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8th July, 1966

CABINET

EXPORTS AND IMPORT SUBSTITUTION

Memorandum by the President of the Board of Trade

Introduction

Over the past decade, exports have grown by about 3 per cent a year in volume and imports by 4\% per cent. But exports prices have risen markedly in relation to import prices, and, while in the mid-1950s exports paid for something less than 90 per cent of our imports, in 1965 the proportion had risen to 95 per cent. (Before the war it was only two-thirds). In the last two years, however, with the rise in world commodity prices the terms of trade have moved against us, and though there may be changes from year to year we cannot count on a return to the favourable trend of the fifties. At the same time the demand for imports, particularly of manufactured goods, has remained strong, despite the restraining effect of the temporary import charge which will be removed in November. For these reasons it seems unlikely that the growth of exports will be such as to pay for an increasing proportion of our import requirements.

Import Saving

2. A contribution can be made to the solution of the problem presented by this situation through saving imports by competitive manufacture in this country.

3. Where there are Economic Development Committees (EDCs) for individual industries, work on import saving has in the first place been channelled through them. The EDCs have so far concentrated in this field on identifying the possibilities for competitive manufacture in the United Kingdom and on bringing users and makers together to facilitate the exploitation of these possibilities. This approach has been carried furthest in the engineering (particularly the mechanical engineering) field. Contacts have been established, for example, between the makers and users of chemical plant (the domestic shortage of manufacturing capacity in this field has been one of the main reasons for the increase in imports of chemicals). Similar discussions are also going on in connection with chocolate machinery, paper-making machinery, wool textiles and electrical equipment.
4. Outside the field covered by the EDCs, in raw materials there is not a great deal of scope for import saving, though North Sea natural gas may prove to be a notable exception. There may also be some scope for saving through the greater reclamation of scrap, e.g. paper and rubber. Our imports of timber and pulp cost us some £360 million last year and we could grow more at home, but any savings from this would be very slow to accrue. An Official Committee reported at the end of last year that a general increase in the domestic planting programme was not justifiable because of the relatively low return it would produce, but Norwegian experience suggests that this conclusion may need to be reviewed.

5. In the case of cameras, for example, prolonged attempts to establish a viable British industry have been largely unsuccessful, and attempts to establish a watch industry have been successful only for the cheaper type of product. The reorganisation of cotton textile production which the Government have stimulated has already produced a stronger and more competitive industry but there is still a long way to go, and imports from low cost producers are being restricted by quotas until 1970.

6. Work on import saving will be pressed forward through the EDCs and directly by the Government, but most of it will take time to show results. And so long as our exports are being held back, as I believe they are, by pressure of demand at home, we must be careful that encouragement to manufacture for the home market does not reduce our ability to maintain and expand our exports.

Exports

7. Our recent export performance has been encouraging (see Annex for details). Last year our exports were 7 per cent greater in value than in 1964, and in the first five months of this year they were 5½ per cent greater than in 1965, though the rate of increase seems to be flattening. But the prospects for world trade are not unfavourable, and we think that it should be possible to maintain an increase of not far short of 7 per cent this year and next, provided that demand in our principal markets remains as buoyant as at present seems likely. Nevertheless our share of world trade in manufactures continues to fall, and this is only partly because some of our principal industrial competitors are growing in population and economic strength more rapidly than we are.

8. Exports to North America, and particularly to the United States, accounted for nearly one-third of the total rise in United Kingdom exports last year, but the rate of growth has dropped back recently. In the Sterling Area too exports did well last year, but here again in recent months there has been some weakness in shipments to South Africa and Australia whose economies are under pressure. Our exports are benefitting from the recovery in France and Italy while exports to European Free Trade Association countries and to other markets in Western Europe are continuing to show strong growth.
9. World demand for engineering products has been at a high level over the past decade and the adaptability of United Kingdom exporters is reflected in the fact that the proportion of our exports accounted for by engineering products has risen from 37 per cent in 1954 to over 44 per cent last year. In this important field price is often not the vital determinant. Quality and delivery are at least as important.

10. In assessing the outlook for exports the main factor is that we expect continued buoyant demand from the United States. In Europe the recovery in France and Italy, and the German Off-Set Agreement should help. Sterling Area demand should remain satisfactory.

11. Given that we can reasonably expect overseas demand to remain buoyant for the next year or two, and that our exports have been doing well, what further steps can we take to ensure that the opportunities which exist for doing even better are fully exploited? The most important and that which will yield the quickest results is to enable those firms which are already in the export business to take orders which they have to turn away because of lack of capacity or skilled labour, or lose because their delivery dates are too long. This means continued restraint on the pressure of home demand. Without this, all other measures will remain ineffective, because the goods for export will simply not be there.

12. In the past eighteen months, as my colleagues know, a succession of measures has been announced for helping exporters in a great variety of ways. The British National Export Council and its area committees have been built up and are working actively to encourage exports to all areas of the world, using the methods which seem best suited to the markets with which each is concerned. The Board of Trade’s own expenditure on support for trade fairs, inward and outward missions, co-operative market research and similar ventures has more than doubled in the last two years. Substantial improvements have been made in the terms offered by the Export Credits Guarantee Department and their premiums have been reduced. The export rebate has provided welcome assistance. An Overseas Engineering Services Bureau has been set up with Government support to help our consultants to gain business abroad. We have arranged major export promotion exercises involving visits to hundreds of firms by overseas Commercial Officers to acquaint them in detail with export opportunities in the USA, Australia and Canada, and one is now in progress for Germany. The whole field of education for export is under review, and research is being undertaken into the practice of firms in costing sales for export. Some of this work has already shown results: much of it will only bear fruit in the coming months and years. Other projects are being examined, in particular forms of organisation for facilitating exports by smaller firms and those without export experience.

13. We intend to press on with these and other measures, improving and extending them in the light of experience, and continuing the search for new ways of helping existing exporters and encouraging new ones. But we shall always depend for the major part of any increase on a few hundred firms of established exporters, and our main effort must be directed to creating conditions in which they can do still more.
Summary of Conclusions

14. The conclusions of this paper may be summarised as follows:—

(a) The performance of our exports since the beginning of 1965 has been good and the prospects for the next 18 months are that it will continue so.

(b) The turning against us of the terms of trade will, however, mean that the rise in value of our exports will hardly even keep pace with imports.

(c) Development of home manufacture to replace imports can make a useful contribution to dealing with this situation, but will not produce quick results. Work on this is proceeding mainly through the EDCs (paragraphs 3-6).

(d) There is room for further improvement in exports. The main limiting factor at present is lack of available goods due to the pressure on productive capacity and skilled labour, rather than uncompetitive prices or poor salesmanship.

(e) The essential condition for a greater increase of exports in the immediate future is therefore adequate control of home demand. This would also help, perhaps more quickly, by reducing imports.

(f) A large number of measures are being taken to help exporters and to improve the Government's services to them. These are already showing some results and should in time achieve more. (paragraphs 12-13).

D. P. T. J.

Board of Trade, S. W. 1.

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<tr>
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<td>+7</td>
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<td>EFTA</td>
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<tr>
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<tr>
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<tr>
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<tr>
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<tr>
<td>Other exports</td>
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<tr>
<td>Total exports</td>
<td>+5</td>
<td>+7</td>
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2. My first thoughts about this task lead me towards the development of certain clear themes.

(i) A determined effort to raise the general level of efficiency in industry. Some of this will have to await the development of long-term policies. The immediate job is to improve the utilisation of what we now have available.

(ii) This means, in the short run, the overall improvement of management. It is hard to escape the conclusion that production and productivity could be more rapidly raised over the whole range of British industry by securing the adoption of more effective management methods than in any other way.

(iii) One aspect of this is the encouragement of a greater understanding by management of the economics of re-equipment. Much plant purchase and replacement is known to be done on a random basis.

(iv) Another aspect is the development of relevant management statistics in industry to relate work flow to labour force. Unless this is done, management cannot even identify some of the more important changes in labour practice which they need the unions to accept if productivity is to be raised.

(v) It is only when there is efficient management that genuine pay and productivity agreements can be reached with the unions. Strong management is needed if restrictive practices are to be eliminated.

3. To gain these immediate objectives the Department must extend its advisory and consultancy services. The range of expert advice which they are in a position to give must be widened and their approach to their task may need to be more radical.

4. These services must also be made the agents for feeding back to us information about the development of good management practices which can then provide us with better criteria by which to judge the success of our efforts and used to narrow the gap between progressive and backward firms.
CABINET

PRODUCTIVITY

Memorandum by the Minister of Technology

Most of the work of my Department is aimed at increasing productivity. The Appendix describes some of the things that have been done and others which seem important.

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4. These services must also be made the agents for feeding back to us information about the development of good management practices which can then provide us with better criteria by which to judge the success of our efforts and used to narrow the gap between progressive and backward firms.
5. If this exercise is to be successful, we shall have to devote more attention to the problem of communications. Personal contact with firms needs to be strengthened and a far wider understanding of what my Department is doing and why must be encouraged. Mass communication should not be ruled out even if the message reaches people for whom it is not specifically intended. A better understanding by the public of the importance of technology and a raising of its status in the public mind may be a useful by-product of this.

