November. The Chancellor of the Exchequer would need to make a formal statement in the House of Commons on Monday afternoon, 20th November. Thereafter it would be appropriate to provide time for a two-day Parliamentary Debate on Tuesday and Wednesday, 21st and 22nd November. An Opposition Motion of Censure could clearly be expected; and this should be countered by a Government Motion inviting the House of Commons to approve the Chancellor of the Exchequer’s statement. The order of Government speakers in the debate should be agreed in the normal way.

In discussion there was general agreement with the timetable suggested by the Prime Minister. Since the House of Lords did not normally meet on Mondays, there might be a demand for it to be recalled on 20th November. If so, it would be right to accede to this demand and to arrange business accordingly.

In further discussion it was emphasised that it would be essential to present the Government’s decision to change the parity positively, in a spirit of optimism and confidence, and to explain clearly the necessity for the supporting measures which the Government would be proposing. The situation which made these measures necessary had arisen to a considerable extent from causes outside the Government’s control; and all the measures to improve and stabilise our economic and financial position, including those agreed at the present meeting, had been taken with the full authority of the Government as a whole. The Cabinet were unanimous in paying tribute to the efforts which the Chancellor of the Exchequer had made, and was making, to strengthen the country’s economy and the balance of payments and in expressing their wish that he should remain in office in order to maintain those efforts, in which he would have their united support.

The Chancellor of the Exchequer said that he was prepared to take responsibility for the devaluation operation but that thereafter he might feel compelled to consider his position in the light of the pledges which he had given to the holders of sterling balances that their balances would not be devalued.

The Prime Minister, summing up the discussion, said that while it was for the Chancellor of the Exchequer to reach his own decision as regards his personal position, the pledges which he had given to the holders of sterling balances had been given with the full authority of the Cabinet as a whole, just as the Cabinet now endorsed his recommendation for a change in the parity of sterling and for
appropriate accompanying measures to divert resources to exports and import saving in order to take advantage of the fresh opportunities in these fields which the devaluation would provide. It had been agreed that further consideration should be given to certain consequential questions; and these should be pursued between the Ministers concerned. At the same time all possible care should be taken to prevent premature disclosure of the Government's decisions; and no information about the course of the Cabinet's discussion should be given, before the public announcement, to any individuals other than those directly concerned. There had been general agreement that the Government's decisions should be presented positively, as affording the country a new opportunity to break free from the continuing economic constraints of recent years; and he would discuss with the Chancellor of the Exchequer and other Ministers how such a presentation might best be achieved. Finally, the Cabinet should make a united stand, in both public and private discussion, to defend their new economic policy and to reassert their political authority in face of the hostile criticism which was to be expected from the Opposition and some sections of the Press.

The Cabinet—

(1) Took note, with unanimous approval, of the Prime Minister's summing up of their discussion of the devaluation of sterling and the necessary consequential measures.

(2) Agreed:

(a) that the parity of the pound sterling should be reduced to a new fixed rate of $2.40 to the pound, representing a devaluation of 14.3 per cent;

(b) that measures should be introduced to free resources on a scale designed to secure an improvement of at least £500 million on the balance of payments;

subject to the right of the Chancellor of the Exchequer to invite the Cabinet to reconsider these decisions if, before they were announced, there should be major international developments justifying such action.

(3) Agreed that, otherwise, these decisions should be announced in the late evening of Saturday, 18th November; that they should be formally communicated to Parliament on Monday, 20th November; and that arrangements should be made for a Parliamentary debate as soon as possible thereafter.

(4) Agreed that the measures to reduce demand set out in the Annex should be introduced as appropriate and should be announced together with, or as soon as possible after, devaluation.

(5) Invited the Chancellor of the Exchequer to consider the extent and timing of such further tax increases as might be required in order to bring the reduction in demand effected by the measures in the Annex to the prescribed total.
(6) Invited the Chancellor of the Exchequer, in consultation with the Lord President of the Council, the Secretary of State for Scotland and the Minister of Housing and Local Government, to consider how a saving of some £30 million in expenditure by local authorities could best be made, whether by withholding any increase in the Rate Support Grant or by other means yielding an equivalent saving.

(7) Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Scotland, the Ministers of Transport, Power and Technology, and (after devaluation had been announced) with the Chairmen of the Boards of the Nationalised Industries (including the Post Office), to consider the best means of securing a reduction (in demand terms) of some £75 million in 1968–69 in the investment programmes of those industries.

(8) Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Education and Science and the other Ministers principally concerned, to arrange for further consideration to be given to the advisability of postponing the raising of the school-leaving age to 1974–75.

(9) Agreed to give further consideration, at a subsequent meeting of the Cabinet and in the light of their decision on devaluation, to the memoranda by the First Secretary of State, the President of the Board of Trade and the Minister of Technology on British European Airways Re-equipment (C (67) 176, 177 and 178).

(10) Agreed in principle that the Government's decision to protect those members of the community who would be most adversely affected by devaluation should be announced at the same time as the decision on devaluation itself; and invited the Chancellor of the Exchequer, in consultation with the First Secretary of State and the Minister of Social Security, to consider the amount and form of possible measures to this end.

Cabinet Office, S.W.1,
16th November, 1967.
ANNEX

MEASURES TO REDUCE DEMAND

(i) Bank Rate to be raised to 8 per cent and restrictions on bank credit, subject to the priorities obtaining before the recent relaxation, to take effect at the same time.

(ii) An increase in hire purchase restrictions in respect of motor cars, to achieve a reduction of £100 million in hire purchase debt, to take effect forthwith.

(iii) Corporation Tax to be increased in the next Budget by 2½ per cent.

(iv) The tax on fuel oil for industrial purposes to be increased, possibly by 50 per cent or 100 per cent, the amount to be determined by the Chancellor of the Exchequer in consultation with the Minister of Power and the other Ministers principally concerned.

(v) The 7s. 6d. premium payment under the Selective Employment Tax to be abolished for manufacturing industry outside development areas.

(vi) The investment programmes of nationalised industries to be curtailed on a sufficient scale to achieve a reduction of some £75 million in demand.

(vii) Defence expenditure to be reduced by rather more than £100 million in 1968–69.

(viii) Public expenditure by local authorities to be reduced whether by the withholding of any increase in Rate Support Grant or otherwise, on a scale to secure a reduction of some £30 million in demand.

(ix) Abolition of the export rebate, to be effected in the next Finance Bill but to be announced as part of the measures accompanying devaluation.
67th Conclusions

CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 21st November, 1967, 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 (Items 4 and 5)
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. PATRICK GORDON WALKER, M.P., Secretary of State for Education and Science
The Right Hon. GEORGE THOMSON, M.P., Secretary of State for Commonwealth Affairs
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
The Right Hon. LORD GARDINER, Lord Chancellor
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. ANTHONY CROSLAND, M.P., President of the Board of Trade
The Right Hon. PETER SHORE, M.P., Secretary of State for Economic Affairs
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. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology

The following were also present:
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. W. A. NIELD
Miss J. J. NUNN
Mr. E. M. ROSS
Mr. K. BARNES
Mr. P. E. THORNTON

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Agriculture

1. The Minister of Agriculture said that the present epidemic of foot-and-mouth disease was one of the worst of this century. The virus was unusually severe and had spread exceptionally fast. There had so far been 672 outbreaks and some 133,000 cattle had been slaughtered. Government compensation to farmers would exceed £10 million. However, the epidemic had been largely confined to the West Midlands, though there had been one or two outbreaks in adjoining areas including one in South Derbyshire. The present epidemic, like its predecessors, was being tackled by slaughter. A change to a policy of vaccination and slaughter would certainly be no cheaper; it would probably involve annual expenditure at a rate at least equal to the total compensation due so far as a result of the present epidemic. He paid tribute to the unstinted efforts of the veterinary service of the Ministry of Agriculture, whose officers had been working at full stretch for a long period, and to the co-operation of farmers in infected areas and others concerned.

There was no positive evidence of the source of the infection. He thought that the wind and birds could be ruled out in view of the geographical area affected and the fact that the nearest point of infection was in Germany. The most likely cause was imported meat. He confirmed that there had never been an outbreak of foot-and-mouth disease in the Irish Republic which had never imported meat from the Argentine. He would put before the Commercial Policy Committee later in the week proposals to ban, temporarily, all imports of carcass meat and offal from dangerous sources of supply—these would not include Ireland, Australia, New Zealand or North America—to avoid risk of another primary outbreak; and to review the existing veterinary safeguards on imports of meat in order to reduce the risk of future outbreaks.

The Cabinet—

Took note of the statement by the Minister of Agriculture.

Aircraft

2. The Cabinet had before them memoranda by the First Secretary of State (C (67) 176), the President of the Board of Trade (C (67) 177) and the Minister of Technology (C (67) 178) on the re-equipment of British European Airways (BEA).

The President of the Board of Trade said that the papers before the Cabinet had been prepared before devaluation, and it would be desirable to consider the problem in the light of fresh calculations based on the new value of the pound. The necessary work had been put in hand.
The Prime Minister said that the item should be placed on the agenda for the Cabinet's next meeting and every effort should be made to have the new figures ready by then.

The Cabinet—

(1) Invited the President of the Board of Trade, in consultation with other Ministers as necessary, to circulate a memorandum, setting out the effects of devaluation on the estimates already circulated for consideration at their next meeting on Thursday, 23rd November.

(2) Agreed to consider the re-equipment of British European Airways at their next meeting.

Parliament

3. The Lord President said that the recent White Paper on Fuel Policy (Cmd. 3438) was to be debated in the House of Commons on Monday, 27th November. The Government had put down a motion to approve the White Paper, but a considerable campaign had been developed by the Members of Parliament representing mining constituencies as well as by the Miners' Group to persuade the Government to alter the terms of their motion so that it would invite the House to take note of the White Paper rather than to approve it. This pressure resulted from the strong feelings aroused by the contraction of the coal industry envisaged in the White Paper, which would have serious effects on employment in particular areas; and the strength of these feelings should not be underestimated. At the same time, the mining lobby had not attempted to challenge the conclusions of the White Paper on any rational basis; they simply maintained that the prospect for the industry was unacceptable. The Government would need to decide how to handle the situation.

The Chief Whip said that the leader of the Miners' Group, Mr. Swain, had asked for a discussion with the Prime Minister before the debate. Mr. Swain believed that, if he could have such a discussion and assure his fellow Members that the Prime Minister fully understood their position, he would then be able to persuade them to accept the Government's motion inviting approval of the White Paper.

In discussion there was general recognition that the situation would need careful handling. The effects of colliery closures on employment in particular areas could be very serious. Much depended on the timing of closures: the situation might well change radically within the next two years, when the main problem of the coal industry might be excessive voluntary wastage of manpower rather than the redundancies caused by closures; moreover, the problem of finding alternative employment for miners affected by pit closures might well be much easier in 12 months' time. There was therefore a case for some flexibility in the timing of colliery closures over the next 12 months, while adhering to the broad
objectives of the White Paper. At the same time, it would be necessary to pursue vigorously measures to bring new industry to the worst hit areas. On the other hand, it was argued that, while there might be scope for altering the order of pit closures as distinct from the overall rate of contraction, there were considerable risks in interfering with the closure programme. In the past a closure had been postponed after the National Union of Mineworkers (NUM) had taken action to secure acceptance of it by the miners concerned, and this had placed the Union in a difficult position. There was some evidence that the Miners' Group were more extreme in their opposition to the closure programme than the miners themselves.

Devaluation would affect the calculations underlying the fuel policy embodied in the White Paper, and these were being reworked. Oil imports would become more expensive, but this was likely to be offset in due course by the removal of the surcharge on oil imposed during the Middle East crisis. The difference in cost between oil and coal in the uses for which they were in competition was so great that devaluation would not materially affect the position and the Government should not encourage the idea that it would. The best line for the Government to take in discussions with spokesmen for the miners was to emphasise that the production targets for the different fuels embodied in the White Paper were not intended to be rigid and that, as the White Paper stated, the Government would keep the situation under review and would be prepared to adjust the policy in the light of developments.

In further discussion there was general agreement that the Government should not alter the terms of the motion which had been put down for debate on 27th November. All possible steps should be taken, however, to avoid the motion being passed with the support of the Opposition and against the votes of the Miners' Group. To this end, it would be right to accept the request of the leader of the Group for a discussion with the Prime Minister. It would also be useful if the Ministers concerned with regional policies were to have a separate discussion before the debate with representatives of the Group.

The Prime Minister, summing up the discussion, said the Cabinet agreed that the terms of the Government's motion for the debate on the White Paper on Fuel Policy should stand, and that the object should be to avoid this motion being passed with the support of the Opposition against the votes of the Miners' Group. It would be useful if, before the debate, he himself, together with the Minister of Power and the Chief Whip, were to see either the leader and the secretary of the Miners' Group, or the whole Group; alternatively, it might be more productive to see the leader and secretary with the Executive of the NUM. It would also be useful to arrange a separate meeting between the Miners' Group and the Ministers concerned to discuss the action being taken by way of regional policies to alleviate the effects of colliery closures on the
The Cabinet—

Invited the Chief Whip, after discussion with the chairman and secretary of the Miners’ Group, to make arrangements for meetings with Ministers as indicated in the Prime Minister’s summing up.

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Economic Situation

Devaluation

(Previous Reference: CC (67) 66th Conclusions)

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Defence Expenditure

worst hit areas. The Chief Whip should discuss these possibilities with the leader of the Miners’ Group and should make arrangements accordingly.

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SECRET

4. The Cabinet considered a note by the Secretary of the Cabinet (C (67) 182) to which was attached an extract from the Conclusions of the Cabinet meeting of Thursday, 16th November, 1967, relating to the devaluation of sterling.

The Prime Minister said that the devaluation, considered as an operation, had gone very well: the fears that too many other currencies might follow our change of rate had not in the event been realised: only a few countries had devalued, and in some of these cases, where the countries were important food suppliers, the devaluation was welcome. Throughout the operation our relations with all the Governments with whom we had had to make contact had been excellent, and the reports of their reactions had shown a strikingly standard pattern of approval for our holding the old rate as long as we could, for our consultation with them about the change when that could no longer be avoided, and for our choice of the new fixed rate. It was now necessary for the Cabinet to consider further the measures to be taken consequentially upon devaluation in certain areas of public expenditure which had been referred to only in general terms in the public statements already made. It might be convenient to start with defence economies.

The Secretary of State for Defence said that he was proposing to save a total of some £110 million of the estimated expenditure for 1968-69. Of this, some £60 million was accounted for by a wide range of small savings which had already been under discussion before the decision to devalue. The further £50 million of savings had therefore had to be concentrated upon cuts in our defence capability, some of which were quite severe and would involve a substantial reduction in our capability for operations outside Europe during the next five years. In all the circumstances, it was right to incur the risks involved, but it should be made clear that those risks were there. The broad pattern of the saving had been that each of the Armed Services should sacrifice a major item of re-equipment. Thus the Royal Navy would not now receive the last eight of the Buccaneer aircraft they were due to get, and the aircraft carrier HMS Victorious would probably not now be put back into service, though a final decision on this should await a report on

* Previously recorded in a Confidential Annex.
the extent of the damage caused by the fire which had taken place recently towards the end of her refit. Other possibilities which were under consideration were that the Royal Air Force would not now receive two VC-10 aircraft, which it was hoped to sell either overseas or at least to domestic airlines, and would not receive the Chinook heavy-lift helicopters, a loss in which the Army was also interested; and that the Army would not now receive the M-II new bridging equipment; some at least of the new Chieftain tanks they were due to receive would not be taken and would instead be sold abroad if, as was thought likely, suitable buyers were available; and the disbandment of two battalions would be advanced from next year to this year. Finally, it had been decided not to go ahead with the staging post on Aldabra. All these cuts would bring bigger savings in the years after 1968-69. In addition, there would be in a number of areas a slowing down of re-equipment and of new building, and a running down of stocks. All these cuts, totalling £110 million in 1968-69, would bring in that year a direct foreign exchange saving of some £15 million. The cuts would be very unwelcome to the Services, but they had been allocated in such a way as to reduce to a minimum their impact on morale and efficiency. He had now been able to consult Mr. McNamara, the United States Secretary of State for Defense, about the cuts. Mr. McNamara had received them, including the decision on Aldabra, in a very understanding spirit, and indeed with praise for the way the devaluation had been handled. So much so, that the consultation had extended to a consideration of further sales by the United Kingdom under the Offset Agreement with the United States; and it might now be possible to make a further Offset Agreement which would provide for further sales by the United Kingdom up to the maximum agreed under the collaborative arrangements. It was not yet possible to decide how many of these cuts could be announced at an early date, because the timing of the announcement of the cuts could affect the terminal and cancellation charges, and this position was under urgent examination. In so far as examples of the cuts had to be given in the forthcoming debate, the best course would be to announce one major economy in respect of each Service.

The Cabinet—

(1) Endorsed the proposals for economies in defence expenditure put forward by the Defence Secretary in his statement.

The Chancellor of the Exchequer said that civil expenditure was proving the most difficult area of public expenditure in which to make economies. In addition to the cuts in defence expenditure just agreed, a considerable measure of agreement appeared to have been reached on cuts in the investment programmes of nationalised industries between the Departments and the Chairmen of the Public Boards concerned. Economies in civil public expenditure represented the smallest part of the package of accompanying measures. But it was the most troublesome, because even a small
saving was difficult to achieve in an area where a very substantial proportion of the expenditure was on items of such social importance that the Cabinet had decided to safeguard them, e.g., in the local authority field, where substantial reductions had been envisaged, about half the expenditure was on education, or where reductions were hardly practicable or very difficult to achieve, e.g., about half the expenditure in the local authority field was in salaries and a further quarter in interest charges. It appeared that the proposal to save some £30 million by holding the Rate Support Grant at its present level would not in fact be practicable, and it had been decided that so significant a proposal as postponing the raising of the school-leaving age for four years would need much more consideration. There were therefore at present no concrete proposals for adequate economies in civil public expenditure. This was particularly unfortunate in the light of the stress laid on such economies in financial circles at home and abroad, and in view of the burdens which were going to be imposed on the public through higher prices, on public and private industry and on the defence services.

The Prime Minister recalled that the Cabinet had decided at their meeting on 16th November that there should be economies in public expenditure either through the stabilisation of the Rate Support Grant, or if that were not practicable, through some equivalent saving in the local authority field. It was quite clear that in the new circumstances many local authorities, partly for political reasons, were going to cut their expenditure, and it would be unrealistic to assume that there would not be some saving in this field. The best course might be therefore for the Cabinet to decide that economies of some £50 million in local authority spending should be achieved and announced, and that the Chancellor of the Exchequer with the Minister of Housing and Local Government and the other Ministers concerned should concert together the precise means by which this might best be done.

In discussion it was confirmed that the Rate Support Grant did not present a practicable means of making economies—the support obligations were statutory, and the Order implementing them to the end of 1968–69 was due to be signed immediately. In any event the necessary saving in real resources could not be achieved in that way. It was therefore essential to seek other means of making the economies in civil public expenditure; and the need for a cut in local authority expenditure was incontestable, for a number of reasons. Moreover there was clearly scope for such economies both in respect of less essential capital projects, such as city centre development and office building which could well be deferred, and in local authority current expenditure on the salaries of the higher grades, on travel, entertainment, and other less essential items. It would however be necessary to avoid anything that might be represented as panic cuts; and items of great social importance such as slum clearance and the main local authority social services should be exempted from the economies proposed. It was also recalled that in the Cabinet's review in July 1967 of
public expenditure to 1970, a cut of some £25 million in miscellaneous heads of expenditure including local authority environmental services had been agreed in principle, and the details remitted for further consideration; but no economies had yet been secured and meanwhile the planned expenditure under these heads had increased by over £50 million.

The Prime Minister, summing up this part of the discussion, said that the Cabinet were agreed that it was essential that the package of measures accompanying devaluation should include economies in civil public expenditure, mainly in the local authority field, of some £50 million. The Ministers principally concerned should consider how economies of this size could best be achieved having regard to the need to avoid cuts in items of major social significance. The Cabinet should give early consideration to measures in the social security field to protect the most vulnerable sections of the community, and to the question of postponing the raising of the school-leaving age.

The Cabinet—

(2) Invited the Chancellor of the Exchequer to include in his announcement of the domestic measures accompanying devaluation provision for economies in civil public expenditure, mainly in the local authority field, of some £50 million in 1968–69, and in consultation with the Minister of Housing and Local Government and the other Ministers principally concerned, to consider how economies of this scale could best be achieved, having regard to the need to avoid cuts in expenditure on items of major social significance.

(3) Agreed—

(i) To consider at their meeting on Thursday, 23rd November, means of protecting the most vulnerable sections of the community against rising prices.

(ii) To consider at an early meeting the desirability of postponing the raising of the school-leaving age.