6. These are short-term measures and in the mid and long-term the Department's efforts must be directed in the following directions:

   (i) Stimulating the production of new and more labour-saving processes.
   (ii) Developing British standards, aligning them with international metric standards and insisting on their use for public procurement.
   (iii) Making a better use of the Government Research and Development resources including rationalisation and any advisable redeployment.
   (iv) Helping to reorganise the structure of the engineering industries.
   (v) Increasing the supply and making better use of qualified engineers in engineering design and production.

7. If these priorities and themes seem right, we should perhaps incorporate them into our campaign on productivity starting in the autumn.

   A.W.B.

Ministry of Technology, S.W.1.
7th July, 1966
1. In 1965 the engineering industries contributed 15 per cent to the gross national product and 44 per cent of total exports. They employed 17 per cent of the labour force. An increase in output of 4 per cent and of exports of 15 per cent between first quarter 1965 and first quarter 1966 was accompanied by an increase in employment of 1.5 per cent. An analysis of hours worked shows that output per man hour increased by 5 per cent while output per person employed increased by only 3 per cent. These figures (which are not seasonally adjusted) cover the whole of the engineering industry, including aircraft and shipbuilding and are shown in more detail in the Annex.

2. The available figures indicate an all too slow rate of increase in productivity in the engineering sector. It is in this sector that the application of advanced technology and improved productivity can make the biggest contribution to economic growth. The engineering industry not only supplies the bulk of exports and a large number of the goods (motor cars, television sets, refrigerators and the like) on which people spend their incomes after their basic needs are satisfied, but they also supply the plant, machinery, instruments and vehicles on which improvements in the productivity of all other industries largely depend.

Man-power

3. It is generally recognised that claims for reductions in standard hours are at least in part a device for achieving higher incomes and are not usually followed by a corresponding reduction in actual hours worked. However the figures quoted in paragraph 1 above, and in the Annex, suggest that there is a trend towards choosing increased leisure and that the total of hours worked is tending to decline. In a sector of industry where labour, and particularly skilled and qualified labour, is the scarcest resource, there is room for further study of the planned use of overtime. Much emphasis is now being given to man-power planning and this aspect should not be ignored.

4. On other aspects of man-power planning in engineering, the Engineering Industries Training Board has got down to its tasks with commendable speed and thoroughness. The rapidly changing structure of employment required in industries where technological change is, or should be, taking place rapidly presents problems of education and training at all levels. In the mechanical engineering industries probably too much emphasis is placed by employers on requirements for, and shortages of, skilled labour and in some, e.g. machine tools, a good deal of de-skilling could take place with advantages to both the volume of production and to costs. The trial period scheme for numerically controlled machine tools being run for us by the National Research Development Corporation (NRDC) can be seen as a contribution to progress in this direction.

5. We are also making arrangements to buy pre-production models of advanced machine tools to assist their early introduction into manufacture and to obtain user evaluation. I hope we can extend this type of arrangement to other types of advanced machinery and even to complete plants. We need to do much more to encourage the changeover from labour intensive methods to capital intensive and to improve the capital/output ratio. The new Investment Grants Scheme I believe will help but it is not a substitute for demonstration. British managements seem particularly reluctant to introduce methods unless they can be proved to work; they wait for someone else to be first.
6. My Ministry keeps in close touch with the Engineering Industries Training Board and with the Ministry of Labour on matters relating to training and employment of skilled workers, but our more direct concern is with requirements for qualified engineers and scientists and engineering technicians. The studies which are being conducted under the auspices of the Committee on Man-power Resources for Science and Technology, (which reports to me and the Secretary of State for Education and Science) provide a much better basis for assessing and planning our future requirements in this field. These studies and our own of particular industries continually bring to our attention the serious shortage of engineers, particularly of highly qualified and gifted engineers, in the design and production departments of engineering firms. Both education and publicity have a part to play in attracting more of the able young people to the engineering profession and we are sponsoring or assisting in a variety of activities in this field.

7. We are considering to what extent the large numbers of highly qualified engineers in Government establishments and the United Kingdom Atomic Energy Authority (UKAEA) should be re-deployed. The foreseen reductions in the design teams required in the aircraft industry could also help to ease the shortage elsewhere.

8. We intend to pursue in other industries the detailed studies of the requirements for particular qualifications which we have already carried out with the makers and users of computers. For computer staff we have established permanent arrangements with the firms concerned to keep requirements under review and the Department of Education and Science have formed a Committee on the provision on courses to meet the identified needs of industry.

Management

9. The more economic and productive use of man-power depends above all else on the improvement of management. This of course is general to all industry and much has already been done through the National Economic Development Council (NEDC) and Economic Development Committees (EDCs) to encourage better management practice and to disseminate knowledge of management techniques. The need to strengthen management is now generally recognised as a problem and management education is increasing. Nevertheless, the application of new practices and techniques has to be carried out in the peculiar circumstances of each individual firm. I have been impressed by the valuable services which can be rendered through the employment of management consultants. Even where younger managers have received some training it is often difficult for them to apply in the environment of their own firms measures which they know in theory to be right. The introduction of outside consultants not only enables proper analyses of the problems to be made, but shifts the responsibility for solutions on to an "outside expert". The psychological advantages of this are important. I believe there may be a case for a crash programme to provide the services of management consultants more widely. I have in mind that we should offer to contribute to the costs of employing consultants to companies in selected industries; the condition of such help would be that the consultants' reports would be available to the Ministry as well as to the companies concerned. In conjunction with such a scheme we might consider the systematic use of television to show the basic principles together with an account of what has been done in particular industrial situations - the identity of the cases would of course not be disclosed. I proposed that we should discuss this idea with the Management Consultants' Association. This itself would stimulate a demand for management services and also for the kind of advisory services provided by my Ministry.
Advisory Services

10. The Ministry's nine regional offices are now playing a constructive part in the work of the Regional Economic Planning Boards and Planning Councils. The staff are all technologically qualified and have been recruited to encourage industry to make more effective use of resources for technological advice and assistance (including Research Establishments, Research Associations and NRDG). In addition forty industrial liaison officers have been appointed and this number is to be increased to seventy by the end of the year. These officers are generally based on technical colleges and their task is to make contacts with individual companies in their localities and to put them in touch, either direct or through the Regional Offices, with the services (including consultants) which can assist them with their technical problems. Closely linked with this regional and local network is the Production Engineering Advisory Service which is being organised by the Production Engineering Research Association. This will operate through a number of mobile units based on the regional offices and provide advice on production problems and demonstrations which can be brought right into the factories and workshops. My Department's direct expenditure on these services which is at present less than £4 million a year, will need to be greatly expanded. By comparison, the National Agricultural Advisory Service costs about £4½ million for an industry only about a fifth of the size of engineering.

Standards

11. Standards nationally or preferably internationally agreed represent the codification of technology. To the extent that they embody the best technology available and are generally used in production they can make a very large contribution to productivity through the elimination of non-standard products and the concentration of manufacturing resources on larger production runs and also through the greater interchangeability of parts and components. My Department now has general responsibility for the British Standards Institution (BSI) whose work has always been very largely in the engineering field. The grant to the Institution has been increased to enable it to recruit more staff. In every way we are encouraging the BSI to widen the range of British Standards, to revise obsolescent standards and to accelerate the production of the new series of British Metric Standards aligned with international and particularly with European standards. Through the Research Stations and the Research Associations, we are represented on over 1,000 BSI Committees.

12. We have set up a joint Committee with Management, Trades Union and Government representatives to review and advise on measures to encourage the adoption of the metric system. The advantages of a comprehensive range of metric and other standards aligned to international (International Standards Organisation) standards to our export trade are very great indeed and the Government's initiative in this direction has been widely welcomed. We have recently subscribed to the undertaking of the European Free Trade Association (EFTA) Governments to push ahead with the alignment of national standards to those internationally agreed which in practice means adoption of European standards. The European Economic Community (EEC) countries are the pace-setters in this field and some 80 per cent of international standards have been generated by these countries. The EFTA undertaking includes the undertaking to use international standards in public procurement.
13. We are supporting the work on standards by organising independent calibration, testing, evaluation and certification services. The British Calibration Service which has been set up in collaboration with the Confederation of British Industries (CBI) provides industry with facilities for calibrating measuring instruments and other test equipment against national and international standards so that accuracy can be authenticated and certified. A very large number of industrial and Government laboratories are being brought into the Service as "approved" laboratories for testing and calibration and for the issue of certificates on behalf of the Service. The instrument evaluation services of the Scientific Instrument Research Association and of the BSI itself are being extended. We are also discussing with industry the introduction of quality control and certification schemes for castings and cables. We believe that public procurement should be used to support approved schemes of this type.

Government Procurement

14. It is recognised that public procurement is potentially a powerful instrument for the encouragement of the application of advanced technology and for this reason my Ministry was given the task of seeing how this instrument could be used to better advantage. The single most important use of Government procurement to stimulate productivity is the insistence on the use of British Standards and of internationally aligned standards where they exist. All purchasing Departments are now co-operating in reviewing their purchasing policies from this point of view and I can only say that I believe progress is being made but that we still have a long way to go. Many Departments have traditionally developed their own special standards and product specifications differing from each other and from those used in industry or for exports and much still needs to be done to break down this anarchy. For example, last year the specifications of 233 items in Hospital Equipment Notes issued by the Ministry of Health made no reference to the appropriate British Standards. Neither Board of Trade nor Service life jackets are made to the British Standard. Most screws and fasteners in Post Office equipment are non-standard. Most paper used in Government is still non-standard. Although there is a British Standard for lifts, it is widely ignored by Local Authorities. In many fields, particularly those of interest to Defence Departments, there are as yet no British Standards and these Departments can contribute to the generation of new standards where they are badly needed.

15. The co-ordination of purchasing policies can be used in other ways to stimulate productivity. We are already trying to co-ordinate Government and educational requirements for instruments with the aim of placing larger orders for types in wide use and so giving manufacturers the chance to organise production for larger runs. The activity can also help to reduce imports and to encourage the concentration of an industry which is fragmented into units too small to support adequate design, research and marketing services.

Structure of the Engineering Industries

16. The Ministry found as it began the study the problems of increasing productivity and efficiency in the engineering industries that in nearly every case the potential improvements were inhibited by the structure of the industry. Very early on the need for a body like the Industrial Reorganisation Corporation (IRC) became evident. In the sector of industry which more than any other large sector is competing in the world market...
and on which we depend to increase its share of that market, we need to concentrate resources into powerful units. This applies particularly to industries heavily dependent on technology where the costs of adequate research, development and design are heavy and can only be supported by large scale production. Equally, larger production units are necessary if full advantage is to be taken of modern production techniques. It is agreed that the IRC will give priority to the structural problems of the engineering industries and we are ready with a number of proposals for consideration.

Electrical Machinery

17. This industry is being intensively studied by its EDC and all the evidence suggests that production is increasing only very slowly and that there are too many manufacturers of many items of plant such as motors, meters, transformers and switchgear as well as some domestic appliances. In this field there is room for greater standardisation and concentration.

Electronics

18. We have given much attention to the rapidly expanding and changing components sector of this industry. Integrated circuits are replacing discrete components in many applications and we believe that the opportunity exists, given more effective deployment of research and development resources, to build an industry on British technology capable of competing with the Americans who at present have the lead in the production of these new circuits. We are also examining the structure of the sector producing industrial process measuring and control instruments which are the basis of automation systems. Some rationalisation would probably be advantageous here and also closer links with the designers of the plant in which the systems are to be used.

19. Other industries which we think are priority candidates for reorganisation are contractors' plant and mechanical handling equipment, machine tools and the chemical plant industries because of their vital importance for technological progress in other large industries.

Computers

20. When the Ministry was founded it concentrated attention on computers for two main reasons: the wider use of computers could make an enormous contribution to raising productivity in almost every industry and there was an imminent danger that the British computer manufacturers would either go out of business or be taken over by American interests (as has happened in France). This is the only field in which the Ministry can claim to have achieved already one of its main objectives. ICT Ltd., owing to the timely help we were able to provide through the NRDC has survived, and its latest results show that both its production and its earnings have very significantly increased. It is we believe gaining ground from its main competitor, IBM in the home market and in some foreign markets.

21. The production of computers for commercial data processing is now concentrated in the hands of two groups, ICT and English Electric-Leo-Marconi. We believe that to strengthen our international position there is need for a further merger of at least some of the activities of these two groups. IRC may be able to help.
22. We have now established and greatly strengthened the Computer Advisory Service within the Ministry. This is now able to advise and assist all public sector computer users in addition to its traditional function of advising the Treasury on central government purchases. We have also laid the foundations of the National Computing Centre which will provide computer users throughout industry and Government with information about programmes already available and will sponsor the development of new general programmes and reduce wasteful duplication of programming resources. The Centre will also provide and encourage training in systems analysis and programming techniques and will promote research.

23. Both directly and through NRDC we are supporting research and development of advanced computer techniques and the application of computers to industrial operations and processes and to engineering design.

Automation

24. The greatest potential benefits to productivity are those to be derived from the application of automation to manufacturing processes. Automation is usually associated with the application of electronic techniques and more particularly with electronic computing, data recording and transmission techniques. The basic techniques exist and the problem is not whether they can be applied, but the rate at which they can be introduced. We foresee an increasing demand for complete, automatically controlled and operated plants for export. If we are to exploit this demand it is necessary that we should be able to demonstrate automatic operation in our own industries. For these two reasons (productivity of domestic industry and exports) it is necessary that we should increase the rate of progress. NRDC is already examining the number of major projects for industrial process control systems. Contracts have been let to Elliott Automation Ltd. We are supporting the Industrial Automation Group of the Research Association to study the requirements for automation in their industries and for the Scientific Instrument Research Association to develop the basis instrumentation. The Ministry is also organizing a national campaign styled "Approaching Automation" starting this Autumn to demonstrate the benefits of "low cost automation" - i.e. relatively cheap devices which can be used in conjunction with existing machines and processes to save labour, improve quality and reduce costs.

25. We do not regard "saving the computer industry" as an end in itself but as a central part of a policy to regain and hold the initiative for technological advance in industrial automation. This will provide the focus for many of our activities involving standardization, engineering design, electronic techniques, our support for research and development and our interests in training and education.

Statistics

26. While it is too soon to expect the Ministry of Technology's new policies directed to increasing productivity and to applying new technology to show up in industry-wide figures of output and exports, I am much troubled by the inadequacy of statistics on which to base accurate assessments of productivity and changes in productivity between one industry and another, and between parts of the same industry. Net output per person employed is accepted as a useful indicator of productivity, but comprehensive statistics of net output are at present provided only by the Censuses of Production. The full results of
the 1963 Census of Production (the latest taken) are not yet available and calculations still have to be based on the 1958 Census. Efforts are being made to remedy this situation through improvement in the short-term statistics collected by my Ministry on a voluntary basis, but considerable work remains to be done before more sensitive indicators of the effects of particular policies on particular industries can be devised.

27. Differences in productivity as measured by net output per head are closely associated with differences in the amount of capital invested per worker and of course with the nature and quality of this investment. In both 1964 and 1965 investment was at a high rate. It is too soon to measure the effect of this investment on output and productivity. Much, however, needs to be done to improve information on the quality of investment and the extent to which plant and machinery is replaced by new items of the same design, or by new types incorporating technological advances.

28. The best source of information on the productivity of capital and labour taken together is provided by company accounts. The proposals contained in the Companies Bill, introduced into the last Parliament, on disclosure of information would make company reports and accounts a much more useful and important source of information on productivity and the efficient deployment of resources. In particular the requirement that separate information should be given about turnover from substantially differing activities and about profit or loss on each would add substantially to information on industrial efficiency. However, given the exigencies of the Parliamentary timetable it is unlikely that the proposed legislation can bear upon the production of company accounts for several years. I suggest we might consider whether an appeal could not be made now, possibly at the National Productivity Conference, to companies voluntarily to draw up their accounts in the manner proposed in the Bill.
## TABLE 1.

### Index of Production in the Engineering Industries* and Contribution to Gross National Product

<table>
<thead>
<tr>
<th>Year</th>
<th>Index of Production 1950 = 100</th>
<th>Contribution to Gross National Product (%)</th>
<th>Engineering as Percentage of All Mfg. Ind.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Engineering</td>
<td>All Mfg.</td>
<td>Engineering</td>
</tr>
<tr>
<td>1963</td>
<td>119</td>
<td>120</td>
<td>13%</td>
</tr>
<tr>
<td>1964</td>
<td>128</td>
<td>130</td>
<td>14%</td>
</tr>
<tr>
<td>1965</td>
<td>133</td>
<td>134</td>
<td>14%</td>
</tr>
</tbody>
</table>

* S. I. C. Orders VI to IX (Mechanical and Electrical Engineering, Shipbuilding and Marine Engineering, Vehicles and Aircraft, Miscellaneous Metal Goods)

## TABLE 2.

### Exports of the Engineering Industries as % Total

<table>
<thead>
<tr>
<th>Year</th>
<th>Engineering Products</th>
<th>Total Exports</th>
<th>Engineering as % of Total</th>
<th>Change in volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>1,919</td>
<td>4,411</td>
<td>43%</td>
<td>(+6%%)</td>
</tr>
<tr>
<td>1965</td>
<td>2,086</td>
<td>4,724</td>
<td>44%</td>
<td>(+13%%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>January to May 1965</th>
<th>1966</th>
<th>Engineering Products</th>
<th>Total Exports</th>
<th>Engineering as % of Total</th>
<th>Change in volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>855</td>
<td>970</td>
<td>1,919</td>
<td>4,411</td>
<td>43%</td>
<td>(+6%)</td>
</tr>
<tr>
<td></td>
<td>(113%)</td>
<td>(+15%)</td>
<td>(8%)</td>
<td>(+7%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>1,926</td>
<td>2,091</td>
<td>2,086</td>
<td>4,724</td>
<td>44%</td>
<td>(+13%)</td>
</tr>
<tr>
<td></td>
<td>(+6%)</td>
<td>(+4%)</td>
<td>(+8%)</td>
<td>(+7%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

+ Section 7 (Machinery and Transport Equipment) plus Div. 86 (Instruments, etc.).
++ January to March only.
### Table 3

**Employment in the Engineering Industries* in G.B.**

(1000 s)