The Chancellor of the Exchequer said that, from discussion with the Ministers concerned, proposals had emerged for reductions in the investment programmes of the nationalised industries amounting to some £75 million in 1968–69 and £90 million in 1969–70. The proposed reductions were as follows:

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<tr>
<th>Industry</th>
<th>1968–69</th>
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<tr>
<td>Electricity (England and Wales)</td>
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<tr>
<td>Reduction in electricity supply industry's capital investment programme in real terms: details still to be worked out but deferment of one power station due to start in 1968–69 would be involved</td>
<td>17</td>
<td>20</td>
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<td>Sector</td>
<td>1968–69 £ million</td>
<td>1969–70 £ million</td>
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<td><strong>Gas</strong></td>
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<tr>
<td><strong>National Coal Board (NCB)</strong></td>
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<tr>
<td>Colliery investment: figure for 1969–70 still under examination</td>
<td>7</td>
<td>10</td>
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<tr>
<td>Savings on investment at Immingham Dock</td>
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<td>4</td>
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<td><strong>Steel</strong></td>
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<td>Provisional figures which would need to be re-examined when firm proposals were received from the British Steel Corporation on the total size of the investment programme</td>
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<td><strong>Railways</strong></td>
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<tr>
<td>Deferment of Weaver Junction–Glasgow electrification</td>
<td>5</td>
<td>10</td>
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<tr>
<td>Deferment of rail link to Immingham Dock</td>
<td>0.5</td>
<td>0</td>
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<tr>
<td>Savings on track and signalling</td>
<td>0</td>
<td>1</td>
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<tr>
<td><strong>Transport Holding Company</strong></td>
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<tr>
<td>Ships</td>
<td>1.5</td>
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<td>Road haulage vehicles</td>
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<tr>
<td><strong>Docks</strong></td>
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<tr>
<td>Reduced investment at Uskmouth</td>
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<td>2.2</td>
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<td><strong>London Transport Board</strong></td>
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<tr>
<td>Deferment of new tube lines</td>
<td>0.5</td>
<td>1.3</td>
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<tr>
<td>Deferment of modernisation at Greenwich Power Station</td>
<td>0</td>
<td>1.4</td>
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<tr>
<td>Deferment of improvements in garage heating</td>
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<td>1</td>
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<td><strong>Post Office and Broadcasting</strong></td>
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<tr>
<td>Provisional figures, subject to further consultation with the Postmaster-General</td>
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<td>12</td>
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<td><strong>British Airways Authority</strong></td>
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<tr>
<td>Saving on Thames heliport</td>
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<td>0</td>
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<tr>
<td><strong>British European Airways</strong></td>
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<tr>
<td>Saving on developments of prototype of steam generating heavy water reactor</td>
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<tr>
<td><strong>Atomic Energy Authority</strong></td>
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<tr>
<td>Saving on developments of prototype of steam generating heavy water reactor</td>
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<td>5</td>
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<tr>
<td>If the Cabinet decided against development of the BAC 2-11 aircraft for British European Airways, this would represent an additional saving.</td>
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<tr>
<td>He was not proposing that details of these reductions should be announced during the forthcoming debate in Parliament, but he sought the agreement of his colleagues to reductions approximating</td>
<td>76</td>
<td>90.9</td>
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to these totals and to the announcement of the overall savings to be secured. It would, however, be necessary to reach firm decisions on the specific reductions during the following week since there would be Parliamentary pressure for this information.

In discussion the following points were made—

(a) The NCB would like to secure savings mainly by abandoning some of their less profitable subsidiary activities. This might create problems since some of these activities were located in development areas, though in so far as they were in the areas particularly affected by colliery closures they might be eligible for the special assistance which the Government was planning for those areas. There should be further discussion with the NCB designed to secure the full saving of £7 million, if possible, during 1968-69, without damage to the interests of the development areas. It would, however, be wise for purposes of a Government announcement during the next two days of the total saving in this field to take credit for savings by the NCB by only some £4 million in 1968-69.

(b) The NCB were doubtful about the wisdom of abandoning their investment at Immingham Dock since they felt that following devaluation there would be greater possibilities of handling exports there. This, however, was insufficient ground for continuing the project, though it might be necessary to reconsider the matter at a later stage.

(c) There was some danger that the steel firms which had been nationalised would exert pressure on the British Steel Corporation for an unduly large investment programme, but the Chairman of the Corporation was well aware of this risk.

(d) While it should be possible to obtain the proposed reduction in the investment programme of the AEA, it should be left to the Authority, in consultation with the Ministry of Technology, to decide how this should be achieved.

The Cabinet—

(4) Agreed that, subject to the views of the Postmaster-General on reductions in the Post Office programme, reductions in the investment programmes of the nationalised industries should be made, broadly on the lines proposed by the Chancellor of the Exchequer, totalling £70-£75 million in 1968-69, and that the amount of the total reduction should be announced during the forthcoming debate in Parliament.

(5) Invited the Chancellor of the Exchequer to pursue discussions with the Ministers concerned with a view to reaching firm decisions as soon as possible on the specific reductions to be made.

The Chancellor of the Exchequer said that representatives of the International Monetary Fund (IMF) were still discussing with the Treasury the package of measures to restrain demand which...
the Government proposed. Their enquiries had been searching, and they were taking the line in general that the package was too small and that its emphasis was misdirected. In their view, the Government should do more (though not necessarily immediately) to restrain consumption by reductions in the social services, thereby avoiding the need for additional taxation. The IMF would probably accept the Government's proposals because of broader considerations affecting the international monetary situation; nevertheless, their views were worthy of respect and the Cabinet should weigh them carefully.

In discussion there was support for the view that further action to increase taxes or to reduce public expenditure would be needed in the next Budget, and that there would be advantage in announcing now that this was likely. In considering the measures which should be taken it was necessary to distinguish between on the one hand the action needed to effect a shift of resources into exports and import saving in order to reap the benefits of devaluation, and on the other hand action to restrain demand which might become necessary at a later stage in order to contain inflationary pressures as the industries making exports or import substitutes began to expand. For the first of these purposes, the package of measures so far agreed was probably adequate, but further action might well be needed in the next Budget to contain inflationary pressures. It was suggested that it would be useful if a small group of Ministers were invited to study future strategy for public expenditure and taxation and to evaluate these matters more systematically than had been possible in the discussions in the context of devaluation. Serious consideration should be given to tax measures which would afford some relief to the higher levels of earned income, since the disincentive effect of taxation at these levels had a crucial bearing on the productive efficiency of the economy and on the loss of highly trained manpower overseas, especially as devaluation would increase the incentive to emigrate. Some tax relief for the higher brackets of earned income might be coupled with increased taxation of the higher levels of unearned income. On the other hand it was argued that, whilst it might be highly desirable to reduce direct taxation in this way, it would be impossible to give any relief to the higher income groups as long as the very large numbers of workers on the lowest wages levels were still subject to direct taxation. To give any tax relief to the latter however would only be feasible if there were either offsetting increases in indirect taxation (which was much higher on the Continent) or alternatively offsetting reductions in public expenditure, on a scale which could only be achieved if the Government were prepared to face up to reductions in the major social programmes such as health, education and housing.

The Prime Minister, summing up this part of the discussion, said it was clear that further measures to increase taxes or to reduce public expenditure, or both, might be needed in the next Budget, and that a suitable reference should be made to this in the forthcoming debate, but only in general terms, and distinguishing
between action consequent on devaluation and later measures to contain inflation. The Chancellor of the Exchequer would wish to take full account of the points made in discussion in considering future policy on taxation and public expenditure.

The Cabinet—

(6) Invited Ministers to be guided by the Prime Minister’s summing up in their interventions in the forthcoming debate in Parliament.

(7) Invited the Chancellor of the Exchequer to take account of the points made in discussion in considering future policy on taxation and public expenditure.

5. The Cabinet considered memoranda by the Minister of Transport (C (67) 179 and 183) and the Chief Secretary, Treasury (C (67) 181) about the salaries to be paid to the Chairman and members of the British Railways Board (BRB).

The Minister of Transport said that it was necessary to reconstitute the BRB because of the impending resignation of the present Chairman and a number of retirements already agreed upon. Mr. Peter Parker was in principle ready to accept the chairmanship, but not at the present salary of £12,500 because this would leave insufficient room for the salaries which he thought it essential to pay to the members of the Board and their senior officers, and in particular to the occupant of the new post of Deputy Chairman and Chief Executive which had been recommended by the Joint Steering Group. Mr. Parker had himself been offered a salary of £15,000 as an ordinary full-time member of the Board of the Steel Corporation and he considered it vitally important that the new members of the Railways Board should be paid salaries sufficient to attract men of the right calibre. His own initial view, therefore, was that the Chairman’s salary should be £20,000 and the new Deputy Chairman’s £17,500. Soundings taken of other potential chairmen and advice received from management consultants indicated that it would probably be necessary to pay £15,000 for Board members and that £20,000 for the Chairman would be considered appropriate.

It had not been possible for the Cabinet to consider the matter at their previous meeting, but a small group of Ministers had met and had invited her to see Mr. Parker again and attempt to persuade him to accept the “tariff” salary of £12,500 with the assurance that his salary and that of the Deputy Chairman would be reviewed. She had seen Mr. Parker and had subsequently taken him to see the Prime Minister, who had persuaded him to discuss the matter further with her after the week-end. On Monday she had discussed the situation with Mr. Parker and with Mr. Johnson, the prospective Deputy Chairman and Chief Executive,
in the light of the devaluation of the pound. Mr. Parker, while appreciating the Government's position, had adhered to the view that if he was to make a success of the reorganisation of the railways it was essential to create the right conditions for efficient management by paying realistic salaries. He pressed the point that, whereas the working railwaymen and middle management had received increased rewards for increased effort, the top management had not. He had offered to accept a 12½ per cent rebate himself on a salary of £17,500, but had insisted that Mr. Johnson should be offered £15,000. This would not be an increased salary for the same job, since Mr. Johnson was to occupy a newly created post with much greater responsibility.

The Chancellor of the Exchequer said that it would not be right at present to pay the Chairman and Deputy Chairman of the BRB more than the normal "tariff" rate of £12,500, and £10,000 respectively. The higher salaries approved for members of the British Steel Corporation were not a parallel because there it had been necessary to secure the services of men already earning higher salaries in the industry. The right course, therefore, was to pay the current tariff rates, but to consider these salaries in the context of the review of the salaries of members of Boards in the nationalised industries generally.

In discussion it was suggested that it was as important to provide adequate incentives for higher salary earners in the public sector as in the private. The reduction in the salary of the Chairman of the Atomic Energy Authority when a new Chairman was appointed had had a harmful effect throughout the industry, and might well have given some encouragement to senior scientists to contemplate emigration. It might be possible to avoid repercussions on other nationalised industries by fixing the salary for the new post of Chief Executive of the BRB ad hoc and not relating it to the existing tariff; and the Finance Director who would be required shortly might possibly be obtained from the private sector on loan. It was pointed out, however, that any expedient which involved paying higher salaries to secure members of the BRB or their staff, whether fixed ad hoc or not, would involve a breach of the prices and incomes policy and severely aggravate the task, which was more important than ever in the light of devaluation, of persuading the trade unions to accept restraint on incomes. The problem was partly one of timing. It was particularly difficult to increase BRB salaries in the immediate aftermath of devaluation and it was important that they should be considered in the context of those of the nationalised industries generally.

The Prime Minister, summing up the discussion, said that, while the Cabinet appreciated the difficulty in which the Minister of Transport found herself because of the immediate need to find a new Chairman of the BRB, they could not agree to the payment of the salaries which she proposed for the Chairman and Deputy Chairman. The salaries should be held at their present level pending the consideration of the review of the salaries of the nationalised...
Boards which should be brought before the Cabinet as soon as it could be completed. In the meantime the Minister of Transport should inform Mr. Parker that she could not offer him any increase on the current salary; and she should consider another candidate for the chairmanship who had been brought to his notice and who might be found no less suitable for the post.

The Cabinet—

(1) Agreed that the salaries of the Chairman and Deputy Chairman of the British Railways Board should be held at their present rates pending the review of the salaries of members of the Boards of nationalised industries.

(2) Invited the Minister of Transport to inform Mr. Parker that she could not offer more than the current salaries for himself or the Deputy Chairman.

(3) Took note that the Prime Minister would transmit to the Minister of Transport for consideration the name of an alternative candidate for the chairmanship of the British Railways Board.

(4) Invited the Chancellor of the Exchequer to bring before the Cabinet the result of the review of the salaries of members of the Boards of nationalised industries as soon as it was completed.

Cabinet Office, S.W.1,
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 23rd November, 1967, 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 (Items 1-3)
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. RICHARD CROSSMAN, M.P., First Secretary of State for Foreign Affairs ( Items 1-3)
The Right Hon. MICHAEL STEWART, M.P., First Secretary of State for Foreign Affairs (Items 1-3)
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Defence
The Right Hon. ANTHONY CROSLAND, M.P., President of the Board of Trade
The Right Hon. GEORGE THOMSON, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. ANTHONY GREENWOOD, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. PATRICK GORDON WALKER, M.P., Secretary of State for Education and Science
The Right Hon. GEORGE THOMSON, M.P., Secretary of State for Education and Science
The Right Hon. JUDITH HART, M.P., Secretary of State for Education and Science
The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Item 4)

The following were also present:

The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for the Home Department
The Right Hon. ROY JENKINS, M.P., Secretary of State for the Home Department
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for the Home Department
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. R. J. GUNTER, M.P., Minister of Labour
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. BARBARA CASTLE, M.P., Minister of Transport
The Right Hon. RICHARD MARSH, M.P., Minister of Power
The Right Hon. RICHARD MARSH, M.P., Minister of Power
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury
The Right Hon. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury

Secretariat:

Sir BURKE TREND
Mr. W. A. NIELD
Miss J. J. NUNN
Mr. E. M. ROSE
Mr. K. BARNES
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Parliament

Debate on Fuel Policy White Paper (Previous Reference: CC (67) 67th Conclusions, Minute 3)

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, after the Prime Minister's discussion with the Miners' Group members, it had been thought desirable to postpone the debate on the White Paper on Fuel Policy in order that the strong reaction among miners provoked by the recent speech of the Chairman of the National Coal Board, Lord Robens, about employment prospects in the industry should be allowed to die down. It would not, however, be possible to defer the debate until after Christmas because a long delay would give the Opposition an opportunity to exploit the situation.

In discussion it was suggested that the Miners' Group, who had not contested the substance of the White Paper, were concerned less about the fuel policy itself than about the effectiveness of the Government's regional policies and measures to assist development areas. Here the difficulty was largely one of timing. The problems would be intractable during the next 18 months, but thereafter would diminish. It would be important, however, not to aggravate them by further postponement of pit closures, which would necessitate a much accelerated run-down in the latter part of the period up to 1970 if the measures necessary to preserve the industry were to be completed in time.

The Prime Minister, summing up the discussion, said that the Government should complete their further consideration of fuel policy in time for a debate before Christmas, and it would be helpful if the Minister of Power would circulate a further paper in the light of the revision of his calculations on the basis of the new exchange rate of sterling. In the meantime arrangements should be made, as indicated at their meeting on 21st November, for the Ministers concerned with regional policies to discuss with the Miners' Group the contribution which these policies could make to alleviate the effects of colliery closures.

The Cabinet—

(1) Invited the Minister of Power, in consultation with other Ministers concerned, to submit to the Cabinet a further paper on fuel policy, taking account of the revision of his calculations on the basis of the present exchange rates.

(2) Invited the Chief Whip to pursue his arrangements for meetings between the Miners' Group and Ministers concerned with regional policies.

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2. The Foreign Secretary said that the debate on the Arab-Israel conflict in the Security Council of the United Nations had been brought to a successful conclusion by the unanimous adoption on 22nd November of a British resolution providing for the withdrawal of Israeli forces from occupied territories, an ending to belligerency, guaranteed freedom of navigation through international waterways and the despatch to the Middle East of a special
representative of the Secretary-General charged with helping to achieve a peaceful settlement. The resolution had received the affirmative votes of all 15 members of the Council and both the Arab States and Israel had acquiesced in it. The way was now open for the Secretary-General's representative, who would probably be Mr. Gunnar Jarring, a Swedish diplomatist, to go to the Middle East. The passing of the resolution, which was the first effective British initiative on a contentious issue in the United Nations for a long time, was a triumph for the United Kingdom Representative at the United Nations (Lord Caradon). It was too early to say whether it would turn out to be the first step towards a settlement.

The Foreign Secretary said that discussions had started in Geneva on 21st November between the Minister without Portfolio, Lord Shackleton, and a delegation of the National Liberation Front (NLF). The talks had raised no serious difficulties so far, although the NLF delegation had reacted unfavourably to the decision to transfer the Kuria Muria Islands to Muscat. There had not yet been any discussion of aid. The problem was to decide how much of the aid we had offered to the former Federal Government we now needed to offer to the NLF in order to ensure the orderly withdrawal of our forces. There was a risk of disorder if the South Arabian Army thought they were going to lose the aid they expected. Meanwhile our withdrawal was proceeding smoothly.

The Foreign Secretary said that the Government of the United Arab Republic had now agreed formally to resume diplomatic relations and Ambassadors would be exchanged on 10th December.

The Foreign Secretary said that there was grave tension between Greece and Turkey as a result of the recent incidents between the Cyprus National Guard, under its Greek commander, General Grivas, and the Turkish inhabitants of the village of Ayios Theodoros. There was some doubt whether the incidents had been provoked by General Grivas on his own initiative or at the instigation of the Greek Government. The Greek Government's reaction to the incidents suggested that they had not been privy to them; and they had helped to relieve tension by recalling General Grivas to Greece. The Cyprus Government were also trying to restore the situation to normal. The Turkish Government on the other hand were in an intransigent mood; and the Turkish forces were poised for an invasion of Cyprus by sea and air. He had been in touch with the Turkish Foreign Minister, Mr. Caglayangil, and urged restraint. Meanwhile the President of the United States had decided to send to the area a special representative, Mr. Cyrus Vance, who was already in Ankara. The Secretary-General of the United Nations was also sending a special representative to Cyprus, Greece and Turkey.
In discussion the Cabinet were informed that if Turkey invaded Cyprus, the plan was to concentrate all United Kingdom nationals in the Sovereign Base Areas which were not expected to be involved in a Turkish invasion. If Turkey invaded Cyprus she would probably invade Greece as well. The attack on Cyprus would not be against the Cyprus Government but against the Greek forces on the Island, of whom the Turks alleged that about 12,000 were there illegally. We had no defence treaty with Cyprus and were therefore under no obligation to respond to any appeal which the Cyprus Government might make to us for assistance in the event of a Turkish invasion. Nevertheless, it was important that we should know in advance how we proposed to react in such a situation. The attitude we had taken up at the time of the Chinese invasion of India in 1964 and the war between India and Pakistan in 1965 might provide useful precedents. We should bring all possible pressure to bear on Turkey, seek to involve the United Nations as deeply as possible and take political action at every level to stop the fighting. We should consider the possible reaction of the Soviet Union. It was also necessary to consider whether the North Atlantic Treaty Organisation (NATO) could play a role in bringing to an end a war between two of its members. There was a danger that NATO intervention might lead to a break up of the Alliance. It might therefore be preferable to act through the United Nations.

The Cabinet—

(1) Took note of the Foreign Secretary’s statement.

(2) Invited the Foreign Secretary to consider, in the light of their discussion, the political action which we should take, particularly in NATO, in the event of a Turkish invasion of Cyprus.

The Commonwealth Secretary said that the Defence and Oversea Policy Committee had considered our policy on the supply of arms to the Federal Military Government of Nigeria (FMG). It was now clear that the FMG was winning the war and that, negotiations having so far failed to lead to a settlement, our interests would best be served by a quick FMG victory, particularly by the capture of Port Harcourt. The Committee had therefore agreed that our policy on arms should be relaxed so that we could now supply to the FMG such items as mortars and Stirling sub-machine guns, although there would be no question of allowing the export of aircraft or weapons of mass destruction.

The Cabinet—

(3) Took note of the Commonwealth Secretary’s statement.
3. The Prime Minister said that, while it would be some time before the full implications of devaluation became apparent, it would clearly be prudent to put in hand now a systematic study of what was likely to be involved in terms of the realignment of the Government’s basic economic policies and forward strategy. The study would have to cover a wide field, including for example not only policies for particular sectors of industry, but also the whole range of the Government’s measures to promote industrial productivity and to save imports. He therefore proposed to invite the Chancellor of the Exchequer and the Secretary of State for Economic Affairs to commission a study on these lines by their two Departments, drawing on the advice of other Departments as necessary. While the full study would take a considerable time, the aim should be to produce an initial report in time for consideration by Ministers collectively before Christmas.

There were a number of questions, affecting the Government’s measures for switching resources to export and import saving, on which further work was in progress. The Cabinet had agreed at their last meeting to consider further whether one of these measures should be to postpone the raising of the school-leaving age; it would be helpful if the First Secretary of State, after consultation with the Chancellor of the Exchequer, the Secretary of State for Scotland and the Secretary of State for Education and Science, would circulate a memorandum on this for consideration by the Cabinet, if possible during the following week. The Chancellor of the Exchequer was considering further with the Ministers concerned two other outstanding matters which the Cabinet had agreed in principle: first, the best means of securing a saving of £50 million in 1968–69 in civil public expenditure, mainly in the local authority field; and second, the specific reductions to be made in the investment programmes of the nationalised industries. The Chancellor of the Exchequer would be reporting on these matters in due course.

The Cabinet at their meeting on 16th November had agreed in principle that an increase in the fuel oil tax should be included in the package of measures following devaluation but had remitted the extent of the increase for further consideration. As a result of this further consideration it had been agreed on 18th November between himself and the Chancellor of the Exchequer and the other Ministers concerned that it would be preferable to omit the increase in fuel tax from the package—first, because, in the light of discussions which the Minister of Power had held with the interests concerned, there was less ground for increasing the tax in order to allay anxieties in the coal industry; second, because to include an increase in the tax would have given rise to criticism that the package of measures as a whole was placing an undue burden on industrial costs. The announcement of devaluation made on 18th November had therefore not mentioned an increase in the fuel tax. He sought the endorsement of the Cabinet for this decision.

In discussion the following principal points were made—

(a) In considering whether the raising of the school-leaving age should be postponed, it would be useful if the Ministers concerned
would also examine possible alternative means of reducing expenditure in the field of education, including expenditure on student grants; action on the latter might be more acceptable in the present climate of opinion than it would be in other circumstances.

(b) It would be helpful from the point of view of the Government's legislative timetable if it were possible to introduce before Christmas the short Bill abolishing the export rebate and the premium payable under the Selective Employment Payments Act, 1966 to manufacturing industry outside the development areas.

(c) While the other nationalised industries had broadly accepted the proposed reductions in their investment programmes, there were signs that the National Coal Board would strongly contest the cuts proposed for their programme.

(d) The Lord President would shortly circulate to all Ministers a brief on the economic measures to be taken following devaluation, to ensure consistency in public comment by Ministers.

The Cabinet—

(1) Took note of the Prime Minister's statement about action consequential on devaluation.

(2) Endorsed the decision that an increase in the fuel oil tax should not form part of the package of measures following devaluation.

(3) Invited the First Secretary of State, after consultation with the Chancellor of the Exchequer, the Secretary of State for Scotland and the Secretary of State for Education and Science, to circulate, if possible for consideration during the following week, a memorandum on the desirability of postponing the raising of the school-leaving age and the possibilities of alternative means of securing reductions in expenditure in the field of education.