<table>
<thead>
<tr>
<th></th>
<th>June 1964</th>
<th>June 1965</th>
<th>December 1965</th>
<th>March 1966</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering</td>
<td>3,831</td>
<td>3,915</td>
<td>3,982</td>
<td>3,963</td>
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<tr>
<td>(% change)</td>
<td>+2%</td>
<td>+1%</td>
<td>-1%</td>
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<tr>
<td>All Manufacturing</td>
<td>8,731</td>
<td>8,047</td>
<td>8,964</td>
<td>8,875</td>
</tr>
<tr>
<td>(% change)</td>
<td>+1%</td>
<td>+1%</td>
<td>-1%</td>
<td></td>
</tr>
<tr>
<td>(% change)</td>
<td>+1%</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

| Engineering as % of | | | | |
|---------------------| | | | |
| All Mfg.            | 44\%     | 44\%      | 44\%          | 44\%       |
| Total Empl.         | 16\%     | 17\%      | N. a.         | N. a.      |

*Orders VI to IX (As Table 1)*

† Excluding Self-employed and H. M. Forces.
# Changes in Output, Employment, Hours Worked and Productivity in the Main Sectors of Engineering Industry, 1st Quarter 1965 to 1st Quarter 1966

<table>
<thead>
<tr>
<th>Sector</th>
<th>Output</th>
<th>Employment</th>
<th>Output per man</th>
<th>Hours Worked</th>
<th>Output per Man/Hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>VI Mechanical &amp; Electrical</td>
<td>+5.0</td>
<td>+2.7</td>
<td>+3.0</td>
<td></td>
<td>+4.2</td>
</tr>
<tr>
<td>Engineering</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VII Shipbuilding &amp; Marine</td>
<td>-2.9</td>
<td>-3.5</td>
<td>+0.6</td>
<td>-1.7*</td>
<td>+2.3</td>
</tr>
<tr>
<td>Engineering</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IX Other Metal Goods</td>
<td>-2.7</td>
<td>+1.1</td>
<td>-3.8</td>
<td></td>
<td>-2.1</td>
</tr>
<tr>
<td>VIII Vehicles &amp; Aircraft</td>
<td>+5.0</td>
<td>-0.8</td>
<td>+5.8</td>
<td>-3.0</td>
<td>+9.1</td>
</tr>
<tr>
<td>IX-IX All Engineering</td>
<td>+4.2</td>
<td>+1.3</td>
<td>+2.9</td>
<td>-2.0</td>
<td>+5.0</td>
</tr>
</tbody>
</table>

* In the absence of separate figures of hours worked in these three sectors each has been assumed to have the same average change in hours worked. This is probably true of Mechanical and Electrical Engineering but the change could be considerably different for the two smaller sectors.
CABINET

THE ECONOMIC SITUATION

Memorandum by the Chancellor of the Exchequer

Background

When we came into office in October, 1964, our first task was to deal with a balance of payments deficit that had been allowed by our predecessors to grow to massive proportions. We could have resorted to a sharp deflation, just as the Conservatives did in the balance of payments crises of the fifties and early sixties. But the cost, in terms of the extra unemployment that would have been created and the blow that would have struck at industry's confidence and hence at its will to expand and modernise (to the future disadvantage of the balance of payments), would have been heavy and quite contrary to our electoral mandate.

2. It was therefore necessary for us to find an alternative strategy. The strategy that we chose did in fact embody as one of its elements the curtailment of internal demand, by means of monetary and fiscal restraints, in order to induce a shift of resources into export production; but for the sake of preventing damage both to productive investment and to the level of employment, this line of policy has been pressed moderately and, to the extent possible, selectively. To promote the recovery of the balance of payments we relied to a large extent on measures which would save or earn foreign currency directly and on a comprehensive programme for accelerating the rate of productivity growth and for moderating the rate of increase in money incomes. We recognised, of course, that this approach would take time to show results; but I hoped that the deficit could be eradicated within a period of about two years, that is, by the end of 1966, and accordingly that it would not be imprudent to enter into large-scale international borrowing to finance the deficit in the interim.

3. In conformity with this strategy, the measures that we announced in the final quarter of 1964 embraced both direct action on the external balance (the temporary import charge and the export rebate) and - to offset the effect on demand of these steps and of the improvement in social benefits that we announced concurrently - some general fiscal and monetary restrictions (increased income tax, increased duties on petrol and oil and a request to the banks to restrain the growth of their lending). At this time we took the view that there was no undue pressure of demand on resources. But during the spring and summer of last year it became apparent that the expansionary forces at work in the economy were stronger than had earlier been supposed. Hence in the April Budget of 1965 I increased indirect taxes and shortly
afterwards imposed a ceiling on bank advances. In July we cut back certain public investment projects, foreshadowed the introduction of building licensing, restricted hire purchase and further tightened Exchange Control. Earlier in the year we had announced our programme for restraining the year-to-year advance of public expenditure.

4. By the end of last year it was plain that our policies had achieved a considerable measure of success. In the first place, the balance of payments deficit, at some £350 million over the year as a whole, was less than half what it had been in 1964, (although a considerable improvement was expected to take place in any event). While the improvement was partly the result of the temporary import charge and of the cutting down of the capital outflow, it also reflected an export performance appreciably better than on average over the preceding decade. We achieved a much needed shift in the use of our resources. Comparing the second half of 1965 with a year earlier, consumer spending in real terms was up only 1 per cent, whereas exports (of goods and services) were up 6 per cent; and - as we had hoped and intended - manufacturing investment remained at a high level.

5. However, it was also evident by the end of last year that while our policies had brought about a better use of resources they had still left the pressure on resources at an uncomfortably high level. The rate of unemployment, which broadly measures this pressure, remained very low throughout the year at under 1\(\frac{1}{2}\) per cent. Part of the explanation is that although the rate of increase in demand and activity was successfully moderated last year, the rate of increase in the capacity of the economy also appears to have slowed down significantly because of the cut in working hours associated with the widespread move to a forty-hour week.

6. The extreme tightness of the labour market was undoubtedly one of the main reasons for the continuance of a very rapid increase in wage and salary earnings last year - an increase which must have brought a sharp increase in unit labour costs in manufacturing industry at a time when an improvement in the United Kingdom's cost position relative to its competitors is urgently needed.

The Present Situation

7. This year there has been a halt to our progress towards easing the strain on resources and improving the balance of payments.

8. There was a substantial rise in national expenditure in the first quarter of the year. This was largely, though not entirely, the result of a very rapid increase in consumers' expenditure; this rise by over 2 per cent between the fourth quarter of 1965 and the first quarter of 1966 compared with an average rate of increase of 3 per cent a year between 1961 and 1965. The bulk of the rise in consumers' expenditure represented increased expenditure on cars and alcoholic drink and my interpretation had been that the increase in spending was in anticipation of increases in tax on these items in the Budget and would be subsequently reversed. Partly, no doubt, as a result of this sharp rise in demand the value of imports increased by 3\(\frac{1}{2}\) per cent between the fourth and first quarters. The rise in activity also helps to explain why unemployment continued to fall early in the year.
Later evidence suggests that pre-Budget expenditure will not be reversed as much as had been expected. In the first half of this year the volume of consumers' expenditure may well turn out to have been 2 to 3 per cent higher than a year earlier, despite the series of measures taken to restrain the growth of consumer demand – the 1965 Budget and two rounds of hire purchase restrictions – over the past 12 months. Imports have not fallen back from the first quarter level. Part of the explanation of the recent high import figures lies in special factors including a sharp rise in import prices; but the volume of imports has risen too and the share of national expenditure met by imports has risen faster than usual.

As is usual in periods of high pressure of demand, wages have continued to rise rapidly and current new settlements continue to allow for substantial increases in basic hourly rates. Some but not all of the increase in consumer purchasing power will be offset from the autumn onwards by the Selective Employment Tax and by the restraints on bank and hire purchase credit. As a result of the recent substantial increases in wage costs and in addition higher import prices and the SET, retail prices can be expected to continue rising at a considerable rate of 3\% to 4 per cent per annum.

The development of the balance of payments so far this year has not been encouraging. The deficit in the first quarter of this year was £99 million. We know from experience that the position fluctuates from quarter to quarter. Even so, a discomforting feature is the tendency for the trade deficit to increase again. In March/May it averaged £24 million a month against a monthly rate of £22 million in 1965 as a whole. Other partial information on the balance of payments for the period since the first quarter suggests that the total deficit was continuing at a high rate. (See table at Annex for the course of the balance of payments in recent years, up to and including the first quarter of 1966).

After we took £316 million of dollar assets out of the Government's portfolio and put them into the reserves in February, the reserves stood at £1,303 million. They have fallen in each month since, to stand at £1,170 million at the end of June. In addition our short-term debt to other central banks has been appreciably increased again. While these reserve movements have been affected by flows of funds (both the build-up of sterling balances by the overseas sterling area and withdrawal of funds by non-sterling holders) much of the recent fall in reserves is attributable to our own continuing deficit.

To turn from the current situation to the outlook, the latest detailed forecast of prospects over the next 18 months for both the home economy and the balance of payments has only just reached me. I have not yet been able to study its preliminary conclusions carefully; but I feel that I should set them down by way of a postscript to this paper, while reminding my colleagues of the vital importance of preserving the strictest secrecy as to their nature. Granted that forecasting is still a very inexact art, the picture that emerges is not one to reassure us.
14. The prospect internally to the end of next year is of continued expansion in output at a moderate rate. There is likely to be some easing of the pressure on the economy, but not much. Unemployment is likely to remain at a low level and wages and prices are likely to rise nearly as fast as in the last year. We can expect continued growth in exports and in public expenditure on current account; with public investment rising fast, fixed investment in total will also be quite a strong expansionary force. Personal incomes are likely to go on rising strongly and, notwithstanding the impact of the SET and of the restrictions on credit, consumer spending in real terms must be expected to advance at an appreciable rate.