(4) Invited the Chancellor of the Exchequer, in consultation with the Lord President and other Ministers concerned, to arrange for the preparation of a Bill to abolish the export rebate and the premium payable under the Selective Employment Payments Act to manufacturing industry outside the development areas, with a view to its introduction before the Christmas Recess.

The Prime Minister invited the Secretary of State for Economic Affairs and the Minister of Labour to report on the discussions they had held with the Confederation of British Industry (CBI) and the Trades Union Congress (TUC) about the implications of devaluation for the Government's prices and incomes policy.

The Secretary of State for Economic Affairs said that, with the Minister of Labour, he had discussed the situation with the President and Director of the CBI and with representatives of the TUC on 20th November. The object of the talks had been to secure endorsement of the Government's economic measures and in particular agreement that the criteria for price and wage movements
embodied in the White Paper on Prices and Incomes Policy (Cmnd. 3235 of 1967) would now need to be applied with even greater rigour. The TUC representatives had confirmed their support for the incomes policy and the TUC General Council, while accepting that a rise in prices was inevitable, had agreed that they would not regard price increases arising from devaluation as constituting in themselves justification for increases in wages. They had also agreed that they would regard as incompatible with incomes policy claims for improvements in wages due to take effect within 12 months of a previous settlement. This was a satisfactory response and there had been remarkable degree of unanimity among the members of the General Council.

The response of the CBI representatives had been less satisfactory. They had argued that the advantages of devaluation to industry would be largely offset by the abolition of the export rebate and the selective employment premium, increases in the price of imported raw materials and the rise in Bank Rate. They had made it clear that they had no confidence that a prices and incomes policy on a voluntary basis could be successfully sustained in a situation of rapidly growing demand and falling unemployment. The solution they advocated was extensive cuts in public expenditure and a straightforward wage freeze. He had urged on them the importance of the CBI endorsing the Government's policy and advising their constituent organisations accordingly. The final attitude of the CBI would not be known until after a meeting of their Grand Council on 6th December. While the discussion with their officers had been disappointing, in face of the more constructive response of the TUC they might well hesitate to stand out in opposition.

The Minister of Labour said that the response of the TUC had been satisfactory, but pronouncements by the TUC General Council would have little effect unless individual trade unions paid heed to them. Unfortunately there were already signs that particular trade unions, even where their leaders had been party to the General Council's decisions, would be reluctant to accept the implications of these decisions for their own wage negotiations. While his Department would do their best to uphold the criteria for wage increases, it was likely that we should be faced with considerable industrial unrest during the winter, and the co-operative attitude of the TUC General Council would not of itself suffice to prevent a major confrontation.

In further discussion the following principal points were made—

(e) Increases in wages arising from settlements since the end of June 1967 had averaged about 6 per cent. Experience showed that wages tended to increase faster at times when unemployment was falling, and the prospect for 1968 was for an average increase in wages of some 7-8 per cent; indeed, taking account of the prospective increase in the cost of living, it might be even greater. On the other hand, there was a smaller backlog of wage claims at the present time than there had been in July 1966 when the wage freeze was imposed. Moreover the impact of incomes policy over the last year on trade union attitudes towards wage claims should not be underestimated;
at least the unions now recognised that it was essential that wage increases should be linked with increased productivity. The main difficulties arose in sectors where productivity could not be measured.

(j) It was suggested that it would not be possible, during a time of rising prices and increasing demand for labour, to sustain an incomes policy which was basically voluntary. Though it would not be practicable at present, it might be necessary next year for the Government to contemplate taking further legislative powers: for example, they might need to consider fixing a positive annual norm for wage increases and enforcing this by law.

(g) The Government should try to determine their attitude towards major wage claims while these were still at an early stage of negotiation; if it was clear that in the end it would be compatible with the Government’s policy to allow some increase, it would be preferable to obtain a quick settlement with the interested parties on that basis rather than to engage in protracted opposition to any increase, which would antagonise the unions often without producing a more acceptable result.

(h) It might be worth examining further the proposal that, in the interests of preventing increases in prices which were not justified by the effects of devaluation, arrangements should be made for local authorities to exercise some oversight over price movements in their areas. On the other hand, any such arrangement would cut across existing provision for early warning and oversight of price increases by the Departments concerned.

*The Prime Minister*, summing up this part of the discussion, said Ministers would need to give further consideration to future prices and incomes policy in the light of the attitude of the CBI and TUC. Meanwhile it would be useful if existing arrangements for oversight of price movements could be reviewed and consideration given to the possibility of local authorities playing some part in this field.

The Cabinet—

(5) Took note of the statements by the Secretary of State for Economic Affairs and the Minister of Labour.

(6) Invited the Secretary of State for Economic Affairs, in consultation with the Ministers concerned, to put in hand a review of arrangements for the oversight of price movements as indicated in the Prime Minister’s summing up.
4. The Cabinet considered a memorandum (C(67) 184) by the First Secretary of State on the implications of devaluation for supplementary benefit and family allowances.

The First Secretary of State recalled that the Chancellor of the Exchequer, in his statement on 18th November, had announced the Government's intention to take, at the right time, steps to protect the most vulnerable sections of the community from hardship resulting from devaluation, and he himself had been invited to discuss with the Minister of Social Security and the Treasury what steps would need to be taken. The people concerned were the old, the poorer families and others eligible for supplementary benefit. It would be necessary to resist pressure for increases in pensions generally because of the high cost; and for the purpose of helping the most vulnerable to rely on the selective supplementary benefit. On the assumption that prices were likely to rise during 1968 by 5 to 6 per cent, increases in supplementary benefit of some 4s. a week costing £35 million net in a full year might be required by the end of the year. Supplementary benefit would not, however, help the families of the lowest wage earners in full employment, and, in terms of an increase in prices and of the need to resist pressure for increased wages, an increase in family allowances would be an appropriate means of helping these people. The amount proportionate to the rise in prices would be about 1s. a week for each eligible child, but it could be argued that the effect had to be considered in relation to the whole family income, and not merely the family allowance, and on this basis a politically more acceptable figure would be 3s. a week costing about £35 million. The cost would have to be met out of taxation. It was not necessary to reach a decision on the amount at present, but since legislation would be required the opportunity might be taken to amend the Family Allowances and National Insurance Bill, which was about to enter its Committee Stage, to give the Minister of Social Security power to raise supplementary benefits by order subject to affirmative resolution. This would provide useful flexibility, but might also stimulate pressure for action to assist pensioners.

In discussion it was agreed that it would be necessary to increase supplementary benefit during 1968, but an announcement of the Government's intentions and of the amount of the increase could be delayed until the spring. The change could be made by statutory instrument, but it would be necessary to allow three months to bring the increased amounts into payment.

On family allowances, it was pointed out that, since large families and the families of low wage earners were known to be among the poorest sections of the population, the Government would be expected to make some increase in family allowances, but the increases need not be given across the board; they could be concentrated either on large families or, for example, on the second child in the family. It would in any event be convenient to take power to alter the allowance by order. On the other hand, it was
argued that under the current Bill families would receive an increase of 7s. in the allowances in April, when the increase in prices would have become apparent. There did not at present appear to be any justification for raising the increase to 10s., particularly as family allowances were not popular and there was no clear evidence that they were relevant to wage claims, though the Trades Union Congress (TUC) had shown themselves interested in social payments in this connection. It was suggested that family allowances should not be paid at all above an income level of £1,000 a year, and that the money saved should be used to help the poorest families; if such a change were ever to be made, the present might be a suitable opportunity.

On the question whether enabling powers should be taken in the current Bill, it was suggested that it would be preferable for any action on family allowances to be taken next spring, when the proposals could be seen in the context of the Budget and of any additional taxation that might be proposed. It would be preferable, therefore, not to seek powers now and thus to create an expectation of early action. A provision to increase family allowances, or even to take enabling powers, might be inserted in the Finance Bill. This might be criticised by the Opposition as contrary to the usual practice and proprieties, but was not impossible. Consideration should, however, be given to using the rate rebate scheme rather than family allowances as a means of helping the poorer families. The rate rebate scheme was already in satisfactory operation and had resulted in the payment in the current year of £1 million in rebates, averaging £15 for each family concerned. The level of eligibility was at present an income of £10 a week for a married man, which rose by 30s. a week for each child. The details of the scheme could, however, be altered by Order in Council. It would provide a form of selectivity which had shown itself to be acceptable and had the advantage that 25 per cent of the cost and the whole responsibility for administration fell on the local authorities.

The Prime Minister, summing up the discussion, said that the Cabinet were agreed that it would be necessary to increase supplementary benefits during 1968, but that no announcement of their intentions need be made yet. The amounts and timing could be considered in the spring. On family allowances, they were agreed that enabling powers should not be taken in the Family Allowances and National Insurance Bill. If on further consideration a further increase in the allowances seemed desirable, it could be authorised by the Finance Bill when it could be seen in relation to the Budget. A decision whether to increase the allowances, and, if so, by how much, should be deferred until the spring, and in the meantime consideration should be given to the use of the rate rebate scheme as an alternative. The Minister of Social Security should consider, in consultation with the Chancellor of the Exchequer, what she should say on the protection of families in the further debates on the Family Allowances and National Insurance Bill.
The Cabinet—

(1) Agreed that it would be necessary to increase supplementary benefits during 1968, but that no decision as to the amount or timing of the increases should be taken before the spring.

(2) Agreed that no amendment should be made to the Family Allowances and National Insurance Bill to confer on the Minister of Social Security powers to vary family allowances by order.

(3) Invited the Minister of Social Security to consider, in consultation with the Chancellor of the Exchequer, what she should say, in the further debates on the Family Allowances and National Insurance Bill, about the protection of families against the effects of devaluation.

(4) Invited the First Secretary of State, in consultation with the Secretary of State for Scotland, the Minister of Housing and Local Government, the Minister of Social Security, and the Chief Secretary, Treasury, to consider whether amendment of the rate rebate scheme would be preferable, as a means of giving help to the poorer families, to an increase in family allowances.

Cabinet Office, S.W.1,
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 30th November, 1967,
at 10 a.m.

Present:
The Right Hon. HAROLD WILSON, MP, Prime Minister
The Right Hon. GEORGE BROWN, MP, Secretary of State for Foreign Affairs
The Right Hon. JAMES CALLAGHAN, MP, Secretary of State for the Home Department
The Right Hon. ROY JENKINS, MP, Chancellor of the Exchequer
The Right Hon. DENIS HEALEY, MP, Secretary of State for Defence
The Right Hon. PATRICK GORDON WALKER, MP, Secretary of State for Education and Science
The Right Hon. PETER SHORE, MP, Secretary of State for Economic Affairs
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEART, MP, Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWYN HUGHES, MP, Secretary of State for Wales
The Right Hon. JOHN DIAMOND, MP, Chief Secretary, Treasury (Items 4-7)
The Right Hon. JOHN SILKIN, MP, Parliamentary Secretary, Treasury

The following were also present:
The Right Hon. JOHN DIAMOND, MP, Chief Secretary, Treasury (Items 4-7)
The Right Hon. GEORGE DARLING, MP, Minister of State, Board of Trade (Items 5-7)
Mr. HAROLD LEVER, MP, Financial Secretary, Treasury (Item 6)

Secretariat:
Sir BURKE TREND
Mr. W. A. NIELD
Miss J. J. NUNN
Mr. E. M. ROSE
Mr. K. BARNES
Mr. P. E. THORNTON

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1. The Prime Minister said that the Cabinet would wish to pay a warm tribute to Mr. James Callaghan for the services which he had rendered as Chancellor of the Exchequer. For more than three years he had carried the heavy burden of that office with dignity and distinction. They extended their good wishes to him in his new office as Home Secretary, and to Mr. Roy Jenkins in that of Chancellor of the Exchequer.

The Cabinet—
Concurred in the Prime Minister's tribute.

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

The Lord President said that Ministers who had public speaking engagements for the week-end were likely to be questioned on the statement in that morning's Guardian about conditions attached to the loan obtained from the International Monetary Fund (IMF); and it would be desirable to give them some guidance.

The Home Secretary said that the statement of the policy and intentions of the Government, which, as Chancellor of the Exchequer, he had sent to the IMF in support of our application for a standby loan, had said that so far as could be seen at present the Government's internal borrowing was unlikely to exceed £1,000 million. The particulars given to the IMF of the measures which the Government proposed to take had already been disclosed to the House of Commons in his statement of 20th November. The public did not, however, appreciate the extent to which any country applying for a standby loan was subject to scrutiny by the IMF, and it might help to procure a clearer understanding of the situation if the communication to the IMF were published.

In discussion it was pointed out that the statement to the IMF set out no more than an estimate of the extent of the restrictions which the Government would need to apply in any event. It was not a binding document, and it would be open to them, if circumstances or policy changed, to discuss the situation further with the IMF. It would not be desirable, however, to indicate this publicly.

The Prime Minister, summing up the discussion, said that it would be useful if the Chancellor of the Exchequer made a brief statement to the meeting of the Parliamentary Labour Party in the following week, and that consideration should be given to the publication of the statement of intentions sent to the IMF. In the meantime an appropriate addition should be made to the brief on devaluation provided for Ministers.
The Cabinet—

Invited the Chancellor of the Exchequer—

(i) to arrange for an addition to be made to the brief on devaluation provided for Ministers to enable them to deal with questions about conditions attached to the loan from the International Monetary Fund;

(ii) to consider the desirability of publishing the text of the statement of the policy and intentions of the Government sent to the International Monetary Fund in support of the application for a loan.

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3. The Commonwealth Secretary said that Turkey and Greece had been on the brink of war several times in the last week. The latest news was however encouraging. President Johnson's special representative, Mr. Cyrus Vance, had succeeded in obtaining the agreement of the Turkish and Greek Governments to the terms of a settlement to which he had then sought the agreement of the Cyprus Government. The Prime Minister had sent a message to President Makarios urging him to accept the proposals and Mr. Vance had now left Cyprus for the United States satisfied with the agreement he had reached. Its precise terms were not yet known.

The Foreign Secretary said that the withdrawal of our forces from Aden had been successfully completed on 29th November. On the same day the Minister without Portfolio, Lord Shackleton, had concluded in Geneva an agreement with the National Liberation Front on the transfer of sovereignty. In this agreement we had undertaken to continue negotiations on the subject of aid after the independence of the new State of the People's Republic of Southern Yemen and meanwhile to provide financial assistance for a period of six months at the rate agreed with the former Federal Government of South Arabia. Together with outstanding military orders this would amount to £12 million for the six months. This arrangement had been necessary in order to avoid a breakdown of the negotiations in Geneva before our forces had withdrawn from South Arabia and also to safeguard our considerable commercial interests, including the Aden Refinery with its earnings of between £5 million and £10 million a year.

The Cabinet—

Took note of the statements by the Commonwealth Secretary and the Foreign Secretary.

SECRET

4. The Cabinet considered a memorandum by the Secretary of State for Foreign Affairs (C (67) 187) on the Approach to Europe.

The Foreign Secretary said that in his memorandum setting out the alternative courses which the Government might pursue in the situation following the statements by the French President...
de Gaulle) at his Press conference on Monday, 27th November, he
had not sought to examine the position which would arise if the
consideration in December by the Ministerial Council of the
European Economic Community (EEC) of our application resulted
in the imposition of another French veto. It would be premature
to reach conclusions about this latter situation until the results of
the EEC's consideration of our application were known. Meantime,
the tactical handling of the immediate situation following the French
President's Press conference was important, and the second
paragraph of his memorandum set out the four alternative courses
open to the Government. His own choice was the second of these
alternatives, namely to urge the Five, in consultations with their
representatives prior to the meeting of the Ministerial Council of
the EEC on 18th-19th December, to insist on fixing a date in January
for the opening of negotiations, and so to force an issue with the
French either at that meeting or at a further meeting early in January.
Despite what the French President had said at his Press conference,
it would be a mistake to take it for granted that the French were in
fact prepared formally to veto the opening of negotiations with us
on our application for membership of the EEC; and it was important
for us to see that this uncertainty was resolved, and for two main
reasons.

First, to hold firm the position of the Five who had all been
scandalised, but in varying degrees, by the French President's
statements at his Press conference. The Italian Minister for Trade
and Commerce (Signor Colombo) was particularly incensed, and had
attended the meeting of Benelux Ministers on this question the
previous day to ensure that a sufficiently firm line was taken; and
was following through with a similar visit to Bonn. It was clear that
Signor Colombo recognised that whilst he did not of course want
an open conflict with the French in December, the line he felt it
essential to pursue would in fact involve precisely that. The meeting
of the Benelux Ministers had issued a firm statement recording
their view that negotiations with Britain on our application for
membership of the Community should start without delay. The
Foreign Minister of Luxembourg, M. Gregoire, would be visiting
London the following day, 1st December, and the Foreign Minister
of the Netherlands, M. Luns, in the early part of next week. There
would also be an opportunity for him to consult privately with the
Foreign Ministers of the Five at the meeting of the North Atlantic
Treaty Organisation (NATO) in the following week. In these
consultations he would need not so much to urge the Five to attack
the French position, but to ensure that the Five were themselves
under no illusion that we were wavering in our application, or were
pressing it less vigorously than they were prepared to do. Whilst the
German Federal Government was as incensed with the attitude of the
French as its partners, their stance was less firm because of the
difference of views between the Federal Chancellor, Herr Kiesinger,
and his Foreign Minister, Herr Brandt; the latter however had issued
a firm statement in Bonn the previous day, 29th November, favouring immediate negotiation between Britain and the Community. If we were in any way to let the Five feel that we were prepared to tolerate much further delay in answering our application, the waverers amongst them would be encouraged to seek alternatives to early negotiations for full membership, and notably to explore the possibilities of associate membership, although it was clear from the French President's Press conference that no such alternative had been formulated. It was therefore in his view essential that we should convince the Five that we stood firmly by our application and sought immediate negotiations on it, and would wish them at the meeting of the EEC Ministerial Council to press this issue to a decision.

The second reason for maintaining strong support of our application was the political situation at home. In response to statements as hostile and as malicious as those made about Britain by the French President at his Press conference, it was essential for the credibility and the standing of the Government to insist on our right under the Treaty of Rome to early negotiations for full membership. The longer uncertainty as to the fate of our application persisted, the greater would be the damage to the standing of the Government; and if the delay persisted for some months, the support of our friends abroad and public opinion at home would be lost. The Cabinet should however know that the President of the Board of Trade, who could not be present because he was representing Her Majesty's Government at the Ministerial meeting of the Organisation for Economic Co-operation and Development (OECD) in Paris, did not wholly share his views. The President felt that we should say to the Five that we hoped that they would be able to settle our application at their meeting in December, but that we should not press them to do so if they felt this unwise; and that in general we should not press the Five to courses involving extreme conflict with the French and possible disruption of the Community. He himself however considered that it was important to resolve the uncertainties surrounding our application for membership at an early date, and that in so doing we should not in any way prejudice our position—indeed it was clear that we could not let these uncertainties persist indefinitely, possibly until the French President had left the scene. Public opinion would expect the Government to insist on an early clarification of the position, and subject to the outcome of the consultations he would be holding with the Five, we should press them to insist that a decision about negotiations on our application for full membership should be made by the EEC as a whole not later than the early part of January.

The Secretary of State for Defence said that while he strongly supported the Foreign Secretary's proposal to proceed as outlined in paragraph 2(b) of the memorandum in order to force the issue at an early date, we should recognise that this course was not without its risks. The biggest risk perhaps was that, although President de Gaulle clearly wished to finish the matter now, we could not be sure that he would not be pressed into agreeing to start some sort
of negotiations in January which might either drag on interminably or end eventually in a veto: we must not lay ourselves open to a third humiliation of this kind. It was imperative therefore that we should make clear to the Five not only that we wished negotiations to start early in the new year but also that any such negotiations must offer the prospect of a satisfactory conclusion in a reasonable space of time. Meanwhile, we should prepare for the situation which would face us in January if it were then clear that there would be no negotiations. He himself doubted whether there were viable alternative international groupings we might join other than the EEC, though the possibilities of a North Atlantic Free Trade Area (NAFTA) might perhaps merit further consideration. However there were three contingency studies which were now urgently required in the light of the probability that membership of the EEC would not be open to us for some considerable time:

(i) An examination of the extent to which we would be free over the next three years to change our policies—political, economic and military—to our own advantage, where hitherto we had been inhibited by the need to avoid disturbing France and other members of the Community.

(ii) An examination, in a sense somewhat contrary to that proposed in (i) above, of areas—such as technology—where, despite exclusion from the Community, we might still find it advantageous to act in ways which would maintain and develop good relations with the Five or with the Community as a whole.

(iii) An examination of alternative forms of wider relationships between Western European States other than the extension of membership of the EEC to individual countries of EFTA; including inter alia the possibility of a collective relationship between EFTA and the EEC such as had been considered earlier.

He said that the results of the studies he had proposed above should be ready in good time for the Government to decide its attitude and future policy if it became clear early in the new year that there would be no negotiations.

In discussion there was agreement with the Foreign Secretary’s proposal that an early termination of the uncertainty of our position vis-à-vis the EEC must be sought, on the lines of paragraph 2 (b) of C (67) 187. The following points were made:

(a) There were many reasons for ending the present uncertainty as soon as possible. Industry needed to know whether or not to plan on the basis of our exclusion from the Community for some years at least. Our EFTA partners needed to know where they stood: and we needed to consider as a matter of urgency both the future of EFTA itself and of relations between EFTA and the EEC. Australia and other Commonwealth countries, whose preferences were so valuable to us, should also know the position as soon as possible. Unless the present uncertainty were removed by prompt
confrontation on the lines proposed by the Foreign Secretary we should lose some of the new export opportunities which had now been provided by devaluation. If we were to be excluded, the Government and industry must be in a position as soon as possible to adapt their industrial policies and export plans accordingly.

(b) It was suggested that there might be some advantage in accepting President de Gaulle's declaration at his Press conference this week for what it was—a veto—rather than press on with procedures under the Treaty of Rome which would lead us nowhere. There were dangers in continuing with what appeared to the British public to be a humiliating exercise. On the other hand, it was urged that our friends among the Five would regard such a capitulation at this juncture as a betrayal which would destroy our standing in Europe for some time to come. Moreover it would amount to a recognition by the United Kingdom that President de Gaulle had the right to speak for the Community as a whole and it would also shake the conviction of the Five, which had only recently fully developed, that our enthusiasm for Europe was genuine. We should therefore encourage the Five to bring the issue to a head as soon as possible, on the lines recommended by the Foreign Secretary, although we should recognise that there would be dangers in pushing the Five to such a confrontation if, as seemed most unlikely at present, they were disinclined for it. It was suggested that there had not been the same emotional reaction at home to the President's Press conference on this occasion as had occurred in 1963 and this was in-part due to the Government's careful conduct of the approach to Europe; it was no humiliation to demand our rights, as we now proposed to do under Article 237 of the Treaty of Rome.

(c) It seemed most unlikely that France would pursue her anti-American and other belligerent policies to a point where the United States Government would seriously consider groupings such as the North American Free Trade Area or the Five would consider breaking up the Community, though they might well go far to delay and inhibit its development. Thus the United Kingdom could not reasonably expect to forge links with either Europe or the United States for some time. Although it still remained the case that we should in the long term be better off within than outside the Community, nevertheless we now had competitive advantages, as a result of devaluation, which we should use to the full. Our immediate aim should be to look to our own interests. No one however could now foresee the consequences of President de Gaulle's recent actions for the future of the Community or indeed on world affairs generally: they might be far-reaching.

The Prime Minister, summing up the discussion, said that the Cabinet agreed with the proposals contained in paragraph 2(b) of the Foreign Secretary's memorandum. While there should be no petulance we no longer needed to trim our policies and declarations to avoid giving grounds for offence to President de Gaulle. The French President himself had imposed heavy additional strains on the Community by his recent threat to devalue the French franc in

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line with the sterling devaluation; by raising the gold scare and by pursuing even more blatantly anti-American policies; and by requesting authority to impose unilateral import quotas on imports of domestic electrical appliances from Italy.

So far as our own application for membership was concerned, the French President had blatantly abused the unanimity rule with the purpose of causing the Community to act in breach of their obligations, under Article 237 of the Treaty of Rome, to negotiate with any European State applying to join. The Dutch and other Governments in the Community might now reasonably take the stand that as the French Government had abused the unanimity rule to make Article 237 inoperative, they proposed to do the same, for example in relation to the re-negotiation of the agricultural finance provisions, which were due in 1969 and also required unanimous agreement, unless the British were by then admitted. While the French President would not change his opinions it was not inconceivable that he might be brought to realise that his obstruction of the will of the rest of the Community would not pay. Meanwhile, it was refreshing to find that the Italian and Benelux Governments had reacted most robustly, although the Federal German Government and particularly the Chancellor, Dr. Kiesinger, seemed reluctant fully to face up to French intransigence. The United Kingdom must meanwhile turn its attention wholeheartedly to strengthening its own position by its own efforts and look to its national interests.

Officials should now provide a study of the consequences of our exclusion from the Community for our future economic, military and other policies on the lines suggested by the Secretary of State for Defence and elaborated in discussion. This study should cover, inter alia, agricultural policies; defence, including NATO, WEU, and the offset arrangements for the British Army of the Rhine, as well as defence procurement; and United Kingdom relations with EFTA and EFTA relations with EEC.

The Cabinet—

(1) Approved the conclusion reached in C (67) 187.

(2) Took note that the Prime Minister would arrange for the preparation of a report on the lines indicated in his summing up.

The Minister of Transport (C (67) 185) to which was attached a draft White Paper on Passenger Transport and Traffic.

The Minister of Transport said that the policies set out in the draft White Paper had been approved by the appropriate Ministerial committees. The main features of these policies were the establishment of Passenger Transport Authorities (PTAs) to be responsible for planning, and in part providing, the public transport
required in the conurbations; the public acquisition of virtually all the main network of bus services; the creation of a National Bus Company (NBC) to run the nationally-owned bus services in England and Wales; the introduction of grants for capital investment in public transport and for the support of bus services in remote country areas, together with an increase in the existing grant paid to operators of bus services as a refund of part of the fuel duty; the extension of the powers of local authorities in the field of traffic management and in arranging concessions for travel on local buses for old people; and the revision of regulations affecting the hours of work of bus and coach drivers.

The White Paper also envisaged the establishment of a separate Scottish Transport Board to be responsible for bus and local shipping services in Scotland, in pursuance of a decision to that effect by the Ministerial Committee on Industrial Policy. She wished to draw the attention of her colleagues to the consequences which would follow if the Cabinet confirmed this decision. The Transport Holding Company (THC) had not known of the proposal to set up a separate Scottish Transport Board when they had approached her with the proposal to acquire on a voluntary basis the interests of the British Electric Traction Group (BET) which represented the last remaining major block of privately-held bus companies. The THC regarded this purchase as defensible on commercial grounds in order to bring all the major bus companies under single control. However, they regarded the transfer of the main Scottish bus interests to a separate statutory body as so damaging to the strength of the proposed NBC that they had insisted, despite her attempts to persuade them to the contrary, that if the Government pursued this course they would proceed with the purchase of BET only if she gave them a formal direction to do so. She had power to issue such a direction, though it had never been used before on a major matter. In order to ensure that the acquisition of the BET went ahead with the necessary speed, having regard to the timetable for publication of the White Paper and the introduction of the Transport Bill, it had been necessary for her, with the authority of the Ministerial Committee on Industrial Policy, to give an undertaking to the THC that, if the Government decided to establish a separate Scottish Transport Board, she would issue a direction for the acquisition of the BET.

The issue of a direction would necessarily become public and would expose the Government to the charge that they had overridden the commercial judgment of the THC because of political considerations. The alternative would be to abandon the proposal for an independent Scottish Transport Board and to provide for the NBC to take over the main Scottish bus interests. This would not mean any change of substance from the present position, since the Scottish Bus Group which at present operated the main Scottish services outside the cities was a subsidiary of the THC, though operating under its own name; if the NBC took over the Scottish services, it would similarly operate through a subsidiary which would
be a distinct entity. The THC believed that to preserve a single organisation operating over the whole of Great Britain would bring great benefits resulting from unified management. It might be possible to meet the presentational problems which would arise from abandoning the proposal for a separate Scottish Transport Board if such a Board were to be established as a subsidiary of the NBC and made responsible to the Secretary of State for Scotland in matters such as investment programmes which affected Scotland only. She proposed that the wording of the relevant passages in the White Paper should be sufficiently imprecise to avoid committing the Government to the establishment of an independent Scottish Board at the present stage.

The Secretary of State for Economic Affairs said that when this issue was considered by the Ministerial Committee on Industrial Policy, the general view had been that the case for a separate Scottish Transport Board was very strong and the arguments brought against it by the THC were unconvincing. The Committee saw no reason why a separate Scottish Board should adversely affect the quality of management; the THC at present exercised little direct control over its Scottish subsidiary, and it was difficult to see why the THC attached such importance to this issue.

The Secretary of State for Scotland said there was every reason on historical and geographical grounds for a separate organisation to operate bus and shipping services in Scotland. It would be wrong for the White Paper to be indeterminate in this matter since the Government would probably then have to concede a separate Scottish organisation under pressure from the interests concerned and would gain no credit for doing so. He had himself discussed the problem with the Chairman of the THC, who had admitted that his objections to a separate Scottish Board were "intangible". A separate Board would raise no difficulty as regards wage negotiations, which were already conducted separately in Scotland. It was wrong to suppose that the incorporation of the Scottish bus interests in the NBC would do anything to protect the Ministers concerned from sectional pressures. The argument that by establishing a separate Board we should forfeit the benefits of unified management could be adequately met by arranging a degree of common membership of the Board of the NBC and the Scottish Transport Board; it might, for instance, be possible to appoint the Chairman of the NBC as Deputy Chairman of the Scottish Transport Board. It was misleading to equate the NBC with the THC since the former would be concerned with direct management over a much narrower field of operations than that covered by the THC. It would be completely unacceptable to Scottish opinion for local transport services to be run by an organisation based in London. The Cabinet should therefore confirm the decision of the Ministerial Committee on Industrial Policy in favour of a separate Scottish Transport Board.
In discussion there was general agreement that the case had been made out for the establishment of a separate Scottish Transport Board and that accordingly a direction covering the acquisition of the BET should be issued to the THC. The Government would be on strong ground in defending such a direction: they were not challenging the commercial judgment of the THC on the broad issue of acquiring the remaining bus interests that were still in private hands, but were only overruling the THC on the specific issue of a separate organisation for Scotland. To take a stand on this would command wide support not only in Scotland but among all those sections of opinion which favoured greater decentralisation in the conduct of public affairs.

In discussion of the draft White Paper the following amendments were agreed:

(a) A sentence should be added in Chapter III to make it clear that the Secretaries of State for Scotland and Wales would be responsible for the setting up of PTAs in those countries.

(b) In paragraph 18 of Chapter VII, the White Paper should say that the scheme for grants towards the purchase of new buses would apply to buses delivered from a date to be fixed in the autumn of 1968, and not specifically from 1st October, 1968, since some flexibility in this matter would be desirable.

(c) In view of the need to keep down the level of public expenditure in 1968-69, the date of the increase in the grant paid to operators of stage bus services as part refund of fuel duty should be 1st January, 1969, instead of 1st April, 1968, and paragraph 23 of Chapter VII should be amended accordingly.

The Prime Minister, summing up the discussion, said the Cabinet approved the draft White Paper subject to the amendments agreed in discussion and to any further drafting amendments which the Minister of Transport thought desirable. The Cabinet confirmed the decision to establish a separate Scottish Transport Board and agreed to the issue of a direction to the THC in respect of the acquisition of BET. The Minister of Transport should now arrange for publication of the White Paper, preferably on Tuesday, 5th December, and the timing should be so arranged as to secure the fullest publicity, particularly in the evening papers. It might be desirable for the Secretaries of State for Scotland and Wales to be associated with publication of the White Paper, and there should be further consultation as to the best means of doing this.

The Cabinet—
Invited the Minister of Transport—
(i) in consultation with the Lord President, to arrange for the publication of the White Paper on Passenger Transport and Traffic, amended in the light of their discussion, as indicated in the Prime Minister’s summing up;
(ii) to consult with the Secretaries of State for Scotland and Wales as to the means by which they might be associated with the publication of the White Paper;
(iii) to issue a direction to the Transport Holding Company to acquire the interests of the British Electric Traction Group.

CONFIDENTIAL

6. The Financial Secretary, Treasury, reported that the Ministerial Committee on Commercial Policy had agreed on the previous day to recommend a temporary ban on the importation of carcass meat and offal from countries where foot-and-mouth disease was endemic. The ban would thus not apply to Australia, New Zealand, North America and the Republic of Ireland. The Committee had agreed that the ban should be subject to five conditions:

(i) It should be made clear that the reason for the ban was the need to minimise the risk of a further primary infection.

(ii) The ban would be imposed on all supplier countries where foot-and-mouth disease was endemic, and should also include the Falkland Islands so as to avoid giving offence in Argentina.

(iii) The ban should continue until the epidemic had been brought under control, subject to review in three months’ time.

(iv) The ban should be based, so far as possible and subject to any necessary legal sanctions, on the voluntary co-operation of the importers and suppliers, which should be sought by the Minister of Agriculture in this country and through our Ambassadors and High Commissioners overseas.

(v) There should be an urgent review of the safeguards against the introduction of the disease by imports of meat.

The Minister of Agriculture said that there had so far been 1,292 outbreaks of the disease, and the veterinary staff were working under great pressure. They were making use of veterinary students and of volunteers from overseas, but a major primary infection in a new area would overwhelm their resources and could prove disastrous. He had met the representatives of the meat traders who were willing to operate a voluntary ban, and had reason to hope that such a ban would be acceptable in Argentina.

In discussion there was general agreement with the recommendations of the Commercial Policy Committee. The temporary voluntary arrangements proposed could be expected to obviate the risks to our export trade with the supplier countries which might have resulted from a ban which they would believe to be permanent. It was suggested that the seriousness of the outbreak had raised the question whether we were right in adhering to the policy of slaughter, and it would be valuable not only to examine our safeguards against importation of the disease, but to re-examine the problem of how to handle it. Our Ambassador in Argentina,
The Prime Minister, summing up the discussion, said that the Cabinet agreed to the proposals of the Commercial Policy Committee. It would be useful when the present outbreak had been brought under control to undertake a wider examination not only of the safeguards against the importation of the disease, but of the means of combating it, including the policy of slaughter. In this connection our Ambassador’s suggestion that experts from Argentina should be included in the studies was worth following up. For the present, meat in transit would be put straight into cold store, and if it seemed likely that any would be held up as a result of a strike in the docks the ship in question might have to be diverted elsewhere.

The Cabinet—

(1) Endorsed the recommendations of the Commercial Policy Committee for a temporary ban based on voluntary agreement on the importation of carcass meat from countries where foot-and-mouth disease was endemic.

(2) Invited the Foreign Secretary, in consultation with the Commonwealth Secretary, to seek the voluntary agreement of the overseas Governments concerned to temporary restrictions on their meat exports.

(3) Invited the Minister of Agriculture—

(a) to take any further action necessary to secure the co-operation of the meat trade in this country in the ban;

(b) to consider the desirability of associating Argentinian experts with the study of safeguards against the importation of infection;

(c) to bring before the Cabinet in due course a memorandum on his review of measures to prevent and combat the disease, including a review of the policy of slaughter.

7. The Minister of Labour reported that the dispute between the British Railways Board (BRB) and the Association of Locomotive Engineers and Firemen (ASLEF) arose from the settlement reached in the recent dispute between the BRB and the National Union of Railwaymen (NUR) about the duties of guards. It had been part of the agreement which ended the latter dispute that, as a contribution to increased productivity, brake vans should no longer be used on freight trains and that the guard should instead be carried in the rear cab of the locomotive. ASLEF objected to this on the grounds that it was contrary both to the agreement on manning reached in 1965 and to the requirements of safety. Despite the objections of the union he had referred the first point to
Mr. Jack Scamp, who, in September 1965, had at his request adjudicated between the BRB and the unions about the interpretation of the 1965 agreement. Mr. Scamp had seen the representatives of both sides and reported that there was no conflict between the agreement that guards should be carried in the rear cabs of locomotives and the manning agreement of 1965. He had also consulted the Chief Inspecting Officer of Railways of the Ministry of Transport, who had confirmed that there was no conflict with safety requirements.

The Minister of Labour said that in his view the dispute involved a matter of principle on which there was no possibility of compromise. The elimination of the brake van, which had been abandoned some time ago on the Continent, was symbolic of the drive for higher productivity. Moreover, to give way to ASLEF would destroy the basis of the agreement with the NUR. He therefore proposed to make a statement in the House of Commons later that day explaining the issues involved and emphasising the Government's intention to stand firm. It was possible that ASLEF would give way at the last minute, but if they did not it would be necessary to proclaim a state of emergency in order that restrictions on the use of road transport could be suspended.

In discussion it was suggested that it should be made clear to ASLEF that their action might endanger the Government's transport policy, which depended on the diversion of suitable traffic from road to rail. If the Government could not be sure that traffic so diverted would be handled quickly, it might be necessary to defer the appointed day for the operation of the quantitative licensing system to be introduced by the Transport Bill. It was suggested, however, that to make such a statement in public, for example on the Second Reading of the Transport Bill, might throw doubt on the basis of the transport policy and it would be preferable to make the point to ASLEF privately and before they took action.

The Prime Minister, summing up the discussion, said that in view of the need to take advantage of the devaluation of sterling to increase the country's exports we could not afford to tolerate strikes, and the nature of this particular dispute provided a suitable occasion for demonstrating the Government's intention to take a firm line. The Minister of Labour should indicate the Government's determination in his statement in the House of Commons and should consider how to convey to ASLEF the risk that if they persisted their action might endanger the Government's policy of diverting traffic from road transport to rail. The Ministerial Committee on Emergencies should consider the situation before the week-end.

The Cabinet—
(1) Took note of the statement by the Minister of Labour and the Prime Minister's summing up.
(2) Invited the Home Secretary to arrange for the Ministerial Committee on Emergencies to meet on the following day.
The Minister of Labour said that the British Air Line Pilots' Association (BALPA) had for some time been operating a work-to-rule intended to compel the British Overseas Airways Corporation (BOAC) to negotiate with them direct on a pay and productivity agreement; the Corporation were prepared to negotiate only through the national joint council for the industry, from which BALPA had resigned. BALPA had now notified BOAC that the pilots would strike from midnight on 8th December if their demands were not met. The Corporation had responded to this by threatening to close down its operations completely if the pilots went on strike. The situation was delicate and he would shortly be seeing BALPA. The latest development, however, was that apparently the Corporation intended to send a letter to each of their pilots asking them not to strike in accordance with BALPA's instructions but to continue to report for duty normally after 8th December. It would be a serious matter for a nationalised industry to seek to break an official strike in this way, and he would discuss urgently with Board of Trade Ministers what could be done to dissuade the Corporation from this step.

The Cabinet—

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

Cabinet Office, S.W.1.
30th November, 1967.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 14th December, 1967, at 11 a.m.

Present
The Right Hon. HAROLD WILSON, M.P., Prime Minister

The Right Hon. MICHAEL STEWART, M.P., First Secretary of State

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., President of the Board of Trade

The Right Hon. PETER SHORE, M.P., Secretary of State for Economic Affairs

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 CROSLAND, M.P., Secretary of State for Scotland

The Right Hon. JAMES CALLAGHAN, M.P., Secretary of State for the Home Department

The Right Hon. ROY JENKINS, M.P., Chancellor of the Exchequer

The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence

The Right Hon. PATRICK GORDON WALKER, M.P., Secretary of State for Education and Science

The Right Hon. GEORGE THOMSON, M.P., Secretary of State for Commonwealth Affairs

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. LORD CHALFONT, Lord Privy Seal (Items 3 and 4)

The Right Hon. JOHN DIAMOND, M.P., Chief Secretary, Treasury (Items 3 and 4)

Secretariat:

Mr. W. A. NIELD
Miss J. J. NUNN
Mr. E. M. ROSE
Mr. K. BARNES

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

In discussion it was suggested that it would be desirable to give two days to the debate on the Second Reading of the Transport Bill, for which only one-and-a-half days were allowed in the proposed arrangement of business. The Lord President said that, in view of the proposed foreign affairs debate on a Supply Day on Wednesday, 20th December, this would not be possible without putting the House to the inconvenience of sitting on Friday, 22nd December. The only alternative seemed to be for the House to reassemble on Wednesday, 17th January, instead of Monday, 22nd January and to arrange for a two-day debate on foreign affairs in the first week. It could be indicated to the Opposition that the Government would be prepared to make such an arrangement if it appeared to accord with the wishes of the House.

The Cabinet—

(1) Agreed that it would be desirable if possible to allow two days for the debate on the Second Reading of the Transport Bill.

(2) Invited the Lord President to announce the business for the following week as originally proposed, but to show himself willing to meet a demand for its rearrangement on the lines suggested in discussion on the basis of a resumption of sittings on 17th January.

2. The Cabinet were informed that the Defence and Oversea Policy Committee at their meeting on 8th December, had discussed with concern the danger involved in Press speculation about the Government's future decisions on its defence and other programmes following devaluation; and had agreed that it was undesirable that Press correspondents should be briefed on matters on which Government decisions had not yet been taken. Since that meeting, further speculation had reinforced the concern there expressed, as would be apparent from the discussion of the following item.

In discussion there was general agreement on the importance of confining briefing to decisions which had been taken and avoiding speculation on matters still awaiting decision. Press speculation, such as that which had occurred on the subject of a South African request for maritime equipment, could have the effect of restricting the Government's freedom of action. We should have to face many difficult decisions in relation to the economy early in the new year. It was important not to prejudice these decisions in any way. It could be particularly damaging if questions under discussion were represented in the Press as personal issues between Ministers. The same considerations applied to conversations between Ministers and Members of Parliament.
The Prime Minister, summing up the discussion, said that it was extremely important, particularly at this difficult juncture, to avoid briefing the Press on questions under discussion by the Government. Ministers should be fully informed when matters of concern to their Departments were the subject of collective Ministerial briefings, and it was desirable that they should also be informed of what was said on such matters when the Press were briefed by individual Ministers. It might be advisable to have a Press Officer present on such occasions. Particular care should be taken to avoid giving the impression that questions of policy were issues between individual Ministers rather than matters of collective responsibility.

The Cabinet—

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

3. The Prime Minister said that when a South African approach about the supply of maritime defence equipment had been discussed by the Defence and Oversea Policy Committee (OPD) at a meeting on 8th December, opinion in the Committee had been divided. They had therefore agreed to defer their consideration of the problem for about a month, and that the question must then be referred for decision to the Cabinet. On the day before the meeting of OPD a delegation from the Anti-Apartheid Movement, having failed to secure from the Minister receiving them an assurance (which clearly could not be given) that Government policy on the supply of arms to South Africa would not be changed, had stimulated Press speculation that a change of policy was in fact in prospect. In this situation some general remarks made by another Minister at a later meeting of a group of private Members of Parliament had led to renewed speculation to the same effect. In consequence of this publicity, which had probably been encouraged by the South Africans, it was necessary to reach an immediate decision on the South African approach.

In discussion it was common ground that the Cabinet would not wish to consider this question in the absence of the Foreign Secretary, who was delayed by the weather in Brussels where he had been attending a meeting of the Council of Ministers of the North Atlantic Treaty Organisation (NATO). They might meet again on the Foreign Secretary’s return either later that day or the following day. In these circumstances it would not be possible to make a statement in Parliament that week, but the Reply to Private Notice Questions for answer that afternoon could indicate that there had been no change in Government policy and that a statement would be made in the following week.

The Prime Minister, summing up the discussion, said that it was the view of the Cabinet that in reply to Private Notice Questions that afternoon he should say that the Government’s policy remained as stated on 17th November, 1964, and should promise a fuller statement in the following week.
The Cabinet—

(1) Took note that the Prime Minister would reply to Private Notice Questions that afternoon on the lines indicated in his summing up.

(2) Agreed to discuss at a subsequent meeting the question of supplying maritime defence equipment to South Africa.

(3) Instructed the Acting Secretary to circulate to the Cabinet the memorandum on the supply of maritime defence equipment to South Africa considered by the Defence and Overseas Policy Committee on 8th December.