15. So far as the balance of payments is concerned, there are various disturbing influences which obscure the underlying trend - for example, the effect of removing the temporary import charge. Against this background, we need to remember that the 1964 drawing from the IMF and loans from Switzerland amounting to £385 million are due for repayment before the end of next year. Moreover, we have once again a sizeable debt to other central banks falling due in the period to end-1967 and the new Basle facilities are not available to finance our deficit. The ready, or near ready, resources we have to fall back on are the reserves of £1,170 million and the portfolio of £190 million. The strain we can see could well bear heavily on these resources.

16. We face an extremely difficult economic situation. Despite the various doses of disinflation and the prices and incomes policy, the economy remains in an inflationary condition, with labour short, wages rising fast, and more imports being sucked in. At the same time we have not yet succeeded in eliminating the enormous deficit in the balance of payments that we found on taking office. We have reduced it; but it is still large, nor does it seem to be falling fast enough.

L. J. C.

Treasury Chambers, S.W.1.

8th July, 1966
### U.K. Balance of Payments

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<tr>
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<tr>
<td><strong>Seasonally Adjusted</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Imports</td>
<td>4,041</td>
<td>4,092</td>
<td>4,366</td>
<td>5,006</td>
<td>5,044</td>
<td>1,205</td>
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<td>Exports</td>
<td>3,892</td>
<td>3,994</td>
<td>4,287</td>
<td>4,471</td>
<td>4,779</td>
<td>1,166</td>
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<tr>
<td>Invisibles</td>
<td>+135</td>
<td>+191</td>
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<td>+105</td>
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<td>- 18</td>
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<td>+105</td>
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<tr>
<td>Inward(1)</td>
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<td>+278</td>
<td>+152</td>
<td>+175</td>
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<td>-104</td>
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<td>-89</td>
<td>+125</td>
<td>+747</td>
<td>+249</td>
<td>+105</td>
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<table>
<thead>
<tr>
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<td>+125</td>
<td>+747</td>
<td>+249</td>
<td>+105</td>
</tr>
</tbody>
</table>

(1) Assets: increase -, decrease +. Liabilities: increase +, decrease -.
CABINET

REVISED INSTRUCTIONS TO IMMIGRATION OFFICERS

Memorandum by the Secretary of State for the Home Department

I am circulating for the information of my colleagues the attached draft, which is in the form endorsed by the Commonwealth Immigration Committee. I have undertaken to publish the revision by the Summer Recess and intend to do so on Tuesday, 2nd August.

2. The Instructions of May, 1962 (Cmnd. 1716) have been modified from time to time and the changes have usually been announced in Parliament. The new version consolidates the amendments of substance with the original and makes drafting changes in a few passages that have given rise to difficulties of interpretation. It keeps the paragraph numbering of the original. Changes have been kept to a minimum; those of substance are marked by numbered side-lining, a key to which is annexed to the draft.

3. The revised instructions contain little that is new, and I do not think that publication will stir up fresh controversy over the policies announced in last August's White Paper "Immigration from the Commonwealth" (Cmnd. 2739).

R.H.J.

Home Office, S.W.1.

11th July, 1966
The Home Secretary has issued the following instructions to Immigration Officers on the exercise of their functions under section 2 of the Act. These instructions supplement those published in May 1962 (Cmd. 1716).

**General**

1. Immigration Officers will carry out their duties without regard to the race, colour or religion of Commonwealth citizens who may seek to enter the country.

2. These instructions are intended for the general guidance of Immigration Officers. In particular cases of doubt or difficulty, the senior officer in charge at the port will consult higher authority in the Home Office.

**Interpretation**

3. In these instructions "Commonwealth citizen" means a Commonwealth citizen who, by virtue of section 1 of the Act, is subject to immigration control. "Immigration Officer" includes a Customs Officer acting as an Immigration Officer.

**Entry Certificates**

4. The Act itself provides for a system of employment vouchers issued by the Ministry of Labour; the operation of this system is referred to in paragraphs 19 to 21 below. In addition there are administrative arrangements whereby any Commonwealth citizen who wishes to ascertain in advance whether he is eligible for admission without a voucher may, if he chooses, apply to the appropriate British representative in the country in which he is living for the issue of an entry certificate. Such a certificate will indicate to the Immigration Officer that the holder appeared to the issuing authority to be qualified for admission, and the Immigration Officer should assume him to be so qualified unless he finds evidence to the contrary.
entry certificate does not exempt the holder from the imposition of conditions (see, for example, paragraphs 7 and 16).

Visitors

5. The need to impose a control on immigration for settlement in no way diminishes the Government's desire to welcome visitors. No obstacle is to be placed in the way of Commonwealth citizens genuinely wishing to visit the United Kingdom whether on holiday or for social, family, cultural or business reasons.

6. If a Commonwealth citizen satisfies the Immigration Officer that he is coming as a visitor for a limited period, and can support himself and his dependants during that period, he and they should be admitted. Other genuine visitors, for example those coming to stay with relatives, should be readily admitted unless the Immigration Officer has reason to believe that their presence in the United Kingdom is likely to result in a charge on public funds. There is no objection to visitors coming to this country for private medical treatment at their own expense, but in doubtful cases the Immigration Officer should take into account the Medical Inspector's assessment of the likely cost of such treatment in deciding whether or not a visitor's means would be adequate for his support during the visit.

7. The Immigration Officer should impose a condition limiting the length of a visitor's stay in the United Kingdom. An initial period of six months will normally be appropriate; but a longer period may be allowed if the Immigration Officer is satisfied of the visitor's bona fides and his ability to maintain himself and his dependants for that time. Conversely, the Immigration Officer should consider restricting the period of stay to less than six months if the visitor's intentions are not clear or his means are limited. In such a case it may also be appropriate to impose, in addition, a prohibition on the taking of employment where the Immigration Officer has reason to suppose that the visitor, although not a voucher holder, may be contemplating taking up regular employment.

* The Home Office will freely extend the period if good cause in shown.
8. No obstacle will be placed in the way of a Commonwealth citizen in transit to another country, so long as it is clear that the person concerned has both the means and the intention of proceeding at once to the country of ultimate destination and is assured of entry there.

Students

9. The Government welcome Commonwealth citizens coming to this country for study. The Act provides that admission is not to be refused, except as mentioned in paragraphs 39 to 42 below, to a Commonwealth citizen who satisfies the Immigration Officer that his purpose in coming to the United Kingdom is to attend a course of study at a university, college, school or other institution, and that the course will occupy the whole or a substantial part of his time. The term "college, school or other institution" includes both institutions supported by central or local government and private institutions.

10. A Commonwealth citizen seeking admission as a student should normally be expected to produce evidence of acceptance for a course of study, beginning shortly, that meets the requirements of the Act (a correspondence course does not meet those requirements) and of ability to meet the cost of the course and of his own maintenance. Little difficulty will then arise unless there are grounds for doubting that his intentions are genuine and realistic, for example where there is an obvious lack of correspondence between the student's previous attainments and the nature of the course he proposes to follow. The Immigration Officer should be on his guard against attempts to use enrollment for a course of study as a means of obtaining admission without a voucher. Attendance at the course must be the student's primary purpose in coming to the United Kingdom; if his primary intention is to work and settle, he must qualify for admission on other grounds.
11. The entry certificate procedure is particularly appropriate for a student who has not been able to obtain a place in advance. He will have to satisfy the issuing authority that he has had genuine difficulty in making advance arrangements and that he has a reasonable chance of being accepted for the kind of course he wants to follow. Due weight will be given to any evidence the student produces of qualifications he has already obtained, or of sponsorship by his home government or some other educational authority.

12. As a general rule a student should be regarded as devoting a "substantial part" of his time to his studies if he proposes to spend not less than fifteen hours a week in organised daytime study of a single subject or related subjects. The fact that a student wishes to engage in paid employment in his free time or vacations in order to finance his studies is not a bar to his admission as a student; and the earnings that he can reasonably expect from such employment should be taken into account in deciding whether he will be able to support himself.

13. An Immigration Officer should be prepared to admit any Commonwealth citizen if satisfied that his principal object in coming to the United Kingdom is to study, even if the requirements of paragraphs 10 to 12 are not completely fulfilled. But, in so far as those requirements are not entirely satisfied, countervailing evidence of the student's bona fides should be required.

14. A Commonwealth citizen accepted for training as a nurse at a hospital in this country should be admitted as a student unless there is evidence that he or she has obtained acceptance by misrepresentation or does not intend to follow the course. A Commonwealth citizen coming as an apprentice or for training on the job in some profession or employment should be admitted if he has either documentary evidence of sponsorship under an official scheme (e.g. the Colombo plan) or an entry certificate issued on the recommendation of the Ministry of Labour.
15. A Commonwealth citizen seeking admission as a student should normally be expected to have plans for study for the whole of an academic year. One coming for a shorter course may, however, be admitted if able to support himself without working.

16. If a Commonwealth citizen has been accepted for a course of study and there is no reason to doubt his bona fides, he should normally be admitted for one year in the first instance and not prohibited from taking employment. But if the Immigration Officer thinks it desirable that the Home Office should later confirm that an intending student has enrolled for a course of studies, or that he is attending the course for which he had enrolled, he should restrict the initial period of stay accordingly and prohibit the student from taking employment in the meantime. In either case he should explain to the student that he will be allowed to prolong his stay if satisfactory evidence of continuing studies is produced.

Members of Parliament

17. Members of either House of the United Kingdom Parliament will be admitted without hesitation irrespective of whether they are subject to control under the Act.

Persons coming for employment

18. Paragraphs 19 to 21 relate to employment in the service of an employer. Paragraph 23 relates to the self-employed.

19. Subject to paragraphs 39 to 42, an Immigration Officer must not refuse admission to, or admit subject to conditions, a Commonwealth citizen who is coming to the United Kingdom for employment and is the person described in a current Ministry of Labour voucher. No examination of such persons is necessary unless to establish the genuineness of the voucher. A voucher will show the date by which it must be presented—normally six months from the date of issue—but the Immigration Officer may admit at his discretion the holder of a voucher which is no longer valid if satisfied of the reason given
(e.g. illness of the holder) for failure to arrive at a United Kingdom port within the period of validity. Ministry of Labour vouchers may not be used more than once; but persons who entered the United Kingdom as voucher holders, and go abroad for a holiday, will qualify for return in accordance with paragraph 35 below.

20. With the exceptions shown in the following paragraph, the general rule is that a Commonwealth citizen who wishes to enter the United Kingdom for the purpose of taking up or looking for employment must hold a Ministry of Labour voucher. This requirement applies to professional people coming for employment and to employees of firms or organisations whose headquarters are outside the United Kingdom if they are to be paid by a branch in the United Kingdom. Persons wishing to take employment in the United Kingdom cannot be allowed admission as relatives unless they qualify under paragraphs 24 to 33 below. An exception should not be made to this rule because it is claimed that a job will be found for the relative concerned. Persons who require vouchers but have not obtained them should normally be refused admission.

21. The following categories of people, although coming for employment, do not require vouchers:

(a) persons in the service of a Department of the United Kingdom Government;

(b) persons not exempt from immigration control who are coming to the United Kingdom in the employment of any Commonwealth or Colonial Government, or in the employment of the United Nations Organisation or other international organisation of which Her Majesty's Government is a member;

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*a "Department of the United Kingdom Government" does not include a nationalised industry or other public corporation*
(c) persons coming for any employment that will last less than two months, or for employment in sport or entertainment that will last for not more than six months;

(d) persons whose employment will be only incidental to a holiday;

(e) ministers of religion, missionaries, and members of religious orders, including those engaged in teaching;

(f) seamen under contract to join a ship in British waters;

(g) operational staff (but not other staff) of overseas-owned airlines;

(h) private servants of members of diplomatic missions;

(i) seasonal workers engaged with the approval of the Ministry of Labour.

Persons in these categories may be admitted if they have entry certificates or other documentary evidence that no voucher is required.

**Businessmen and self-employed persons**

22. Businessmen admitted to the United Kingdom as visitors will be free to transact business during their visits.

23. A person proposing to become a partner in an established business in the United Kingdom should not be refused admission unless it appears that the partnership amounts to disguised employment, or it seems likely that, to get a livelihood, he will have to supplement these business activities by other employment for which a voucher would ordinarily be necessary. Self-employed people and persons seeking to set up in business on their own account should be admitted freely unless it seems unlikely that they will make a sufficient living and may therefore need to seek employment for which a voucher would ordinarily be necessary or to have recourse to public funds.
Wives of Commonwealth citizens

24. Any Commonwealth citizen who satisfies the Immigration Officer that she is the wife of a Commonwealth citizen resident in the United Kingdom is entitled to admission, provided that she is not herself the subject of a deportation order. A Commonwealth citizen who is the wife of an alien resident in the United Kingdom has no similar entitlement, but should be admitted. "Resident" in this context includes a person in the United Kingdom for any temporary purpose. A member of H.M. Forces based on the United Kingdom but temporarily serving overseas should also be regarded as "resident" in this context.

25. A woman who has been living in permanent association with a man, even if not married to him, should be treated for this purpose as a wife. The Immigration Officer should bear in mind any local custom or tradition tending to establish the permanence of the association.

Children

26. Children under sixteen are entitled to admission if either parent is a Commonwealth citizen resident in the United Kingdom. "Resident" has the same meaning as in paragraph 24. "Child" includes stepchild and adopted child, and, in relation to the mother, illegitimate child. A child under sixteen has no statutory right of admission as a dependent to join relatives other than parents, or to join his putative father, but the Secretary of State may authorise admission if satisfied that the child's exclusion would cause hardship. The entry certificate procedure will enable a decision on the child's admission to be reached before he sets out for this country. If a child arrives without an entry certificate but the Immigration Officer has reason to think special consideration is warranted, he should refer to higher authority in the Home Office. In exercising his discretion the Secretary of State will have regard to the age of the child, the arrangements to be made for his care, and any compassionate features of the particular case.
27. Children aged 16 and under 18 should be freely admitted if they are coming to join both parents (or the only surviving parent) in the United Kingdom. (The mother of an illegitimate child may be treated as his only surviving parent if she has had sole responsibility for his upbringing.) If, in any other case, the Immigration Officer finds compassionate circumstances that might justify the admission of a son or daughter in this age group to join a parent, he should refer to higher authority. Those who do not intend to join their parents do not qualify for admission as children, but may do so as students or under some other part of these instructions.

28. The general rule is that persons of eighteen or over must qualify for admission in their own right, for example as the holders of Ministry of Labour vouchers or as students. But exceptions may be made to this rule. For example, it will be proper to admit an unmarried and fully dependent son or unmarried daughter under 21 who formed part of the family unit overseas if the whole family is coming to settle in the United Kingdom; or to admit a widowed daughter of any age who is dependent on a parent in this country if the parent undertakes to provide for the widow and her dependants.

Husbands

29. The normal rule should be to treat a Commonwealth citizen as eligible for admission if the Immigration Officer is satisfied that he is coming to join his wife and the latter is ordinarily resident in the United Kingdom. A husband so eligible who proposes to take or look for work in the United Kingdom need not therefore be in possession of an employment voucher. The Immigration Officer should, however, consider refusing admission if the husband (were he seeking entry on other grounds) would be liable to be refused admission on medical grounds, or on grounds of criminal record or security. He should also consider refusing admission if there appears to be no reasonable prospect of maintenance for the man himself or his family without recourse to public funds, or if he has reason to suppose that the wife does not want her husband to rejoin her. In a doubtful case, the Immigration Officer should take into account the strength of the wife's connections with the United Kingdom, including her length of residence here.
Parents

30. Widowed mothers, widowers aged sixty or over, and married couples, one or both of whom is aged sixty or over, should be admitted if their children are settled in the United Kingdom and are able and willing to support\(^d\) them and any relatives admissible as their dependants.

Other relatives

31. A person qualified for admission may not bring with him relatives of working age (which is to be regarded for this purpose as being below 60 in the case of a man and 55 in the case of a woman) unless they themselves are qualified for admission in their own right. In particular, relatives who want to work here must themselves obtain vouchers. Near relatives (i.e., grandparents, brothers and sisters, aunts and uncles) who are no longer of working age may be admitted if relatives here are able and willing to support\(^d\) them and if (a) they have long formed part of a family unit whose other members are in the United Kingdom, or (b) they are in need of care and attention and have no relatives in their own countries to whom to turn. Near relatives who are still of working age may similarly be admitted if in addition they satisfy the Immigration Officer that they do not propose to engage in any employment, and that they have a strong compassionate case for admission. A widow who, if left overseas, would be wholly or mainly dependent for support on a near relative of herself or her husband in this country may be admitted, without regard to the other requirements of this paragraph, if the relative here has adequate accommodation for her and any dependants of hers. More distant relatives (e.g., cousins) should not be admitted under this paragraph save in exceptional circumstances. For persons who are in receipt of pensions, or possess independent means and wish to retire to the United Kingdom, see paragraph 37.

\(^d\) For the purpose of paragraphs 30 and 31, a person should be regarded as unable to support a relative if he cannot provide him with adequate accommodation.
Fianc(e)s

32. When dealing with a Commonwealth citizen of either sex coming to the United Kingdom for marriage to a person already here, the Immigration Officer should first consider if the person concerned would qualify for admission if the marriage had already taken place. He should also be reasonably satisfied that the proposed marriage will take place within a reasonable time. A period of three months is normally regarded as appropriate. If these conditions are satisfied, a fianc(e) will qualify for admission. The initial period of stay should normally be limited to three months, with an explanation that he or she should apply to the Home Office for removal of the condition once the marriage has taken place.

Relatives: general

33. The principles in paragraphs 24 to 30 above apply to Commonwealth citizens accompanying persons qualifying for admission as well as to those joining relatives already settled in the United Kingdom. Thus, for example, if a Commonwealth citizen qualifies for admission because he holds a voucher or is exempt from the provisions of the Act because he was born in the United Kingdom, his wife and children under sixteen will equally be entitled to admission, and his own or his wife's widowed mother may also be admitted if he is able and willing to support her.

34. When a Commonwealth citizen claims admission under paragraphs 20 to 33 the Immigration Officer should take account of any documentary evidence he produces in support of his claim and of whether he has an entry certificate indicating that the claim has passed a preliminary scrutiny overseas. The Immigration Officer will, however, know that some would-be immigrants have been able to procure documentary evidence to support false claims to the status of dependants and that an officer issuing entry certificates overseas has only limited opportunities to verify applicants' statements by independent inquiry. The Immigration Officer's decision should therefore be based on the whole of the information that becomes available.