The Cabinet agreed to discuss at the same meeting the situation in Greece resulting from the attempted coup on 13th December and the subsequent flight of the Greek King.

4. The Cabinet considered memoranda by the President of the Board of Trade (C (67) 190) and the Minister of Technology (C (67) 191) about the re-equipment of British European Airways (BEA).

The First Secretary of State said that in July 1966 the Government had refused permission to BEA to purchase Boeing 727 aircraft. BEA had subsequently asked for permission to buy the BAC 2-11 aircraft and the question for decision was whether the Government should accede to this request or whether they should require BEA to purchase instead the Trident 3B aircraft which was the effective alternative. A group of Ministers under his chairmanship had considered this issue before devaluation and had on balance favoured the Trident. The Ministerial Committee on the Aircraft Industry had reconsidered the matter earlier that week, taking into account the effects of devaluation and the offers which had now been made by the British Aircraft Corporation (BAC) and Hawker Siddeley Aviation themselves to bear part of the launching costs of the BAC 2-11 or the Trident 3B respectively. The Committee had come to a clear decision, with the President of the Board of Trade dissenting, to uphold the view previously taken. They had been influenced by a number of considerations. They did not think that much weight should be attached to the objection that if the Government insisted on the Trident, they would be overruling the commercial judgment of BEA. This should not be the deciding factor when large subventions from the Government would be required if BEA's request were accepted. Exchequer expenditure on the scale involved would be even more difficult to justify after devaluation than before. While devaluation had improved the export prospects of the BAC 2-11, export sales would be achieved only with an implied subsidy which was greater than could be justified; the aim following devaluation should be to divert resources into projects which did not require any subsidy. Before devaluation, one of the arguments for the BAC 2-11
had been that by providing an outlet for the Rolls Royce RB 211 engine, the BAC 2-11 would improve the export prospects for that engine, and in particular its prospects of being sold in the American market for incorporation in the projected American Airbus. But devaluation had given the Rolls Royce engine a further price advantage and less weight should therefore now be attached to this argument. Finally, the Committee believed that development of the BAC 2-11 would run counter to the policy which we were now pursuing of developing major aircraft only on the basis of an assured European market, and would in particular damage the prospects of the European Airbus.

The President of the Board of Trade said that there were powerful arguments in favour of the BAC 2-11. First, this was the aircraft which BEA wanted; if the judgment were overruled for a second time, this would involve giving them in effect a direction to purchase Trident aircraft which would give rise to great public controversy and would impair morale in BEA. Second, there was no doubt that BEA were right in believing that the BAC 2-11 was the best aircraft for their purposes: it was the right intermediate size between existing types of aircraft and the Airbus; it was the first of a new generation of quieter aircraft; and because of its lower operating costs, BEA's financial results would be better by some £30 million over a 10-year period than if they were obliged to take the Trident. A more decisive argument was the greatly improved export prospects of the BAC 2-11, which as a result of devaluation would have operating costs some 10 per cent below those of the rival Boeing 727 aircraft. The estimates of export sales by BAC were more optimistic than those made by the Ministry of Technology, but the Ministry estimated that total sales of 150–200 could be achieved, of which 100–150 would be exports. Export sales of 100–120 would bring in foreign exchange earnings of £250–£300 million, and earnings would be much greater if the BAC's expectations were fulfilled. Since BAC had been responsible for some of our most successful aircraft in the past, due weight should be given to their assessment. A further consideration was the claim by Rolls Royce that development of the BAC 2-11 would improve the chances of selling their RB 211 engine to the American market, though he agreed that since devaluation had in any case improved the sales prospects of the engine, this was no longer a major consideration. Finally, we should be justified in developing the BAC 2-11 as a form of insurance policy. While it was clearly right to rely primarily in the future on European collaboration for aircraft projects, there were considerable risks in relying on it exclusively. If we did not develop BAC 2-11 and if the Airbus project were to be abandoned, we should face an extremely difficult situation: BEA would then be compelled to buy American aircraft, and there would be no outlet for the Rolls Royce "new technology" engines other than the American Airbus.

The main argument which had been advanced against the BAC 2-11 was the extra cost which would be involved. The total launching cost for the aircraft and the engine would be £120 million spread over five years; the launching cost for the Trident 3B would
be £15 million. But in the case of the BAC 2-11 the net call on the Exchequer would be reduced because of the better operating results which BEA would achieve, and taking this into account the additional cost to the Exchequer of the BAC 2-11 as compared with the Trident would be reduced from £105 million to £80 million. Further, if the RB 211 engine was sold in the United States, the engine launching costs for the BAC 2-11 would be attributable to the American firms concerned and this would reduce the Exchequer commitment by a further £30 million. In budgetary terms, therefore, if all these factors were taken into account, the requirement would be for an additional Exchequer expenditure, as compared with the Trident alternative, of £10 million per annum for five years. These figures made allowance for recoupment of part of the Government’s investment on total sales of 150 BAC 2-11s; if larger sales were achieved, the call on the Exchequer would be reduced.

There were two general considerations which argued in favour of developing the BAC 2-11. First, we could not regard devaluation as being sufficient in itself to solve our balance of payments problems and we should still be prepared to incur Government expenditure where this would yield worthwhile results in terms of foreign exchange. Second, it was wrong to think that in our present conditions it was necessary to reduce public expenditure indiscriminately: we should consider all items of expenditure from the point of view of their effect on the balance of payments, and from this point of view expenditure on the BAC 2-11 was fully justified.

The Minister of Technology said he was opposed to the development of the BAC 2-11. It would be wrong to allow the issue to be decided by the commercial judgment of BEA, since a large Government subsidy was involved and past experience showed that the Government would be unlikely to recover the major part of it. It was wrong to develop any major aircraft unless there was an assured market for it with at least three major airlines: this was the policy invariably followed by the American manufacturers and had been the basis of our participation in the Airbus project. Devaluation had strengthened the case for the Trident 3B: its operating costs would now be as low as those of the Boeing aircraft which BEA had originally wanted; the prospects of the European Airbus, with which the BAC 2-11 would be in competition, had been improved, as had the prospects of selling the RB 211 engine to the Americans—though this particular argument for the BAC 2-11 had never been strong, since if this engine were incorporated in the BAC 2-11 it would not be flying until two years after the American Airbus came into service. The BAC 2-11 would be bound to prejudice the future of the European Airbus, without which we should inevitably become dependent on the United States for large civil aircraft within a few years. It might also prejudice the links which were being built up between Rolls Royce and the French firm Snecma. Export prospects of the BAC 2-11 were bound to be speculative since the aircraft had not yet reached the stage of project definition, but he regarded the estimates made by BAC as unrealistic. If the Company themselves
had confidence in them, they should not require any Government aid; but in fact they were prepared to make only a minor contribution to launching costs, which they were bound to recover from sales to BEA. The BAC 2-11 would not come into service until some four years after the Boeing 727 and would find it difficult to capture markets in these circumstances. The difference in BEA’s operating results between a BAC 2-11 fleet and a Trident fleet were only one to two per cent of total turnover, and this was within the margin of error of the estimates. The Trident 3B, on the other hand, would come into service a year earlier than the BAC 2-11, would secure some exports and import savings, and would be as cheap to operate as, and no noisier than, the Boeing aircraft which BEA had originally requested. The Trident would also enable BEA to achieve savings by sharing common services with other Trident fleets.

In discussion there was wide support for the view that it would be wrong to support development of the BAC 2-11. The following main points were made—

(a) Experience showed that large aircraft projects should be developed only if there were an assured market. It was unlikely that an aircraft designed to meet domestic requirements alone would be successful in world markets. Exports of the BAC 2-11 on the scale envisaged would mean that it would have to capture 40 per cent of the world market for this type of aircraft, and it was unrealistic to expect this to be achieved. Even if total sales of 150 were achieved, taking into account Exchequer expenditure, there would be an implied preference of 21 per cent, or 15 per cent if the engine launching costs could be attributed to the American Airbus. This was a higher rate than we had been prepared to contemplate for the European Airbus, even before devaluation. There would be only a short period during which the BAC 2-11 would remain competitive in world markets, and during this time BEA would pre-empt the major part of production.

(b) It should not be assumed that following devaluation we should be prepared to commit large domestic resources in order to achieve smaller foreign exchange returns. Devaluation made our exports cheaper and therefore lessened the need for subsidy, while at the same time it placed a great strain on domestic resources.

(c) If the European Airbus were to be abandoned, Europe, including the United Kingdom, would then be dependent on comparable American aircraft. Development of the BAC 2-11 would not prevent this; it might serve only to reduce for a time the number of American aircraft which would otherwise have to be bought.

(d) In view of the Government’s present plans for reorganisation of the airframe industry, BAC would not be taking any risk in developing the BAC 2-11 and this should be taken into account in assessing their confidence in the aircraft.

(e) If the Government decided against BAC 2-11, their decision should be presented in such a way as to gain the maximum credit with our French and German partners in the Airbus project.

The Prime Minister, summing up the discussion, said the Cabinet agreed that the Government should assist the development of the Trident 3B, but not of the BAC 2-11, and that BEA should be told...
that it was the considered view of the Government that they should purchase the Trident 3B; if necessary they would have to be given the equivalent of a direction to this effect. There could be no question of entertaining any renewal of the original application to buy the Boeing 727. The President of the Board of Trade should now discuss with BEA the precise composition of their future fleet on the basis of the Cabinet’s decision. He should also arrange to make a statement in Parliament before the Christmas Recess.

The Cabinet—

(1) Agreed that the Government should support development of the Trident 3B, but not of the BAC 2-11.

(2) Invited the President of the Board of Trade—

(i) to convey to British European Airways the Government’s decision as in (1) above, and to inform them that it was the Government’s considered view that the right course would be for BEA to purchase the Trident 3B;

(ii) to discuss with BEA the precise composition of their future fleet on the basis of the Cabinet’s decision; and

(iii) in consultation with the Lord President, to arrange to make a statement to Parliament before the Christmas Recess.

Cabinet Office, S.W.1.
14th December, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Friday, 15th December, 1967,
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., Secretary of State for the Home Department
The Right Hon. ROY JENKINS, M.P., Chancellor of the Exchequer
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. PATRICK GORDON WALKER, M.P., Secretary of State for Education and Science
The Right Hon. GEORGE THOMSON, M.P., Secretary of State for Commonwealth Affairs
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
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 CROSSLAND, M.P., President of the Board of Trade
The Right Hon. PETER SHORE, M.P., Secretary of State for Economic Affairs
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEARCE, 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

Secretary:
Mr. W. A. NIELD
Miss J. J. NUNN
Mr. E. M. ROSE
Mr. H. L. LAWRENCE-WILSON

SECRET
SUBJECT

OVERSEA AFFAIRS
South Africa: Maritime Defence Equipment
The Cabinet had before them a note by the Acting Secretary of the Cabinet (C (67) 194) covering a memorandum by the Foreign Secretary and the Defence Secretary on the supply of maritime equipment to South Africa.

The Cabinet considered further the circumstances surrounding the decision of the Defence and Oversea Policy Committee on 8th December which had led to their discussion on the previous day (CC (67) 70th Conclusions, Minutes 2 and 3).

The Foreign Secretary said that the Cabinet faced a very difficult decision on the reply which was outstanding to an approach to us by the South African Government for the supply of maritime defence equipment valued at some £100 million. On the one hand if we were to supply these arms, there would be political difficulties not merely in Parliament and in liberal circles in this country, but also among Commonwealth countries and in the United Nations. He fully shared the general repugnance for the South African policy of apartheid, and recognised that many would consider the supply of arms to South Africa to be morally wrong. On the other hand, there were strong economic and strategic reasons for meeting the South African request. Failure to do so would not merely lose us £100 million worth of orders for defence equipment but, in the unanimous opinion of those best qualified to know, would also put at risk a large number of civil orders in our second largest export market in the world. The total loss of trade might well amount to not less than £200 million up to 1980. Our present economic situation was so serious that we could not afford to lose these orders. We should also risk losing our naval facilities at Simonstown; we might find that France would not merely replace us as South Africa’s source of arms but also reach a defence agreement with her. The importance of the Cape route had been clearly demonstrated this year as a result of the closure of the Suez Canal. The arms to be supplied would not affect the ability of the South African Government to maintain its policies of apartheid. He believed the United States Government would make no difficulty for us. If we were to supply them, it might be that the South African Government, who had shown some limited willingness to help towards a settlement in Rhodesia, would co-operate more closely with us. He therefore recommended jointly with the Defence Secretary that we should supply the maritime defence equipment which South Africa was seeking. A decision could be presented as an extension of our policy of continuing to supply certain items where we recognised an obligation to do so, and where the ability of the South African Government to enforce apartheid was not increased.

In discussion there was support for the Foreign Secretary’s proposal on the ground that refusal of the South African request would cast grave doubts on the will and ability of the Government to take, following devaluation, the measures necessary to restore the economy. Doubts were already being expressed on this score both
at home and abroad. If we were seen to be deliberately forgoing for political reasons trade which on some estimates might amount in total to as much as £300 million, confidence in the Government would be gravely impaired, especially among British exporters on whom we depended to restore our balance of payments. Such a decision might prove disastrous not only for our export industry but also for the living standards of working people. If we sacrificed this opportunity of improving our balance of payments, it might be necessary to make, in compensation, even more drastic reductions in public expenditure, including that on education and the social services. Although the full benefit of the proposed arms sales to South Africa would not be felt for some years, they would produce in 1968 a sum in foreign exchange equivalent to the saving obtained by withdrawing one brigade from Germany.

It was further argued that there was no strong moral issue at stake. The supply of maritime equipment did not imply condonation of the policy of apartheid any more than did our continued trade with South Africa in civil equipment, e.g., transport equipment. The defence equipment itself could not be used against the African population. Public opinion did not feel strongly on this issue. In our present economic circumstances we could no longer afford to act as the world’s conscience. In any case economic embargoes had repeatedly been proved ineffective. A decision to supply arms would lead to hostile reactions in the Commonwealth, but feeling on this issue was not so strong as over Rhodesia: and there were indications that some of the newly independent African countries, outside Southern Africa, were thinking of trying to improve their relations with South Africa. If we had to make up for our loss of this trade by reducing our aid programmes, the Commonwealth would suffer.

On the other hand it was argued that to supply maritime defence equipment to South Africa would constitute a major change of policy. It would involve going back on the United Nations Resolution and on the Government’s own decision of November 1964, which had been taken on moral grounds. If we allowed our policy to be dictated in this way by purely commercial considerations, we risked laying ourselves open to future pressure from South Africa or even from British exporters. The racial question was one of the major issues which was going to determine the future development of the world. It was of over-riding importance to many young people in the country. To supply this equipment would amount to lining ourselves up on this issue behind South Africa and against the overwhelming majority in the United Nations. There might perhaps be a case for meeting South Africa on this question if we could thereby achieve an honourable settlement in Rhodesia. But there seemed to be no prospect of this. There was a clear distinction between normal trade and the sale of arms; and it was far from certain that a refusal to supply South Africa with the arms for which she had asked would necessarily have serious effects on our ordinary trade. Our trade with South Africa over the last three years had not noticeably been affected by our decision to suspend the supply of arms in 1964.
It was suggested that in view of the division of opinion in the Cabinet on this issue there would be advantage in postponing a decision until it had been possible to consider the problem of arms for South Africa in the broader context of the general review of our economic policy which had become necessary as a result of devaluation. This review might cover all trade in arms, including arms for the Communist countries and Israel, and extend to all instances where we had been restrained by political considerations from following our economic interest.

The Prime Minister, summing up the discussion, said that not only the Government's political and economic credibility were at issue but also its moral credibility. To agree to supply the proposed military equipment to South Africa would be contrary to the principles for which the Government stood: and if they were to do so in order to carry economic credibility with British industry, they would risk being pushed into other policies advocated by the Opposition and thus lose all political credibility. They would not only destroy their standing with liberal opinion in the country, but also undermine the support of the Parliamentary Labour Party without which the Government could not survive. The Government would in the near future face some difficult decisions following devaluation. Drastic measures would be necessary, some of which would be distasteful to the Government's supporters in Parliament. It would be much more difficult to secure backing for these essential measures if in the meanwhile Government supporters had been alienated by a decision to supply arms to South Africa. Opinion in the Cabinet was divided on the question whether the political disadvantages outweighed the economic arguments in favour of supplying these arms. The balance of opinion was in favour of deferring a final decision until the problem of arms for South Africa could be seen in the broader perspective of the comprehensive review of all our policies at home and overseas, which had been made necessary by devaluation. It would have been preferable to complete such a review before the Christmas Recess. But this was not possible in the time. He would therefore propose to make a holding statement in Parliament early in the following week. The statement would refer to the comprehensive study of the measures which it was necessary to take to ensure that we obtained the full benefit of devaluation. It would make clear that no areas of policy were excluded from review. Arms for South Africa could be covered towards the end of the statement in a reference to a review of our policy on the sale of arms generally. It would also be necessary to make clear in reply to supplementary Questions that pending this general review our present policy on the supply of arms to South Africa remained unchanged, and to defend that policy if the Opposition attacked it. A statement of the kind he had outlined would moreover be valuable at the present juncture as showing the Government's determination to grapple with the problems resulting from devaluation. It would also provide an answer to the Motion proposed by Labour Members of Parliament in the House of
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Commons opposing cuts in the social services. It would no doubt lead to heavy criticism of the Government in Parliament. But in the circumstances this was probably unavoidable. It was essential that no information should reach the Press about the Cabinet’s discussion.

The Cabinet—

(1) Took note with approval that the Prime Minister would make a statement in Parliament in the following week on the lines indicated in his summing up.

(2) Agreed to resume their consideration of the problem of the supply of arms for South Africa in the light of their general review of policy following devaluation.

Cabinet Office, S.W.1.
15th December, 1967.
CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Monday, 18th December, 1967,
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.,
Secretary of State for the Home Department
The Right Hon. ROY JENKINS, M.P.,
Chancellor of the Exchequer
The Right Hon. DENIS HEALEY, M.P.,
Secretary of State for Defence
The Right Hon. PATRICK GORDON WALKER, M.P., Secretary of State for
Education and Science
The Right Hon. GEORGE THOMSON, M.P.,
Secretary of State for Commonwealth Affairs
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
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., President of the Board of Trade
The Right Hon. PETER SHORE, M.P.,
Secretary of State for Economic Affairs
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEAKES, M.P.,
Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDDWYN HUGHES,
M.P., Secretary of State for Wales
The Right Hon. ANTHONY WELLSWOOD BENN, M.P., Minister of Technology

Also Present:
The Right Hon. JOHN SILKIN, M.P.,
Parliamentary Secretary, Treasury

Secretariat:
Sir BURKE TREND
Mr. W. A. NIELD
Miss J. J. NUNN

SECRET
SUBJECT:
OVERSEA AFFAIRS
South Africa: Maritime Defence Equipment
The Prime Minister said that, in the light of the political situation created by Press speculation over the week-end, he had thought it right to give the Cabinet a further opportunity to consider whether it was still feasible to maintain the decision which they had taken on the previous Friday, 15th December, namely that he should make a holding statement in the House of Commons that afternoon, in which a decision on the supply of arms to South Africa would be bound up with decisions on the measures, which the Government were now considering and would be announcing in Parliament after the Recess, in order to ensure that the full benefits of devaluation to the economy and the balance of payments were secured.

The Cabinet would recall that, during their discussion of the Government’s attitude to the supply of arms to South Africa on the preceding Friday, it had become clear the views of Ministers on this issue were divided. The suggestion had accordingly been made that the question might be best dealt with in the way suggested at the meeting of the Defence and Oversea Policy Committee on 8th December, namely as one of a series of measures covering expenditure at home and abroad which would be announced simultaneously as the Government’s response to the requirements of our economic situation. Further discussion had led to unanimous approval by the Cabinet of his proposal that he should make in the House of Commons early in the following week a holding statement in which a decision by the Government on the supply of arms to South Africa should be foreshadowed as part of a range of decisions on the further measures to be taken in consequence of the devaluation of sterling; meantime, the present policy of the Government on this issue should, of course, stand. It had been recognised by the Cabinet in that discussion that, in the light of the speculation which had already taken place in the Press, it was essential, if the proposed statement was to succeed in its purpose, that their deliberations on this issue should remain secret. During the week-end, however, there had been large-scale and renewed speculation in the Press, which appeared to be based on systematic and tendentious briefing about the Cabinet’s discussion and decision. Unless the secrecy of the Cabinet’s proceedings were fully respected, grave damage to the cohesion and authority of the Government was bound to ensue—as it had already ensued in the present instance, even though the Press reports in question were in fact largely inaccurate. For example, they had alleged that the majority opinion in the Cabinet favoured our supplying arms to South Africa; but this was not true—the balance of opinion had been different, as he himself had made clear in summarising the discussion. Again, the reports about the division of opinion at the meeting of the Defence and Oversea Policy Committee on 8th December had been similarly inaccurate. Further, the accounts which had been given of his own position were both misleading and prejudicial. The Press had stated that he had taken the opportunity of the absence of the Foreign Secretary in Brussels
to secure from the Cabinet a decision not to supply arms to South Africa, whereas in fact, both at the Defence and Oversea Policy Committee and at Cabinet, he had accepted the necessity for deferring a decision in order that the way could be kept open for a solution to be found in a wider context, in accordance with the compromise proposals put forward at both meetings. Moreover, he had insisted that a decision should not be reached on this matter in the absence of the Foreign Secretary, who was attending a meeting of the Ministerial Council of the North Atlantic Treaty Organisation in Brussels; and the Cabinet had accordingly agreed, first, to postpone their decision until the evening and, subsequently, when it had become clear that the Foreign Secretary would still be delayed by bad weather on the Continent, to hold a further meeting on the following day in order to enable the Foreign Secretary to be present.