For the purpose of paragraph 33 a person should be regarded as unable to support a relative if he cannot provide him with adequate accommodation.
available in the course of his examination, and should take account of anything that may be said by a relative or friend of the Commonwealth citizen in this country. If a relative or friend wishes to see a Commonwealth citizen who has been refused admission, and can arrive at the port within a reasonable time, the Commonwealth citizen should not be sent back until they have met.

Commonwealth citizens already settled in the United Kingdom

25. With the sole exception of a person subject to a deportation order, any Commonwealth citizen is entitled to admission if he satisfies the Immigration Officer that he is ordinarily resident in the United Kingdom or has been so resident at any time during the previous two years. The record of movements in the passport will often show the period of absence from the United Kingdom, and the identification of persons returning after a short absence, e.g. on holiday, will not ordinarily present difficulty. All those who have taken settled employment in the United Kingdom are to be regarded as ordinarily resident here after their first entry and thus entitled to benefit from the relevant provisions. The Immigration Officer should satisfy himself that a Commonwealth citizen who claims to be returning to the United Kingdom after protracted absence has had his permanent home here at some time in the previous two years, bearing in mind that ordinary residence in the United Kingdom is compatible with lengthy absences abroad on business or in the employment of a firm based in the United Kingdom.

36. If a Commonwealth citizen is not entitled to return because he has not been ordinarily resident in the previous two years, and if he does not qualify to enter the United Kingdom under any other part of these instructions, he can still be admitted if, for example, he has strong family ties here and has previously lived in the United Kingdom for some time. A Commonwealth citizen

* Commonwealth citizens whose stay has been made subject to a time condition are not, in law, ordinarily resident here during the period of the time condition.

f Since 1st July 1962 Immigration Officers have stamped the passports of Commonwealth citizens passing through the controls when landing in, or embarking from, the United Kingdom.
who had lived most of his life in the United Kingdom and wanted to return here could properly be readmitted after quite a long absence.

Persons of independent means

37. A Commonwealth citizen is entitled to admission if he can show that he can support himself, and his dependants, in the United Kingdom without taking a job. A Commonwealth citizen wishing to settle in the United Kingdom should therefore be admitted, with his dependants, if he satisfies the Immigration Officer (for example by producing a bank statement or a statement of pension entitlement) that he has adequate means of support under his own control and disposable in the United Kingdom. The means should be adequate, not merely for a year or two, but for the foreseeable future.

Service in the Armed Forces of the Crown

38. When an Immigration Officer is dealing with a case falling within his discretion, he should resolve any doubt (unless there are compelling reasons to the contrary) in favour of an applicant who can satisfy him that he served in the Armed Forces of the Crown at any time in war or, since the end of the Second World War, has served the Crown as a member of the home forces as defined in section 17(5) of the Act.

Statutory grounds for refusal of admission

Refusal on medical grounds

39. The power to refuse admission on medical grounds does not apply to persons entitled to admission as wives, returning residents or children under sixteen. With these exceptions the Immigration Officer should normally arrange with the Medical Inspector for the examination of holders of Ministry of Labour vouchers and other Commonwealth citizens who are coming for settlement in the United Kingdom. Visitors, students and others who intend to remain in the country for six months or more should normally also be referred to the Medical Inspector. Any person, whatever
the proposed length of his stay, who mentions health on the
prospect of medical treatment as among the reasons for his visit,
and any person who does not appear to be in good health or appears
mentally or physically abnormal, should also be referred to the
Medical Inspector. Any person who produces a medical certificate
should be advised to hand it to the Medical Inspector. Where a
Medical Inspector certifies that it is undesirable for a person
to be admitted for medical reasons or that he is suffering from
mental disorder, the Immigration Officer should refuse admission
unless there appear to be strong compassionate reasons for not
doing so, in which case he should seek instructions from higher
authority. Where, exceptionally, no Medical Inspector is
available, the Immigration Officer may act on the advice of
another duly qualified medical practitioner.

Refusal on grounds of criminal record

40. The discretion to refuse admission on grounds of criminal
record does not apply to persons entitled to admission as wives,
returning residents or children under sixteen. With these
exceptions, the Immigration Officer may refuse admission to any
Commonwealth citizen if he has reason to believe that the
individual has been convicted in any country (including the United
Kingdom) of an extradition crime. The Immigration Officer will
normally learn of such convictions only through prior notification.
If a person whom he is examining appears prima facie to be a
person in respect of whom a notification has been received, he
should endeavour to confirm the identification. If it seems to
him that there are compassionate grounds for not refusing
admission, for example strong family connections with the United
Kingdom, he should seek instructions.

* These arrangements are without prejudice to any arrangements
for the time being in force under public health powers for
the medical examination of all passengers from certain
countries.
Refusal on grounds of security

41. This power does not apply to persons entitled to admission as wives, returning residents or children under sixteen. The Immigration Officer will receive notification of any persons who by decision of the Secretary of State are to be refused admission in the interests of national security. If he has strong grounds for believing that the Secretary of State would reach such a decision in respect of any other Commonwealth citizen, instructions must be immediately sought.

Deportation orders

42. Any Commonwealth citizen who is currently the subject of a deportation order should be refused admission. (The revocation of a deportation order requires the approval of the Secretary of State, and any representations should be referred to higher authority in the Home Office.)

Refusal of admission: general

43. The power to refuse admission should not be exercised by an Immigration Officer acting in his sole discretion; the authority of a Chief Immigration Officer or Immigration Inspector must always be obtained. Where admission is refused, the Immigration Officer should, so far as practicable, make clear to the individual concerned the reasons for the refusal.
Key to marginal numbers in the revised instructions to immigration officers

1. This substitutes new words because the old implied too strongly that an entry certificate holder was virtually guaranteed admission. More holders of entry certificates have had to be refused admission than was thought likely when the original instructions were given.

2. This is consequential on paragraph 22 of Cmd. 2739 and Sir Frank Soskice's statement of 4th February 1965. The rewording seeks to remove the possible implication that no visitor need secure an entry certificate.

3. This is consequential on paragraph 22 of Cmd. 2739 and the statement of 4th February 1965. It allows the immigration officer discretion to grant initially a stay of longer than six months where the visitor's bona fides are not in doubt.

4. This is consequential on paragraph 22 of Cmd. 2739 and the statement of 4th February 1965.

5, 6 & 7. The Commonwealth Immigration Committee approved these proposals in C.I.(65)50 on 22nd December 1965 (see C.I.(65) (6th Mtg. Conc.1)).

8. This is consequential upon paragraphs 20 and 21 of Cmd. 2739.

9. All after the semi-colon is new. Refusal to admit a dependent widowed daughter may lead to hardship. Under this concession, the immigration officer will still have to verify the ability of the parent to support not only the widow but also her own dependants.

10. The last seven words are new: if a test is to be applied, it should be applied to the whole potential obligation.

11. This sentence is new and extends the concession of paragraph 28 to the widowed close relative where she is being supported abroad by the relatives already here and where also they can offer adequate accommodation both to the widow and her own dependants.

12. This has been in force for some months but the change has not been announced in Parliament. (It was previously exceptional for a person accepted as a fiance(e) to be admitted subject to conditions.)


14. This expansion of the categories sent for medical inspection is in accordance with the wishes of the Ministry of Health.
For some considerable time now the Government have been considering the case for reorganising the Post Office on the lines of a nationalised industry, run by a corporation (or series of corporations) appointed by a Minister. Before the last election the Ministerial Committee on Economic Development came to the conclusion that a change to nationalised industry status was desirable in principle, in the interests of promoting greater efficiency and technical development; but we thought that before making an announcement we should be clearer about the general lines of the structure of the new organisation, and in particular whether we preferred a single corporation responsible for all post office services or separate corporations for the various services. We also thought that we ought to consider further the position of the staff, the safeguards they were likely to demand and the probable cost of such safeguards.

2. These questions, and other related issues, have now been further studied by the Sub-Committee on the Status and Organisation of the Post Office, and the matter was further considered by the Ministerial Committee on Economic Development at their meeting on 12th July (ED(66) 18th Meeting). This memorandum reports the Committee's conclusions.

Status

3. We are satisfied that a case has been made out for changing the status of the Post Office to that of a public corporation. The main argument for doing so is that, as a public corporation, the Post Office should be better able to develop its managerial and technological efficiency and its relationships with the industries with which it deals.

4. Inevitably it will be in some respects unlike the existing nationalised industries; in particular, its relationship with the Government will be especially close because of the agency services with which the Post Office will continue to provide the Government. The management of the Post Office are likely to be liable to Ministerial directions or subject to Ministerial approval in a number of respects in which other public corporations are not formally so restricted. It will be important to establish from the outset, and in the legislation that would be required, that the reorganised Post Office will continue to have a responsibility for providing comprehensive national telecommunications and postal services; we must not allow fears to develop that the change of status is a prelude to reductions of services, particularly in outlying areas, in the name of efficiency and viability.

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Structure

5. The structure we favour is that of a single corporation, responsible for telecommunications and postal services and for the day-to-day management of the savings and banking services as the agent of the Treasury. Changes in internal management organisation will give a substantially greater degree of independence to the telecommunications services and to the postal services in relation to each other than they enjoy at the present time. The Postmaster General does not want at this stage to be committed to the precise form of the internal management organisation, though it is envisaged that some changes could be made even before the Post Office became a nationalised industry.