Nevertheless, inaccurate and tendentious though these reports were, they had now gained wide currency and it was generally assumed that the Cabinet were critically divided on the issue of the supply of arms to South Africa. The Opposition would no doubt take full advantage of the opportunities which such reports of Government disunity presented them. He had therefore felt it right to give the Cabinet an opportunity to consider whether, in all the circumstances, the decisions which they had taken on the preceding Friday were still feasible and whether his own position was now such that he could reasonably be expected to make that afternoon the statement which the Cabinet had agreed that he should make. He himself felt that he had now been put into a position in which, as matters stood, it was very doubtful whether he could make the proposed statement in the House of Commons. Individual Ministers had suggested to him during the week-end that the right solution was now to put the issue beyond doubt by reaching a decision on the supply of arms to South Africa; and he felt no doubt that he would be entitled to require the Cabinet to take such a decision. But he did not propose to do so because he had accepted the Cabinet's conclusion on the preceding Friday that a decision on this issue should be delayed. He proposed, instead, to ask the Cabinet to state formally whether they agreed, or disagreed, with his own view that the Press statements in question were not true: to authorise a repudiation of these reports on the grounds that they were inaccurate; and to endorse the statement he was to make in the House of Commons that afternoon as binding on all the members of the Cabinet, since it might otherwise be regarded as merely representing his own view. In this connection he felt that he must make it clear that he did not himself intervene—nor did he expect other Ministers to intervene—in the preparation of the records of the Cabinet's discussions. As a result he had not seen the record of the previous Friday's meeting before it had been issued. But for the sake of accuracy he wished to make it clear that the first part of the summing up of the Cabinet's discussion attributed to him was in fact a statement of his own personal view, while his summing up of the discussion as a whole was contained in the second part of the attributed passage in question.
In discussion there was general agreement that it was now essential to take immediate action in order to re-establish the authority of the Government and to restore the confidence of opinion, both at home and abroad, in the Government's determination to take the unpalatable decisions necessary to strengthen the economy. For this purpose it would be necessary to repudiate the inaccurate Press statements about disunity in the Cabinet, even though it was unusual, perhaps even unprecedented, for a Government to issue a specific denial of tendentious Press reports of this kind and the precedent so created might subsequently prove embarrassing.

It was suggested that in the new situation it was also important to take, and to announce, an immediate decision about the supply of maritime defence equipment to South Africa. While some Ministers remained of the opinion that a refusal to supply the equipment for which South Africa had asked could not be justified either on the merits of the case or on economic grounds, it was generally recognised that in the present situation no other decision was politically possible. As regards the desirability of announcing a decision to this effect, however, it was argued that, since public opinion had been led to believe that the Cabinet had agreed to postpone a decision, an immediate announcement would further undermine confidence by suggesting that they had altered their decision in response to political pressure. Moreover, it would be embarrassing to announce a decision to reject the South African request so soon after giving the South African Government to understand that, if they allowed us a little more time for consideration, they might possibly receive a favourable response. On the other hand, if it was now clear that no decision other than a refusal was politically feasible, the balance of advantage clearly inclined in favour of an immediate announcement to that effect. Delay would merely provide further opportunity for public opinion to be mobilised against the Government; and when they finally announced their decision they would appear to have yielded to political pressure rather than to have reached a deliberate and considered judgment. But any further erosion of the Government's authority would be intolerable in itself and would also be liable to undermine still more seriously international confidence in sterling; and it would therefore be desirable to put an end immediately to public speculation about disunity in the Cabinet by announcing a firm decision on the supply of arms to South Africa. At the same time it would be important that this decision should be presented in relation to the other measures which would be required if the economy was to obtain the full benefit of devaluation, since there was some reason to think that the Government's supporters might adopt a rather different attitude if it became apparent that a refusal to supply arms to South Africa could not be without effect on the reductions in domestic public expenditure which would have to be secured. It would not be appropriate, however, to imply that these two issues were alternatives. While the supply of arms to South Africa would admittedly have yielded a welcome addition to our export earnings which we must now forgo, it would not have relieved us of the
necessity to secure a very substantial transfer of resources from domestic consumption to manufacture for export and would therefore not obviate the need for reductions in public expenditure in order to ensure such a transfer. It would remain important for the establishment of confidence that the Government's proposals for this purpose should be announced firmly and with the minimum of delay.

The Prime Minister, summing up this part of the discussion, said that, since he did not wish to put the Cabinet in a position in which they might feel that he was asking, in effect, for a vote of confidence, he would refrain from expressing any personal view and would accept the Cabinet's clear judgment that he should announce in the House of Commons that afternoon that the Government had decided that their policy on the supply of arms to South Africa, namely to conform to the United Nations Security Council resolution of 18th June, 1964, should remain unchanged. His statement would repudiate, in the name of the whole Cabinet, the inaccurate and tendentious reports in the Press about the attitude of Ministers, individually and collectively, on this issue. It would also foreshadow, as the Cabinet had agreed, the measures which the Government would shortly have to take in order to ensure that the economy derived the maximum benefit from the devaluation of sterling; and he would arrange for these measures to be presented for consideration by the Cabinet very early in January.

The Cabinet then turned to consider the draft statement to be made by the Prime Minister in the House of Commons that afternoon in accordance with their decision of Friday, 15th December. In discussion the following amendments were agreed:

(a) In the first substantive paragraph it would be appropriate to insert a reference to agriculture as well as to industry and trade.
(b) In the sixth substantive paragraph after "shift the emphasis" the words "of the boom which is now developing" should be deleted.
(c) In the seventh substantive paragraph, after the second mention of "personal expenditure" the paragraph should read "the success of the Government's prices and incomes policy is of crucial importance." Further, the final passage of this paragraph should include a reference to the inter-relationship between restraint of consumption and the success of the prices and incomes policy as follows "While I cannot anticipate my right hon. Friend's Budget statement nor any other measures which may be needed to restrain consumption, the severity of such restraint will clearly depend on the co-operation which the Government receive in implementing their prices and incomes policy ".
(d) In the ninth substantive paragraph, it would be desirable that the final sentence (beginning "while I") should immediately follow the first sentence.
(e) The order of the thirteenth and fourteenth substantive paragraphs should be reversed, in order to allow the former (which made it clear that the Government's review would cover defence and overseas expenditure as well as domestic civil expenditure) to be followed directly by the paragraphs dealing with the Government's decision on arms for South Africa.

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The fifteenth substantive paragraph, beginning “Sir, the review " should be amended in its first sentence to eliminate the words " being continually forced "; and in its third sentence so as to read, “In this connection the Government have completed their examination of the question of the supply of defence equipment to South Africa and have decided that their policy on this matter, namely to conform to the Security Council Resolution of 18th June, 1964, remains unchanged ".

At this point it would be appropriate to insert the proposed paragraph repudiating the Press reports, the text to run “I should add that I have the authority of the whole Cabinet categorically to repudiate as inaccurate reported statements about the position taken by the Cabinet as a whole, by a Cabinet Committee which met a week earlier, and also about the position taken by the Prime Minister and other individual Ministers ".

In the final paragraph the word “ Government " should be substituted for “ Cabinet " and the concluding sentence should read “They will then call on the House to take its full responsibility in endorsing it ".

The Prime Minister, summing up this part of the discussion, said that the Cabinet had now unanimously agreed, subject only to any further drafting amendments, the text of the statement which he should make in the House of Commons that afternoon.

The Cabinet, by unanimous decision—

(1) Reaffirmed their approval of the Prime Minister’s proposal that he should make a statement in the House of Commons in the afternoon, in which the attitude of the Government to the supply of arms to South Africa should be presented in the context of a general statement about the measures which the Government were considering in order to ensure that we obtained the full benefit of devaluation.

(2) Agreed that this statement should include an announcement that the Government had decided that their policy on the supply of arms to South Africa, namely to conform to the United Nations Security Council Resolution of 18th June, 1964, should remain unchanged.

(3) Invited the Prime Minister to include in his statement, on behalf of the whole Cabinet, a categorical repudiation of the inaccurate statements published in the Press during the week-end about the positions taken by the Cabinet as a whole, by the Prime Minister and by other individual Ministers on the issue of the supply of arms to South Africa.

(4) Approved the terms of the draft of the Prime Minister’s statement in the House of Commons that afternoon as amended in the course of discussion. (The final text of the statement is appended to these Conclusions.)

Cabinet Office, S.W.1.
18th December, 1967
STATEMENT BY THE PRIME MINISTER
IN THE HOUSE OF COMMONS ON MONDAY, 18TH DECEMBER, 1967

Mr. Speaker, with permission I should like to make a statement.

1. I feel it right before the House rises for the Recess to make a full statement of the Government's intentions about the way in which we are now engaged in deciding on the measures necessary to ensure that industry, trade, agriculture, indeed the country as a whole, take full advantage of the opportunity presented by devaluation.

2. The Government have made clear that, in order to achieve a progressive and massive swing in our balance of payments over the next two years, a substantial diversion of resources will be needed to exports, to import replacement and to investment.

3. The statement of my right hon. Friend the Home Secretary on 20th November outlined the first package of measures directed to this end.

4. The Government have made clear that progressively up to the Budget, and indeed at any time afterwards, when this becomes necessary, steps will be taken to ensure that home demand, including Government expenditure, is not allowed to develop to a point where the necessary shift of resources to the priority purposes of earning a payments surplus is for one moment endangered.

5. As my right hon. Friend the Chancellor made clear, the intention is to ensure beyond all doubt that as exports, import-saving and investment build up, the resources will be available to meet them.

6. It is our intention to maintain economic growth and rising employment, taking progressively the measures needed to shift the emphasis from a consumer-led expansion to an export-led expansion. At the same time it will be the determination of Her Majesty's Government not to allow that steady expansion, as it develops over the next year and into 1969, to degenerate into a situation of inflation and excessive pressure on resources and capacity.

7. As the policy develops through the period of the Estimates, the Budget and subsequently, it will mean reductions in the growth of personal expenditure and reductions in the growth of public expenditure. On personal expenditure, the success of the Government's prices and incomes policy is of crucial importance. While I cannot anticipate my right hon. Friend's Budget statement nor any other measures which may be needed to restrain consumption, the severity of such restraint will clearly depend on the co-operation which the Government receive in implementing their prices and incomes policy.

8. So far as public expenditure is concerned, the House will be aware, through long experience, that expenditure programmes take several years to mature and that decisions taken at any moment of time may have little impact on immediate Estimates. But decisions taken now can in certain spending areas have a growing effect in the second year and a decisive effect in the third and subsequent years, provided that the decisions are taken now.

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9. The examination of spending programmes which this involves is being tackled in a mood of urgency. While I should like to have given the House all the necessary details before the Recess, hon. Members will I think agree, in view of the important nature of the expenditure areas to be considered, that it would be wrong to press on with over-hasty decisions without considering all the implications. Full details will be given to the House and the decisions which have to be taken will be taken in time to govern the 1968-69 Estimates, as well as subsequent Estimates.

10. But I should tell the House this.

11. First, we are not approaching this expenditure review, whether in respect of home or overseas expenditure, on the basis of candle-ends, or simply on the basis of minor administrative economies, though we shall not of course neglect any opportunities here. Neither are we looking for prospects of under-spending or the shifting of expenditure from one financial year to another. We are bringing under stringent review all major areas of policy, both at home and overseas, where substantial expenditure is involved.

12. Second, no area of expenditure can be regarded as sacrosanct for the purposes of the searching examination we are making; no spending commitment whether inherited three years ago, or incurred since.

13. Thirdly, it will cover local government expenditure as well as central government expenditure.

14. Fourthly, as I have made clear, the review will cover defence and overseas expenditure as well as home civil expenditure.

15. Sir, the review as a whole is being related to what is essential in expenditure here at home, and to what is appropriate at a time when we have been, and are, re-assessing Britain’s role in the world. This must involve overseas policy.

16. In this connection the Government have completed their examination of the question of the supply of defence equipment to South Africa and have decided that their policy on this matter, namely to conform to the Security Council Resolution of 18th June, 1964, remains unchanged.

17. I should add that I have the authority of the whole Cabinet categorically to repudiate as inaccurate reported statements about the position taken by the Cabinet as a whole, by a Cabinet Committee which met a week earlier, and also about the position taken by the Prime Minister and other individual Ministers.

18. When next month the House is given the results of our examination of all the expenditure programmes—and indeed throughout the further development of all our policies—I intend to ensure that the totality of decisions taken will be fair as between citizen and citizen; that while everyone must bear burdens, the burdens will be fairly shared; and that, while established assumptions
and traditional spending commitments will have to be called in question and in appropriate cases sacrificed, the questioning and the sacrifices equally will be fairly borne.

19. At the end of the day the Government will be responsible for achieving a fair balance, whether of economic or political sacrifice, and submitting it to this House. They will then call on the House to take its full responsibility in endorsing it.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Wednesday, 20th December, 1967, 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., Secretary of State for the Home Department
The Right Hon. ROY JENKINS, M.P., Chancellor of the Exchequer
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. PATRICK GORDON WALKER, M.P., Secretary of State for Education and Science
The Right Hon. GEORGE THOMSON, M.P., Secretary of State for Commonwealth Affairs
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. GEORGE THOMSON, M.P., Secretary of State for Commonwealth Affairs
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
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., President of the Board of Trade
The Right Hon. PETER SHORE, M.P., Secretary of State for Economic Affairs
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. CLIDWYN HUGHES, M.P., Secretary of State for Wales
The Right Hon. ANTHONY WEDGWOOD BENN, M.P., Minister of Technology
The Right Hon. REGINALD PRENTICE, M.P., Minister of Overseas Development (Item 2)
The Right Hon. JUDITH HART, M.P., Minister of Social Security (Item 2)
The Right Hon. ROBERT MELLISH, M.P., Minister of Public Building and Works (Item 2)
The Right Hon. JUDITH HART, M.P., Minister of Social Security (Item 2)
The Right Hon. SIR ELWYN JONES, Q.C., M.P., Attorney-General (Item 4)

The following were also present:
The Right Hon. REGINALD PRENTICE, M.P., Minister of Overseas Development (Item 2)
The Right Hon. JUDITH HART, M.P., Minister of Social Security (Item 2)
The Right Hon. ROBERT MELLISH, M.P., Minister of Public Building and Works (Item 2)
The Right Hon. JUDITH HART, M.P., Minister of Social Security (Item 2)
The Right Hon. SIR ELWYN JONES, Q.C., M.P., Attorney-General (Item 4)
SECRET

Secretariat:
Sir Burke Trend
Mr. W. A. Nield
Miss J. J. Nunn
Mr. E. M. Rose
Mr. K. Barnes

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1. The Cabinet were informed of the business to be taken in the House of Commons when the House reassembled after the Christmas Recess.

2. The Cabinet had before them a note by the Prime Minister (C (67) 192) and a memorandum by the Chancellor of the Exchequer (C (67) 193) on public expenditure.

The Chancellor of the Exchequer said he had thought it right to explain to his colleagues the reasons why it was imperative to secure substantial savings in public expenditure in 1968-69 and in succeeding years. We faced a difficult situation as regards confidence abroad. In addition, all the evidence emerging from studies of the requirements of economic policy following devaluation showed that a very large shift of resources into exports and import savings would be needed over the coming months: both considerations of confidence and analyses of the needs of the economy pointed in this direction. Only a massive switch of resources would enable us to earn a substantial balance of payments surplus in 1969 and 1970. It was then that we should be feeling the full benefits of devaluation and it was essential that we should secure surpluses in those years sufficient to enable us to meet our obligations for repayment of debt and to build up our reserves and strengthen our borrowing rights so as to deal with any balance of payments difficulties which might recur in later years. In order to effect the necessary transfer of resources, it would be essential to hold back the planned growth of public expenditure: increased taxation was not an alternative.

The Supply Estimates for 1968-69 as submitted to the Treasury provided for an increase of 11.8 per cent above this year's figure. Additional expenditure arising out of devaluation, to the extent that it could not be absorbed, might bring the increase over 12 per cent. Such an increase would be substantially the highest since that produced by the Korean War, and the publication of Estimates showing an increase on this scale might have a dangerous impact on confidence abroad. The corresponding increase of 9.4 per cent in 1963-64, which was part of the boom leading to a balance of payments deficit of £800 million, was the next closest increase to that now in prospect. The increase last year which, in apparently much easier circumstances, evoked wide criticism, was 8.5 per cent.

It was therefore essential to secure a substantial reduction in the prospective increase of 12 per cent. He was not at present putting specific proposals for savings to his colleagues, since more time was needed to consider these important issues. Nor was he at present proposing any specific percentage rise in the Estimates which would be acceptable: this would not be the best way to approach the problem since decisions taken over the next few weeks could have little impact on expenditure in 1968-69 and indeed only a limited effect in 1969-70. The main requirement was for the Government to put forward proposals for major policy changes...
which would produce savings which were clearly identifiable and would carry conviction; only if this were done would we secure the necessary impact on confidence at home and abroad. The aim should be to announce new measures as soon as Parliament resumed; and, if decisions had been taken in time, it might be desirable to recall the House of Commons a day earlier. He had had bilateral discussions during the present week with the Ministers in charge of the main spending Departments and would be holding further discussions with them over the Christmas holidays.

He invited the Cabinet to endorse the main argument in his memorandum, and the conclusion that the Government must re-examine the main areas of public expenditure, both defence and civil, without being bound by past commitments in order to secure substantial and clearly identifiable savings.

In discussion there was general support for the argument of the memorandum by the Chancellor of the Exchequer and the conclusion he put forward. It was suggested, however, that the prospective increase in the Supply Estimates for 1968–69 was unexpectedly large. It went beyond the target which the Government had previously set of an annual increase in public expenditure of 4½ per cent over the period to 1970; and it exceeded the increase envisaged in the Government's survey of expenditure to 1970 carried out during the summer of 1967. While the increases were the result of collective Ministerial decisions, it would be useful if the Cabinet could be provided with a full explanation of how they were made up.

It was further pointed out that Supply Estimates often gave an exaggerated picture of the prospective increase in actual expenditure, since it was common for expenditure to fall short of the Estimates by a substantial amount, though the shortfall in 1968–69 was unlikely to be as great as in recent years. It was unfortunate that because of the misleading impression given in this way by the annual Estimates, the Government should incur criticism and possible loss of confidence abroad. There was a case for considering some change in procedure in order to obviate this: one possibility might be to publish simultaneously with the Estimates a White Paper surveying public expenditure over the next three years. A further problem about the Supply Estimates was that it was difficult to assess the real situation which they reflected because they were expressed in terms of current prices, so that the effect of price rises since the preceding year and the prospective rise in the year to which the Estimates related was not shown. It was also desirable to consider the Supply Estimates in relation to the total of public expenditure.

In further discussion the following points were made—

(a) While major policy changes would be essential in order to secure savings of the order required, it was also necessary to secure all possible lesser savings by severe pruning of the Departmental programmes in the Estimates. This should proceed without waiting for the major policy decisions.
The First Secretary of State said that since all areas of spending were to be examined regardless of previous commitments, it would be all the more important for the Government to establish proper priorities. So far as concerned the social services, he had already had it in mind to circulate a memorandum to his colleagues in the Social Services Committee proposing that they should examine priorities both within and between the social service Departments. There had not hitherto been any systematic attempt to assess the comparative value of different elements of the Government’s social programme. The present need to make major savings added urgency to this and he would bring the matter before his colleagues at an early date.

The decisions to be taken on public expenditure would inevitably be painful and would place a considerable strain on the Government’s supporters in Parliament. It would be necessary to do everything possible to consolidate support for the Government’s policy; and to this end it was desirable that the Government’s supporters should be given a clear picture of the situation which we faced and of the magnitude of the transfer of resources which was called for.

The Prime Minister, summing up the discussion, said that the Cabinet fully endorsed the general policy on public expenditure set out in the memorandum by the Chancellor of the Exchequer. He would now arrange for a group of Ministers to meet under his chairmanship in the following week with the object of agreeing broad directives on the areas in which major savings should be sought; the Chancellor of the Exchequer would then be able to pursue his bilateral discussions with Ministers in charge of spending Departments within the ambit of those directives. The Cabinet should consider a report from the group of Ministers at a meeting on Thursday, 4th January, and should hold further meetings as necessary in order to enable an announcement of the new measures to be made when Parliament resumed. The Chancellor of the Exchequer should arrange that, when the Cabinet resumed their discussion, they should have before them memoranda explaining why the increase in the Supply Estimates for 1968-69 was greater than was envisaged at the time of the review of public expenditure in July 1967, and dealing with the points raised in discussion, including the relation of the sums in the Estimates to likely actual expenditure and the price terms in which the Estimates were framed. Finally, the Cabinet agreed that without waiting for major policy decisions on public expenditure, the Estimates for 1968-69 should be subjected to the severest scrutiny in order to secure all possible savings.

The Cabinet—

(1) Endorsed the conclusion in C (67) 192 that it would be essential to secure major savings in public expenditure in 1968–69 and the succeeding years.
Approach to Europe

(Previous Reference: CC (67) 69th Conclusions, Minute 4)

(2) Took note, with approval, of the arrangements for further consideration of this matter outlined by the Prime Minister in his summing up.

(3) Agreed that, independently of the consideration of policy decisions on public expenditure, the Supply Estimates for 1968–69 should be severely scrutinised to secure all possible savings, and invited the Ministers in charge of spending Departments to co-operate with the Chancellor of the Exchequer to this end.

(4) Invited the Chancellor of the Exchequer to circulate memoranda for consideration at their resumed discussion as indicated by the Prime Minister in his summing up.

(5) Took note that the First Secretary of State would circulate to the Social Services Committee at an early date a memorandum on priorities in the social services.

(6) Agreed to resume their discussion on Thursday, 4th January, 1968.

3. The Foreign Secretary said that it had not been his intention to make a statement that afternoon in the House of Commons on the outcome of the Ministerial meeting of the European Economic Community (EEC). But, following the Parliamentary Questions on this subject the preceding day and in the light of the outcome of the meeting of the EEC Ministers, he now felt he must seek the authority of the Cabinet to make a statement that afternoon. He would as soon as possible circulate to the members of the Cabinet the text of the announcement by the Ministers of the EEC following their meeting; but, in brief, the outcome had been such that we had now secured the objective endorsed by the Cabinet on 30th November (CC (67) 69th Conclusions, Minute 4) namely “to urge the Five to insist on fixing a date in January for the opening of negotiations, and so force the issue with the French either on 18th–19th December or at the beginning of January” (C (67) 187, paragraph 2 (b)). In the event the Five had stood up very firmly to the intransigence of the French, indeed much more firmly than we had hoped, in supporting to the end the Commission’s proposition that negotiations should be opened with the States which had applied for membership. As a result, we had succeeded in eliciting a clear veto by the French on the opening of negotiations. It was now necessary to decide how we should proceed. A contingency planning memorandum, prepared by officials of the Departments principally concerned under Cabinet Office chairmanship in response to the Cabinet’s request of 30th November (CC (67) 69th Conclusions, Minute 4) was now ready for circulation. Its main conclusion was that, in the circumstances which we now faced, whilst the overriding priority of our external economic policy for the next few years must be the re-establishment of our economic position and stability, there was in the long term no satisfactory alternative to United Kingdom membership of the EEC. He agreed with this conclusion, which was also consistent with the
Parliamentary Answer given by the Prime Minister in the House of Commons on the preceding day. On that basis, we should have three main aims in the immediate future. The first should be to maintain the longer term objective of full membership of the Communities as a valid and credible policy in the eyes of public opinion here and in Europe. Second, we should ensure so far as possible that the Communities were prevented from developing particularly in ways which would make it more difficult for us to join them later. Third, we should preserve, to the greatest extent compatible with the first two aims, our freedom of action in the economic field pending our achievement of full membership. Whilst it was clearly unrealistic to think in terms of full membership as long as President de Gaulle was in office, we should maintain our application for membership and make arrangements for consultation and common action with the Five in pursuance of the three aims he had outlined. The Five were now anxious to develop, in collaboration with us, activities which would be fruitful in themselves and would provide them with a reasonable basis for ensuring that we should participate in future developments in the Community (e.g. the Italians were keen to develop technological collaboration). He had been assured by the Dutch Foreign Minister (Dr. Luns), with the authority of the Dutch Cabinet, that an agreement for mutual consultation would be sufficient to achieve the second objective to which he had referred; and Dr. Luns had accordingly already summoned the Dutch Minister of Agriculture out of the meeting of Agriculture Ministers of the Six, which would not be resumed. The Dutch had thus placed a veto on the agricultural negotiations within the Community and so prevented progress with the review of the common agricultural policy in the completion of which the French and Germans had important, though conflicting, interests. Similarly, the pending meeting of the Finance Ministers of the Six had been cancelled; and the Five were thus taking the line that the unanimity rule should now apply to all Community decisions, with the effect that the Community could make no progress. He therefore sought the approval of the Cabinet for the three aims which he had set out at the beginning of his statement; and also for authority to consult confidentially with the Five and to make the most of their resentment of French intransigence. He also proposed to seek a high level meeting between the United Kingdom and the Five to consider the consequences of the French veto—the Italian Government were considering taking an initiative to this end. Such a meeting might discuss arrangements between the United Kingdom and the Five both for consultation and for joint action in limited fields and might make a re-affirmation of the goal of a united Europe. It would be desirable that the other three countries applicant for membership of the Community should be present at this meeting, in order to make clear that the issue was not simply one between the United Kingdom and France. It would also be necessary in the near future to hold a meeting of EFTA at Ministerial level to consider the position he had outlined.
sum, he could report that the objective set by the Cabinet on 30th November to urge the Five to “force the issue with the French either on the 18th-19th December or at the beginning of January” had now been secured, and that we were now well placed to make use of this position. He had outlined the steps we should take to meet the immediate tactical situation with which we were confronted; but the Cabinet would need to consider later our longer term position, and the memoranda necessary for this would be circulated shortly.

In discussion general agreement was expressed with the Foreign Secretary’s report and proposals. It was very satisfactory that the Five had been so robust and that the Cabinet’s objective of securing an early and definitive answer to our application for membership had been achieved. It was clearly essential that the Foreign Secretary should make a statement in the House of Commons that afternoon based on the report he had made to the Cabinet, though it would be desirable to avoid any overt reference to the intentions of the Five to inhibit the development of the Community and our own attitude in that respect. It would be important to avoid saying that we saw no long term alternative to membership of the Community and to adhere to the established formula that, although there were alternatives, none of them could be more than a second best. Nor should our longer term position, whilst recognising that the United Kingdom was part of Europe and that relations with Europe would remain the most important part of our foreign policy, be foreshadowed in terms which might limit the Cabinet’s freedom to consider that position later or prejudice our attitude towards compromise solutions for a relationship with the EEC falling short of full membership. On the other hand there was no evidence that any of the Five would now press us to adopt any solution other than full membership; nor should such a solution be a satisfactory one for us. Moreover, any indication that we were prepared to consider such compromise solutions would undermine the determination of the Five to maintain our right to negotiations for full membership; and the maintenance of the strength of the position taken up by the Five must now be the prime objective of our European policy. Whatever merits a compromise proposal might have, whether it came from the Five or the Six, it would be bound to afford the French President a new opportunity to weaken the position we had now attained and to press his own aims further. One advantage of our present situation, which we owed to the way in which our approach to Europe had been handled, was that, in contrast to our position in 1963, the French President’s rejection of our candidature would no longer come as a shock to public opinion; and it was important that this advantage should not be eroded.

The Foreign Secretary said that in his statement to the House of Commons he would take account of the points that had been made in discussion. He proposed that his statement, after reporting the position reached in Brussels and paying tribute to the efforts of the Five on our behalf, would reaffirm our European purpose, would confirm that our application for membership of the
Communities still stood, would specifically state that we now proposed to consult with the Five and with the applicants for membership and, whilst deploring the French veto, would make clear that we regarded the veto as European, and not simply an Anglo-French issue. Since, however, every part of his statement would be most carefully examined on the Continent for any hint of a change in our posture, it would be essential for him, for the reasons the discussion had brought out, to be very firm about the attitude we had taken up in regard to full membership.

In further discussion it was emphasised that our relations with the United States would be of special importance in the period in which we were excluded from the Community. American patience with the French President's policy had now worn very thin; and whilst there might be elements in the American Administration which were not wholly sympathetic to our European policies, the attitude of the Administration as a whole and of its senior members was firm in our support.

*The Prime Minister,* summing up the discussion, said that the immediate question for decision was the response to be made in the Foreign Secretary's statement that afternoon to the outcome of the discussion by the Ministerial Council of the EEC on our application for membership. There was general agreement that our response should be such as would strengthen the determination and position of the Five, who were now inclined to demonstrate that, if a veto could be used in spite of Article 237 of the Treaty of Rome, it could be used in respect of other aspects of the Community's activities. The Cabinet endorsed the line proposed by the Foreign Secretary; and he should accordingly make a statement to the House of Commons that afternoon on the lines indicated in his report and in the Cabinet's discussion. He would arrange for the early circulation to the Cabinet of the memoranda which had been prepared, in accordance with the Cabinet's request of 30th November, as a basis for consideration of our position in the event of our exclusion for some time from membership of the Community.

The Cabinet—

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

(2) Invited the Foreign Secretary to make a statement to the House of Commons that afternoon on the lines indicated in the Prime Minister's summing up.

(3) Invited the Foreign Secretary to pursue the proposals put forward in his report for a confidential exploration with the Governments of the Five of the scope for collaborative action with them, including the possibility of a high level meeting with the Five and with the other applicants for membership of the EEC to consider the consequences of the French veto.
(4) Took note that the Prime Minister would arrange for the early circulation of memoranda on which the Cabinet would further consider, after Christmas, our position during the period in which we were excluded from membership of the Communities.

4. The Cabinet considered a memorandum by the Secretary of State for Economic Affairs (C (67) 195) to which was attached a draft White Paper on the Industrial Expansion Bill.

The Secretary of State for Economic Affairs said that a meeting of Ministers under the chairmanship of the First Secretary of State had given further consideration to the draft White Paper on Industrial Expansion; and the draft attached to his memorandum reflected the agreement reached at that meeting. The early part of the draft had been modified so as to take account of the implications of devaluation and to give a tauter and more coherent presentation of the case for the Industrial Expansion Bill.

In discussion it was argued that in the new conditions which we faced following devaluation, there was a case for postponing, or even abandoning, the Industrial Expansion Bill. The Bill would not enable the Government to do anything which they could not do under existing powers: indeed it appeared that, once the Bill was enacted, it would be necessary to present schemes to Parliament and secure the passage of Orders for projects which hitherto the Government could have carried out under existing powers. There was considerable suspicion of the Bill on the part of industry; and there was some evidence that this was being carried to such lengths as to create apathy towards the export opportunities opened up by devaluation. It was vital at the present time to restore confidence both at home and abroad; and to withdraw the Bill would make an important contribution to this, would in no way weaken the economy and would be a far less painful decision than those which would face the Government in the coming weeks.

On the other hand it was argued that it would be wrong for the Government to reverse their policy at this stage. They had not yet presented the full case for the Bill in public; and, once this was done, it was likely that the opposition in industry, which was based on ill-considered ideological reactions, would abate. There was no reason to suppose that, if industry was reluctant to exploit the opportunities opened up by devaluation, that reluctance would be diminished by abandonment of the Bill. Despite the pronouncements by the Confederation of British Industry (CBI), there was a good deal of evidence that leading figures in a number of industries were anxious for the Government to take the kind of action in their industries which the Bill would facilitate. Moreover, the powers conferred by the Bill could be used in ways which would assist the transfer of resources into exports and import saving which was now required. If the Bill
were dropped, it would be necessary to introduce four separate Bills to deal with particular projects for which the Industrial Expansion Bill would make special provision; this would create serious difficulties for the Government’s legislative timetable.

The Prime Minister, summing up this part of the discussion, said that the Cabinet agreed on balance that the Government should go ahead with the Industrial Expansion Bill.

In discussion of the draft White Paper, the following points were made—

(a) The first part of the last sentence in paragraph 2 should be deleted so that the sentence would read “The legislation would not confer any compulsory powers”.

(b) At the end of paragraph 4, there should be added a sentence to the effect that in the longer term, the selective and timely use of the powers envisaged under the Bill would help to secure the full advantages of the new situation.

(c) In view of possible difficulties with our partners in the European Free Trade Association, the reference to aluminium smelting in paragraph 6 should be omitted. It would almost certainly be necessary, however, to mention the aluminium smelting project in the debate on the Second Reading of the Bill.

(d) The statement in the first sentence of paragraph 13, that the powers under the Bill would be used for projects which the Government judged it to be in the national interest to support, might be held to imply that the Government intended to thrust support upon industry whether or not industry wanted it. To correct this, the sentence should be expanded, possibly by the insertion of a cross-reference to the relevant part of the White Paper, to make it clear that the Government would use its powers under the Bill only by agreement with the firms concerned.

(e) There was general agreement that, while it would not be possible to use the new powers in the Bill without first defining the relevant scheme in an Order laid before Parliament, this would not preclude the Government from taking action of the kind envisaged under the Bill by virtue of their existing powers where this seemed appropriate or convenient. The wording of paragraph 17 of the draft White Paper did not conflict with this.

(f) The words “pay due regard to” should be deleted from paragraph 18.

In further discussion there was general agreement that the White Paper, revised in the light of the Cabinet’s discussion, should be published on the same day as the Government made the proposed statement of new measures on public expenditure which they had discussed under the previous item on the agenda. The Industrial Expansion Bill should be introduced into Parliament on the same day and published on the following day.
The Cabinet—

(1) Invited the Secretary of State for Economic Affairs to arrange for the draft White Paper annexed to C (67) 195 to be revised in the light of their discussion and to be published on the same day as the proposed Government statement on public expenditure.

(2) Invited the Minister of Technology, in consultation with the Lord President, to arrange for the Industrial Expansion Bill to be introduced in Parliament on the same day as the White Paper was published and to be published on the following day.

Cabinet Office, S.W.1,
21st December, 1967.
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Thursday, 21st December, 1967,
at 2.45 p.m.

Present:
The Right Hon. GEORGE BROWN, M.P., Secretary of State for Foreign Affairs
(in the Chair)
The Right Hon. MICHAEL STEWART, M.P., First Secretary of State
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., President of the Board of Trade
The Right Hon. PETER SHORE, M.P., Secretary of State for Economic Affairs
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. REGINALD PRENTICE, M.P., Minister of Overseas Development
The Right Hon. Sir ELWYN JONES, Q.C., M.P., Attorney-General

The Right Hon. JAMES CALLAGHAN, M.P., Secretary of State for the Home Department
The Right Hon. ROY JENKINS, M.P., Chancellor of the Exchequer
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. PATRICK GORDON WALKER, M.P., Secretary of State for Education and Science
The Right Hon. GEORGE THOMSON, M.P., Secretary of State for Commonwealth Affairs
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. JOHN SILKIN, M.P., Parliamentary Secretary, Treasury
SECRET

Secretariat:
Sir Burke Trend
Miss J. J. Nunn
Mr. E. M. Rose
Mr. H. L. Lawrence-Wilson
Mr. L. Errington
Mr. K. Barnes
Mr. F. G. Burrett

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1. The Cabinet considered a note by the Minister of Labour (C (67) 200) to which was attached a memorandum by the Minister, which had been considered on the previous day by the Ministerial Committee on Prices and Incomes, about the agreement in the London docks for an increase in the weekly guarantee payment to dock workers.

The Minister of Labour said that the report by Lord Devlin on decasualisation in the docks had recommended that there should be a weekly guarantee payment for dock workers of £15, and negotiations in London for an additional differential of £1. The employers in London, however, had signed an agreement with the unions as part of the negotiations for decasualisation providing for a weekly guarantee in London of £17 instead of the £16 indicated by the Devlin report. He had since then resisted pressure from both the employers and the unions for implementation of this agreement on the grounds that this would inevitably lead to pressure for the level of the guarantee in other ports to be raised from £15 to £16. However, there had been increasing pressure by the unions, both officially and unofficially, for implementation of the March agreement, and the London Docks Committee of the Transport and General Workers Union (T & GWU) had now applied to the Union's General Executive Council for plenary powers to enable them to take industrial action if the agreement were not implemented early in January. In face of this pressure, the London employers had now decided to pay the £17 weekly guarantee from the 8th January, and this could be prevented only by a reference to the National Board for Prices and Incomes (NBPI) and a direction under Section 15 of the Prices and Incomes Act of 1966.

He emphasised that what was at stake was an agreement not for a wage increase but only for an increase in guarantee payments. The effects of allowing the agreement to be implemented would be insignificant in money terms, amounting to an addition of one-quarter of 1 per cent to the wage bill in London. Only 5–6 per cent of the labour force were affected at any one time by payment of the guarantee, both in London and in the ports generally. Moreover, the significance of the guarantee payment would diminish further as a consequence of decasualisation as dockers generally were taken into permanent employment. The extra cost of the agreement in London would be some £60,000 a year and it was not intended to increase any port charges to meet it. Although payment of the higher guarantee would thus be insignificant in terms of additional cost, the T & GWU were determined to secure the increase because they believed that only by showing results on this issue could they reassert their precarious control over their membership in the face of threats by the unofficial elements in London to resume industrial action from 1st January if their demands were not met. If the Government prevented implementation of the agreement, there would certainly be an unofficial stoppage and possibly an official
strike; and it was clear that, if there were again a stoppage, some employers would feel obliged to suspend men who were not themselves on strike but for whom no work could be found: this would be likely to lead to an official strike in the lighterage section of the Port of London. On the other hand, if the higher guarantee in London were conceded, £17 might come to be regarded as a minimum wage which the Government had accepted, and there would be repercussions on wage claims now pending in other important sectors of industry. On balance, however, and having regard to the serious consequences for the economy of a stoppage in the docks, he recommended that the London employers should be allowed to implement the March agreement; it would then be important to limit the repercussions on the Government's incomes policy by presenting the decision in the best possible light. At their discussion on the previous day, a majority of the Ministerial Committee on Prices and Incomes had supported this view.

The Secretary of State for Economic Affairs said he accepted that, if implementation of the agreement were not allowed, there would inevitably be trouble in the docks, though it was not possible to foresee how extensive this would be: it was possible that any unofficial action might not last long in view of the extended stoppage in October and November. There was also the danger of an official strike, though the London Docks Committee of the T & GWU had not yet obtained the plenary authority which they had requested from the Union's Executive, and the latter in considering this request would have to take account of the fact that the Union had lodged a national claim, including a claim for a £16 guarantee payment in all ports, on which negotiations had not yet taken place. In the event of a strike, the Government would have to decide whether to move troops into the docks; if they did, there would be danger of a national dock strike. If strike action were taken after the making of a direction under the Act, it might well be necessary to use penal sanctions against the dock workers. Above all, there was the effect of a strike on exports and the economy generally. But on the other hand there could be no possible justification in terms of the Government's incomes policy for allowing the agreement to go through. If this were done, there would be a widespread impression that the Government had accepted £17 a week as a minimum wage. The dock workers would be getting a further increase in pay within four months of the increases they received on the introduction of decasualisation. An increase in the weekly guarantee could not be justified on grounds of increased productivity or of low wage earning. There would inevitably be pressure from other ports for corresponding increases in the guarantee. If the Government allowed the agreement to be implemented, this would be widely interpreted as a retreat under pressure and would cast doubt on the Government's determination to sustain the incomes policy. While the consequences of either course of action would be serious, to allow the agreement to be implemented would amount to abandoning the incomes policy and the right course was therefore to refer the matter to the NBPI.
In discussion there was support for the view expressed by the Secretary of State for Economic Affairs. It was argued that the dock workers had benefited from a generous settlement very recently and if they were now allowed a further improvement in conditions, this would have serious repercussions on wage claims in other industries, particularly in engineering and buses where there had been no recent increases. If the Government were not prepared to use their statutory powers in such a flagrant case, it was difficult to envisage their ever being used and it would be impossible to stand firm against other claims. The repercussions on incomes policy might be such that it would no longer be possible to rely on the policy to make a significant contribution to the restraint of demand which was essential following devaluation, and this would mean even more severe measures of other kinds. Moreover, negotiations had yet to take place on a national claim for an increase in the weekly guarantee in the docks and the National Association of Port Employers were opposing the claim; it would be unprecedented in these circumstances for the Government to prejudice the national negotiations by allowing the London agreement to be implemented.

On the other hand, there was wide support for the course recommended by the Minister of Labour. January would be a critical month for the economy and the Government could not afford to risk a major strike, which would have a disastrous effect on confidence. The use of troops to operate the docks could have only a limited effect and would almost certainly lead to stoppages in other ports, particularly Liverpool and Hull. To allow the implementation of the London agreement would undoubtedly weaken prices and incomes policy, but there would be no question of its completely wrecking that policy. While other unions would certainly make use of the increase in the weekly guarantee in furtherance of their own wage claims, the effect on other claims was unlikely to be dramatic, and it was misleading to suggest that the result would be to encourage the adoption of £17 a week as a minimum wage standard; there had been no tendency to regard the present guarantee of £16 a week in this light. It was widely recognised in the trade union movement that guarantee payments were a peculiar feature of conditions in the docks which were justified by the intermittent nature of the work. Moreover, even if the Government did not use their statutory powers in this case, it was all too likely that the powers would have to be used later in respect of wage claims by engineering and bus workers. But it was essential that the Government should be sure of their ground, both in substance and as regards presentation, before they made use of these powers. In the present case there was some justification for increasing the differential in guarantee payments as between London and the rest of the country; a recent report by the NBPI had endorsed a differential of over £2 a week as between London and the provinces for public service employees. If it became necessary for the Government to engage in a major confrontation with the unions, this should be done on a much more substantial issue than the present one.
In further discussion, it was suggested that the present case pointed to the need for a much tougher incomes policy—possibly a complete wage freeze—backed by extended statutory powers, and serious consideration should be given to this.

The Foreign Secretary, summing up the discussion, said that the Cabinet recognised that they were faced with a choice of evils, but their view on balance was that the worse evil would be to hold up the implementation of the London agreement and thus run the risk of a strike in London and possibly in the ports generally at a time when this would be disastrous for the economy. They fully recognised that this decision was dictated by expediency rather than by principle. The Minister of Labour should accordingly be empowered to inform the parties concerned that the Government would not press its objections to the implementation of the London agreement. It would be essential to give careful thought to the public presentation of this decision, and in particular to emphasise that what was at issue was not a wage increase but an improvement in the special guarantee arrangements in the docks. The Secretary of State for Economic Affairs should give further consideration to the case for a tougher incomes policy backed by extended statutory powers.

The Cabinet—

(1) Agreed that the Minister of Labour should be empowered to inform the parties concerned that the Government would not press further their objections to the implementation of the agreement of March 1967 for a guarantee payment of £17 a week in the London docks.

(2) Invited the Minister of Labour, in consultation with the Secretary of State for Economic Affairs, to take account of the points made by the Foreign Secretary in his summing up in publicly presenting the Government’s decision.

(3) Invited the Secretary of State for Economic Affairs, in consultation with the other Ministers concerned, to consider the case for a tougher incomes policy backed by extended statutory powers, and to report to his colleagues.

The Cabinet—

2. The Cabinet considered memoranda by the Home Secretary (C (67) 196) and the Minister of Labour (C (67) 199) on legislation to make racial discrimination in various fields unlawful.

The Home Secretary recalled that in July the Home Affairs Committee had approved in outline proposals for legislation to strengthen the Race Relations Act, 1965, which had been put forward by his predecessor. Since then these proposals had been further developed in the light of inter-departmental discussions.
Their main effect would be to make discrimination on racial grounds unlawful—

(a) in respect of places and services open or available to the public at large;

(b) in employment or trade union activities, except temporarily for the purpose of preserving a balance between racial groups in a labour force, and subject also to an exception for domestic employment and employers of fewer than 10 workpeople;

(e) in the disposal of house or other property, with some exception for shared accommodation and lodgings;

(b) in the provision of insurance and credit facilities; 

(e) in the form of discriminatory advertisements.

There would be special provision for voluntary machinery established by industry to attempt conciliation in the first instance; the Race Relations Board (RRB) would be empowered to seek injunctions or damages in specially designated county courts sitting with assessors (with corresponding arrangements for Scotland) and the National Committee for Commonwealth Immigrants would be replaced by a statutory Board. It was proposed that, with appropriate exceptions, the provisions of the amended Act should bind the Crown.

He recognised that these provisions would be difficult to enforce, but enforcement was not their prime object. The purpose of the Bill was to establish the principle that discrimination was contrary to the public interest; to educate public opinion; to encourage people of goodwill to stand out against discrimination; and to provide machinery for conciliation. For these purposes the legislation must be comprehensive and a remedy in the courts must be available in the last resort. It was also essential presentationally and politically that the Crown, as employer and as a provider of public services, should be seen to be bound by the Bill. The most difficult and controversial of his proposals was that relating to the sale of a house by a private owner-occupier, where it might be said that the private citizen should not be required to satisfy an outside body about a private transaction that injunction procedures would seldom be effective, and that damages would be difficult to quantify. Housing was, however, the touchstone of the sincerity of the Government's policy on race relations. Any measure which could prevent the development of residential ghetto areas for the coloured community would be valuable, and, since most people obeyed the law, the inclusion of private housing in the new legislation would have an important effect.

The Minister of Labour said that it would not be appropriate for the industrial conciliation machinery, to which his Department would refer complaints about discrimination in employment, to deal with complaints against the Crown. A procedure modelled on that of the Parliamentary Commissioner might be more suitable, but, since procedural modifications might weaken the impact of the Bill,
it would be preferable for the Government to give an undertaking that the Crown, though not bound by the Bill, would submit to the scrutiny of the RRB. It was also desirable to consider what the position of the police would be. The exemption for small employers might be removed progressively by a provision in the statute itself, and it would help to ensure the confidence of industry in the machinery for handling employment complaints if the President of the Industrial Court were made ex officio Vice-Chairman of the RRB responsible for the machinery established for this purpose.

In discussion there was general agreement that industry should be given an opportunity to deal by means of its own machinery with complaints of discrimination in employment, and that as an additional measure it would be useful for the President of the Industrial Court to be made Vice-Chairman of the RRB with responsibility, subject to the agreement of the Board as a whole, for the arrangements for the Board to handle complaints of discrimination which nevertheless came to it. The position of the police should be examined further; they were not employees of the Crown, but it was for consideration whether discrimination by a policeman should be dealt with under the police disciplinary code or under the Act. A similar problem arose in relation to members of the Armed Forces.

In further discussion of the application of the proposed Bill to the disposal of owner-occupied houses, it was argued that the ability to buy house property was considered by the immigrants themselves and by the organisations interested in their welfare to be of crucial importance. If owner-occupied housing were not covered, the Government would not be thought to be seriously attacking the problem, and there would probably be pressure to exempt local authority housing as well. Moreover, without the proposed provision, it would be difficult to deal with cases of conspiracy, such as had recently arisen, to induce an owner-occupier to sell his house to a group of white neighbours rather than to a coloured man. On the other hand, it was pointed out that a white house-owner who for good reason wished to sell his house to a white man would be liable to be the subject of a complaint by a disappointed coloured man who could bring him before the local conciliation committee and cause him to be subjected to public criticism for an act of discrimination when in fact his action was not discriminatory and would not be so regarded by the RRB or the courts. While in some circumstances it might be valuable to shame persons guilty of discrimination by confronting them with the complainant, it would not always be clear where right lay. Was an owner to be criticised for refusing to sell to a coloured man who offered a high price for the house with the intention of overcrowding it with compatriots? It was suggested that there was a risk that public opinion might be affronted by complaints against white house-owners who were exercising a legitimate freedom to dispose of their own property and were not actuated by racial prejudice. This might nullify the intended educational effect of the measure. It was also open to doubt whether it was wise to use the law as a means of declaring principles which
could not be adequately backed by sanctions, and it was far from clear that the courts could take effective action even if a case of discrimination were made out. It would be unusual to give them power to issue a mandatory injunction compelling an owner to sell to a particular purchaser, and the power to award damages would be of little value since the damage suffered by an unsuccessful purchaser could hardly be identified. He might recover his expenses, for example, a surveyor's fee, but no more.

In further discussion it was suggested that the issues raised by the proposals, and in particular by those relating to house property, ought to be considered by the Home Affairs Committee. Since they were largely of a political character it would be necessary to bring them back to the Cabinet, but they should be more thoroughly discussed first.

The Lord Advocate indicated that he would wish to be involved in discussion of the legal aspects of the Bill.

The Foreign Secretary, summing up the discussion, said that the Cabinet were not yet ready to reach a decision on the application of the Bill to house property. The issues raised should be discussed further by the Home Affairs Committee and their advice should be brought before the Cabinet in the New Year.

The Cabinet—

(1) Invited the First Secretary of State to arrange for the Home Affairs Committee to give further consideration to the Home Secretary's proposals, with particular reference to the application of the proposed Bill to the sale of owner-occupied houses.

(2) Agreed to resume their discussion at a later date.
be to make defamation in a play (as on television) a ground for an action for libel. Mr. Strauss, who had been Chairman of the Joint Select Committee on Censorship of the Theatre, had been successful in the ballot for Private Members' Bills, and proposed to introduce a Bill to give effect to the recommendations of that Committee. Mr. Strauss had indicated that he was not prepared to include provision to prohibit the representation of living persons. In view of Mr. Strauss' attitude and of the difficulties of such provision he proposed that the Government should provide Mr. Strauss with the draft of a Bill implementing the recommendations of the Joint Select Committee, including the recommendation that defamation in plays should be made a ground of action for libel. Mr. Strauss should, however, be told that the Government should not be taken as committed to rejecting the inclusion of some prohibition of the representation of living persons, or some other means of dealing with the problem, at a later stage of the Bill. The Cabinet could consider the matter again in the light of the views expressed in the House of Commons in the debate on the Second Reading of the Bill.

In discussion it was pointed out that the Lord Chamberlain had indicated that he would see objection to a prohibition that was limited to representation of The Queen, and in view of the difficulty of devising a general prohibition of representation of living persons that would not operate more restrictively than the present censorship by the Lord Chamberlain, there seemed to be no satisfactory alternative to relying on the application of the law of libel notwithstanding that this could operate only after the event.

The Cabinet—
Approved the proposal to hand Mr. Strauss a draft Bill on the basis indicated in C (67) 197.

CONFIDENTIAL
4. The Foreign Secretary said that negotiations between King Constantine of Greece and the Greek military régime, which had followed the King's flight to Rome, had run into difficulties. But the régime did not apparently wish to break entirely with the King nor the King with the régime. The régime was taking steps to give itself a more civilian character, and was treating with leniency those involved in the King's abortive coup. He had been impressed by the Greek Foreign Minister, M. Pipinelis, whom he had met at the meeting of the North Atlantic Council in Brussels. Although M. Pipinelis clearly belonged to the Right wing, he was opposed to the military junta and favoured a return to constitutional rule. No question of formal recognition need arise so long as there was no final breach between the régime and the King; but the question would arise if such a breach occurred. Several of our allies, including Germany, France, the United States and Turkey, were in varying degrees already transacting business with officials of the régime; and Germany and Turkey were thinking of formal recognition. If we refused to have any contact with officials, we should be precluded from doing any official business or helping British nationals in
Greece. He therefore sought the agreement of his colleagues to a policy of continuing to withhold contact at Ambassadorial level, but of authorising the conduct of day-to-day business with officials on the understanding that it did not involve any act which could be construed as formal recognition of the régime. He thought the situation could be held for a time on this basis, although it might be necessary to change our policy if there were another crisis in Cyprus.

In discussion the following points were made—

(a) If King Constantine did agree to return, he would to all intents and purposes be a tool of the régime.

(b) It was most important that we should if necessary be able to exert our proper influence in the event of a new crisis in Cyprus; and we could do so only if we had contacts with the Greek régime.

The Cabinet—

Approved the policy proposed by the Foreign Secretary.

5. The Foreign Secretary said that at a meeting that morning, the Defence and Oversea Policy Committee had considered proposals by the Minister of Overseas Development on aid to mitigate the effects of our military withdrawal from Singapore and Malaysia. We were committed to give such aid; the points for decision were the amount of aid and the timing of our decision and of its communication to the two Governments. The figures before the Committee for the period up to 1970–71, which would be the mid-point in a military withdrawal to be completed by 1975, were £30 million for Singapore and £23 million for Malaysia, nearly half of which would not be required until 1970–71. It was proposed that our negotiators should initially indicate our readiness to provide up to £5 million less than these amounts in each case, but that they should have freedom to increase the offers to this extent if necessary. In addition there would be other forms of assistance (including the provision of inducements to British firms) and provisional authority was sought to commit up to £12 million for Singapore and £5 million for Malaysia on these. All these figures had been worked out after investigations in the two countries and some discussion with their Governments in relation to the existing timetable for withdrawal from the Far East. Negotiations were due to begin early in the New Year.

We now faced a new situation in that we might have to decide to accelerate our withdrawal from the Far East to make the necessary cuts in expenditure. For Singapore this would greatly worsen an employment prospect that was already extremely serious. For Malaysia it would mean breaking our Treaty commitments. When we came to take our decisions early in January, there would be very little time in which to consult with the two Governments and it was important therefore that the atmosphere for these consultations should be as favourable as possible.
Against this background the preponderant view in the Defence and Oversea Policy Committee had been that, whatever might have been true in relation to the existing withdrawal plans, the amounts of aid proposed were the smallest price that we could expect to pay if we wished to accelerate our withdrawal from the two countries and that the only reasonable prospect of obtaining the acquiescence of their Governments in a faster rundown lay in deciding now on these amounts of aid and on informing them quickly.

There had, however, been two minority views in the Committee. The first was that, despite the difficulties that would be involved in discriminating in our treatment between Malaysia and Singapore, we should take account of the fact that the former was much stronger economically and was faced with much less serious problems as a result of our withdrawal; we should not therefore commit ourselves as heavily to Malaysia as to Singapore. The other minority view was that, as a matter of principle, we should not decide this issue in advance of general decisions on savings and expenditure as a whole and in particular until we knew what we could afford. But the preponderant view had been that both the savings which we were looking for in our defence expenditure in the Far East and the safety of our troops might be put at risk if we did not approve now the amounts of aid proposed and communicate them to the Governments of Singapore and Malaysia before we had to tell them of our intention to withdraw even more quickly than they had hitherto been led to believe. If the Cabinet were to endorse this view, it was for consideration whether the decision should be passed to the Prime Minister, who would be meeting the Prime Minister of Singapore, Mr. Lee Kuan Yew, and the Deputy Prime Minister of Malaysia, Tun Razak, in Australia, on the occasion of the Memorial Service later that day for the late Prime Minister of Australia, Mr. Holt. This would enable the Prime Minister to communicate the decision to them, if he thought fit, at the same time as he gave them a general warning that we might accelerate our withdrawal from the area.

In discussion the view was expressed that, since we might have to inform the Governments of Singapore and Malaysia within a few weeks of our intention to withdraw our forces from their countries more rapidly than had been planned hitherto, it would be better as a matter of tactics to delay until then giving them any indication of the amounts and mitigatory aid that we had in mind. Otherwise we might find that the two Governments would be encouraged to ask for additional aid when they were informed that we planned to withdraw our forces more quickly. We should delay a decision on the aid to be given to Singapore and Malaysia until we could look at this in the light of the full programme of reductions in Government expenditure. The two countries had not been helpful to us in the context of the devaluation of sterling and had failed to give us any assurances about their future actions in this respect.

On the other hand it was argued that if we did not now offer aid on the scale proposed, the prospect for an orderly and safe withdrawal of our forces at the faster rate that might soon be decided...
upon would be seriously prejudiced. We had given the two Governments to understand that we would inform them, by about the end of the year, of the aid that we were prepared to offer in relation to the existing withdrawal plans up to 1970-71 in preparation for negotiations early in the New Year. We had broken our undertakings about defence commitments to these countries on two previous occasions and the fact that we might now intend to withdraw our forces more quickly had become known to them. If we could not give firm assurances about mitigatory aid, the forthcoming negotiations with Singapore and Malaysia, which would in any event be difficult, would become much more so. The task of withdrawing 35,000 servicemen, their wives and families and large quantities of military stores, was very large and complex; and stability in the two countries, together with the co-operation of the local governments, would be essential to its success. The Prime Minister would be having discussions with Lee Kuan Yew and Tun Razak, and there would be advantage in his being free, if he judged it necessary, to indicate the amounts of mitigatory aid that we had in mind. It would be important, however, that no indication should be given that we might be prepared to increase these amounts, since decisions on the aid that would be appropriate to a more rapid withdrawal of our forces would need to be worked out and considered against the background of our financial situation generally.

The Foreign Secretary, summing up the discussion, said that the balance of opinion in the Cabinet was in favour of the Prime Minister, if he judged it desirable, indicating in his discussions with the Prime Minister of Singapore and the Deputy Prime Minister of Malaysia that we were prepared to offer sums of the order of £25 million and £18 million respectively to their countries as mitigatory aid up to 1970-71. He would arrange for a message to be sent to the Prime Minister to this effect in the light of their discussion.

The Cabinet—

(1) Agreed that the Prime Minister should, if he judged it desirable to do so, indicate to the Governments of Singapore and Malaysia that we were prepared to make available as mitigatory aid up to 1970-71 sums of the order of £25 million for Singapore and £18 million for Malaysia.

(2) Took note that the Foreign Secretary would arrange for the Prime Minister to be informed of Conclusion (1).

6. The Cabinet considered a memorandum by the Minister of Power (C (67) 198) about the effects of devaluation on oil prices.

The Minister of Power said that immediately after devaluation the oil companies had informed his Department that their costs and the price of oil products would be affected. He had requested them to make no change in prices until the effects of devaluation had been
examined and a further review had been undertaken of the temporary surcharge on oil prices which had been introduced as a result of the war in the Middle East. It would be necessary to give the companies a decision within a month of their notification, in accordance with the early warning procedures for prices generally; the month would expire on 22nd December. Devaluation would affect the companies differently according to the foreign exchange content of their costs. It would not, however, be possible to set different prices for different companies. The average price increase which would be needed to offset the increase in costs due to devaluation worked out at 0·9d. a gallon or about £1 a ton. An increase of this amount would mean that many foreign companies would suffer by devaluation, whereas the companies that were mainly British-owned would gain and would have their competitive position strengthened. But an increase of £1 a ton would fairly reflect the effects of devaluation on the companies as a whole.

At the same time, however, it was necessary to review the level of the temporary surcharge which now stood at about £2 a ton. Again, the circumstances of the companies differed widely, but taking an average of the estimates for the main companies, in his view a lower surcharge of 27s. 6d. a ton would be justified to enable the companies to meet up to 31st March, 1968, the additional costs arising from disruption of Middle East supplies: this would be a decrease of 16s. from the present level. However, if a surcharge at this level was allowed in addition to an increase of £1 a ton because of devaluation, some increase in oil prices would be necessary. He had therefore considered whether a further reduction in the surcharge to £1 a ton could be imposed on the companies without undue risk to oil supplies. This was a matter of judgment, but he had concluded that, given the desirability of avoiding any increase in oil prices above their present levels, we should be justified in taking a calculated risk by insisting on this further reduction. This increase due to devaluation would then be balanced by the reduction in the surcharge and maximum prices would thus remain unchanged.

As regards the prices of particular oil products, there was the possibility of securing a small decrease in the price of oil fuel in order to benefit industry: it would be possible to balance a decrease of 0·25d. per gallon on fuel oil by an increase of 1d. per gallon on motor spirit. However, an increase in the price of motor spirit would be particularly undesirable at the present time from the point of view of the Government's prices policy and he therefore recommended that product prices should remain unchanged. If the Cabinet approved his proposals, it would be desirable to announce them before Christmas.

In discussion it was pointed out that the British Petroleum and Shell companies would be able to meet the increased costs due to devaluation by an increase of no more than 15s. a ton in the price of oil. These companies together accounted for 45 per cent of our supplies. It was wrong to concede an increase of £1 a ton simply in order to accommodate the remaining companies. The situation was closely parallel to the recent applications for increases in the
price of newsprint, where the Government had authorised for the whole industry only the lowest of the various bids for price increases put forward by individual companies; the same course should be followed in the present case. While the surcharge was a temporary arrangement, a concession on price to meet the increased costs due to devaluation would be permanent and could not be rescinded at a later stage. It should not be assumed that the proposals by the Minister of Power were satisfactory simply because they avoided an increase in oil prices; in view of the widespread increases in prices generally which must be expected following devaluation, it was essential to secure price reductions wherever possible. In any event the Government should insist on some reduction in the price of fuel oil, which was of particular importance in many sectors of industry and in agriculture, and should also require a reduction in the price of naphtha, balancing these reductions by an increase in the price of motor spirit. The right course, however, was to refer the matter to the National Board for Prices and Incomes (NBPI).

On the other hand it was argued that by insisting on a reduction of the surcharge to £1 a ton the Government would be putting the maximum degree of pressure on the oil companies compatible with the maintenance of our oil supplies; even on this basis, the companies would run down their stocks during the winter so that by March 1968 stocks were expected to be some 15 per cent below the normal level. While any attempt to secure a reduction in oil prices would not lead to the major companies withdrawing completely from the British market, they might well withhold co-operation in building up stocks and divert scarce products to more profitable outlets on the Continent. In particular, it would be most imprudent to insist on a decrease in the price of naphtha, of which there was already an acute shortage. Moreover, if the Government could not immediately reach a settlement with the oil companies, they would be in danger of losing control of the situation: the companies could not be prevented from changing prices where the relevant contracts contained devaluation clauses; they would also be free to withdraw rebates incorporated in present contracts as these began to run out from 1st January, 1968. It was therefore likely that to attempt at this stage to negotiate a reduction in oil prices with the companies would in practice lead to an increase in prices which the Government would be unable to prevent. There was a widespread public expectation that following devaluation oil prices would increase; if they could be held to their present level, this would be a satisfactory outcome. It would be inopportune to refer oil prices to the NBPI at present; but the position should be reviewed in the spring.

The Foreign Secretary, summing up, said that the Cabinet had been put in some difficulty by being obliged to consider this issue at short notice. With some reluctance, they agreed with the proposals by the Minister of Power that maximum oil prices and the prices of particular products should remain unchanged, with an increase of £1 a ton for increased costs following devaluation being offset by
Prices and Incomes Policy
Scottish Teachers' Salaries
(Previous Reference: CC (66) 2nd Conclusions, Minute 3)

The Cabinet agreed to this course on the understanding that oil prices would be reviewed in the spring with the object of securing the maximum possible reduction, taking full account of the points made in discussion about the size of the allowance for increased costs following devaluation.

The Cabinet—
Agreed, on the understanding referred to by the Foreign Secretary in his summing up, that maximum oil prices and the prices of the main oil products should remain unchanged, with a reduction of the surcharge to £1 a ton balanced by an increase of £1 a ton on account of devaluation.

7. The Cabinet considered a memorandum by the Secretary of State for Scotland (C (67) 201) on Scottish teachers' salaries.

The Secretary of State for Scotland said that the salaries of Scottish teachers were due to be revised with effect from 1st April, 1968. Negotiations with the teachers would begin in January. In response to the teachers' claim for an average increase of more than 20 per cent over a two-year period, he wished to offer an increase of 7½–8 per cent and to introduce in addition a scheme of inducement payments for understaffed areas, on lines already approved by the Cabinet, at a cost of about 0.75 per cent of the total salary bill. This would give an extra £100 per annum to the teachers in these areas who would number some 4,000 or one-tenth of the total number of Scottish teachers. These proposals had been discussed the previous day by the Ministerial Committee on Prices and Incomes which had decided, himself dissenting, that the maximum offer should be a 7 per cent average increase inclusive of the cost of the scheme for inducement payments. In his view such an offer would be impossible to justify and would inevitably have a most adverse effect on the Scottish teachers and on Scottish opinion generally.

The shortage of teachers was worse in Scotland than in England and Wales and the scheme for inducement payments was intended to meet this problem in areas such as Glasgow and Renfrewshire where the position was particularly bad. There was no justification for financing these payments at the expense of Scottish teachers outside these areas. Many Scottish teachers were paid on Scale 7 which ran from only £680 to £1,340 a year and was £120 lower at the starting point than the equivalent scale in England and Wales. The Scottish Scale 7 needed to be substantially improved and there could be no question of asking teachers on such low rates to contribute to the cost of the inducement scheme. It was most unlikely that it would even be possible to persuade the employers to make an offer on the basis proposed by the Ministerial Committee on Prices and Incomes. If it would enable agreement to be reached he would be prepared to agree to an offer of only 7 per cent exclusive
of the inducement scheme payments. This could perhaps be defended as being the same as the increase which English and Welsh teachers had received at arbitration earlier this year provided that the inducement scheme payments were additional. Anything less than this would make his position untenable.

The Chancellor of the Exchequer said that an offer of more than 7 per cent inclusive of the inducement scheme payments could not be justified. This would give the same percentage increase as the English and Welsh teachers had received in July 1967. It was true that the salary structures in Scotland differed from those in England and Wales and there were no doubt anomalies between them which might with advantage be looked at by the National Board for Prices and Incomes at a later stage; but these anomalies did not justify a pay increase higher than 7 per cent. The Ministerial Committee on Prices and Incomes had discussed a possible alternative offer of a 4 per cent pay increase over one year only. This would have the advantage of bringing the salary negotiations of the two countries into phase in April 1969. However, the Secretary of State for Scotland had not thought that this would be an acceptable alternative.

In discussion there was a wide measure of support for the conclusions reached by the Ministerial Committee on Prices and Incomes. It was suggested, however, that Scottish interests had recently suffered some setbacks, for example over decisions of regional policy, and that there was some substance in the belief that the Government's incomes policy had on occasion operated in a way which seemed to discriminate against Scotland. These considerations might be held to justify some concession to Scottish opinion in this case. It was also pointed out that if the claim went to arbitration, the award might exceed the offer favoured by the Secretary of State for Scotland. In that event, however, it might be necessary for the Secretary of State for Scotland to refuse to approve it. Since a reference to arbitration appeared probable it would be advisable to make an open offer below the agreed maximum offer in order not to inflate the lower limit of any arbitration award.

The Foreign Secretary, summing up the discussion, said that a decisive majority agreed with the conclusions reached by the Ministerial Committee on Prices and Incomes on the pay of Scottish teachers.

The Cabinet—

Endorsed the decision of the Ministerial Committee on Prices and Incomes that Scottish teachers should be offered a pay increase of 7 per cent over a two-year period from 1st April, 1968, inclusive of payments under the proposed inducement scheme.

Cabinet Office, S.W.1,
22nd December, 1967.