6. It would be somewhat easier to transfer functions of the Post Office to a single corporation than two or more separate corporations. The leadership of the Post Office Engineering Union have long favoured the concept of separate nationalised industry status for the telecommunications services, but they would probably accept a single corporation provided that the telecommunications services enjoyed substantial independence of management. The General Secretary of the Union of Post Office Workers indicated in a recent speech to his union's conference that there need be no objection in principle to nationalised industry status for the Post Office, provided that all the services were the responsibility of a single corporation, though he indicated that there would not be much to be said for the change unless it was accompanied by a complete change of attitude in the management on questions of pay and conditions.

Agency Services

7. The new corporation would manage the savings and banking services on the Treasury's behalf; the Treasury would remain responsible for policy. The Government would retain the power to require the new corporation to provide other agency services to the Government at cost. We envisage that the Ministry of Public Building and Works would continue to provide building services to the Post Office as at present. These services constitute a significant part of the Ministry's work, and the Minister would be reluctant to see them substantially diminished. Most of us consider that they can be safeguarded by an administrative agreement (such as already exists) to the effect that neither the new corporation nor the Government would do anything which would result in any substantial amount of the work concerned ceasing to be done by the Ministry without adequate notice and full consultation. To go further than this would be to impose what most of us consider would be an unnecessary statutory restriction on the corporation. The Minister of Public Building and Works, however, feels that the matter is so important that the position should be safeguarded by means of a reserve statutory power to give directions to the corporation on this matter. This is a matter upon which no decision needs to be taken at this time; the Minister of Public Building and Works has reserved his position for future discussion.
Cost of the Transfer

8. The Sub-Committee on the Status and Organisation of the Post Office have concluded that the transfer of staff to a new corporation would have to be compulsory. The staff would lose their Civil Service status, but they would no doubt seek interim assurances that they would retain at least the pay and conditions of service which they now enjoy. It is suggested that the change of status itself would not be something to be negotiated with the staff, and that there would thus be no price to be paid for union acceptance of the change of status. Clearly no assurance could be given on conditions of service which would either commit or fetter the discretion of the new corporation, whose responsibility it would be to negotiate long-term settlements with the unions on pay and conditions.

9. A new corporation would be subject to the same sort of restraints as other nationalised industries are in negotiating pay and conditions, and there is no reason to suppose that they would be predisposed to make undue concessions. But they might well find themselves obliged to pay higher rates of salary in senior posts, in the interest of efficient management, and this could affect salary rates down the line. Moreover, the words used by the General Secretary of the Union of Post Office Workers suggest that the union would be looking for a more forthcoming attitude from the new corporation than from the Post Office. The pressure on the new corporation to pay higher wages and salaries could thus be fairly heavy, though the problem is not likely to arise for some time, since the corporation cannot be in being before 1968.

Timing of Announcement

10. If the Cabinet agree that the Post Office should be reorganised as a public corporation, the Postmaster General would like to announce this decision on 20th July, when he will be publishing his annual report and accounts and his proposals for tariff rationalisation. The announcement would be made in the House of Commons and would be on the general lines of the draft attached. If the Cabinet are content with the general lines, I suggest that the Postmaster General should be free to make whatever drafting changes he considers desirable.

Conclusion

11. The Cabinet are invited to authorise the Postmaster General to make a statement in the House of Commons on 20th July on the reorganisation of the status of the Post Office, on the lines of the attached draft.

G.B.

Department of Economic Affairs, S.W.1.

12th July, 1966
POST OFFICE REORGANISATION

Draft Statement in the House of Commons

During the last 18 months a fundamental examination of the management, structure and status of the Post Office has taken place.

2. Telecommunications are growing very fast and face formidable problems of expansion. The postal services, too, will be required to adapt themselves to the changing circumstances of the future. The savings and banking services are also expanding, and a giro is to be launched within two years.

3. The Post Office exists to provide comprehensive national services in the field for which it is responsible. Clearly any reorganisation must retain this principle and must make sure that the organisation is such as to recognise and ensure that the responsibility for providing these services to the public is fully maintained. It is, however, open for question whether all the tasks now carried out by the Post Office can best be performed by a Department of State. After the most careful consideration the Government have concluded that the time has come to make a change, and that, instead of being a Department of State with a Minister at its head, the Post Office should become a public corporation, the members of which would be appointed by and responsible to a Minister. Within this corporation the management of the various services would have an opportunity to develop on more independent lines, but always with a primary responsibility for the maintenance of comprehensive national services available to all citizens in all parts of the country.

4. A final decision on the exact form of the reorganisation and of the internal management structure must await publication of the report of the Select Committee on the Nationalised Industries, which is now examining the Post Office, and consultations with representatives of the staff. These consultations will now be put in hand, and a White Paper will be presented in due course setting out the Government's final proposals.

5. The Government believe that this decision to modernise the status and management of the Post Office will make a considerable contribution to its efficiency in the years ahead.
CABINET

THE ECONOMIC SITUATION

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate, for the consideration of the Cabinet, the attached memorandum, prepared by officials, on building control.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

18th July, 1966
Memorandum by the Ministry of Public Building and Works

The Proposal

1. The proposal under consideration is to lower from £100,000 to £50,000 the limit above which types of work not exempted by legislation will become subject to licensing by the Minister of Public Building and Works when the Building Control Bill becomes law.

2. With the limit at £100,000 the projects falling within the scope of the control will number annually about 500 at a total capital value of £180 m. A reduction in the limit to £50,000 would bring in another 500 projects at a total capital value of £40 m.

Method of Proceeding

3. The Building Control Bill enters the Committee Stage in the House of Lords on July 18th. On present plans the Royal Assent is expected on August 4th. Since the Chancellor's announcement on 27th July 1965 the Minister's acts and authorisations in the field of licensing have been without statutory backing and have relied on the goodwill of the construction industry and its clients.

4. A change in the limit to £50,000 could be made -

   (a) by making an Order (which could not be retrospective) immediately after the Royal Assent has been received; or

   (b) by amending the Bill so as to substitute £50,000 for £100,000 - and perhaps substituting, say, £25,000 for the £50,000 to which the Minister may at present reduce the statutory limit by Order; or

   (c) by acting as in (b) but making it retrospective to the date of the forthcoming comprehensive Government policy announcement.

5. Courses (b) and (c) would involve ensuring that the House of Lords would pass the necessary amendment and re-committing the Bill to the House of Commons and delaying the date of the Royal Assent.

6. Course (c) would also mean introducing a second element of retrospection into a Bill that has already given rise to controversy in the House of Commons in this respect.

7. On balance, course (a) seems preferable. There is some risk of forestalling by building owners, but this might not turn out in practice to affect a very large number of projects. Forestalling could be prevented altogether if the proposal to make the Order were not stated in specific terms at the time of the comprehensive policy statement.
Specific impact of the change

8. To lower the limit to £50,000 would not of itself affect the volume of privately sponsored construction. It would give the Government more freedom of manoeuvre for the future, though it would carry the clear implication that the level at which private building could be held with the limit at £100,000 was more than the Government considered acceptable.

9. Since November 1965 the Minister has issued authorisations at the rate of £8 m. per month. Only £9 m. worth of projects have so far been rejected outright, but many have been given deferred starting dates. One effect of this is that by this autumn the Minister will be refusing 50% of applications. The control will then, therefore, be seen to bite much more strongly than it probably appears to the public to be doing at present.

10. Many of the applications are strongly supported by the Government Departments concerned as being for essential purposes. (Housing, industrial building and projects in Development Districts are exempt in any case.) The Ministry’s view is that if the Government wish to reduce the level below that resulting from approval of 50% of applications, the limit ought to be lowered to £50,000 in order that less essential projects in the £50,000-£100,000 range may be deferred rather than the most important projects above £100,000.

11. About 25% of the present applications for licences are in respect of offices. This means that in cooperation with the Board of Trade the Ministry can significantly affect the pattern and pace of office building at only a small cost in Civil Service manpower.

General considerations

12. Early this month it was estimated that in 1967 the total demand, public and private, on the construction industry for new work would be nearly 6% higher than in 1966. Except for private housing the increase was attributable to the public sector. It was thought that this level of demand might exceed output by 2%-3%, i.e. £50 m.-£75 m.

13. Since then the Chancellor has announced a limit on bank loans, raised the Bank Rate and required special deposits with the Bank of England. In view of these measures – and with further reductions in the public sector in prospect – the capacity of the construction industry in 1967 seems certain to exceed demand. If therefore the Government’s aim is to hold a balance between supply and demand in the construction industry, the limit of £100,000 should remain unchanged. If the Government wish to divert resources from the industry over and above any diversions that may result from the Selective Employment Tax, a lowering of the limit to £50,000 (and a tightening of the control accordingly) would contribute usefully to the process.

14. To lower the limit would bring more private sector projects (including a good number of office projects) within the scope of licensing and would demonstrate the Government’s intention to impose further restraint on the private as well as the public sector.
15. On the other hand, the change would aim another blow at an industry which sees an apparent contradiction between the expansion to which it is urged under the National Economic Plan and the measures, particularly S.E.T., specifically aimed at it by the Government during the last twelve months. If other considerations allow, there is a case for urging that the construction industry, which is a potentially important contributor to economic growth, should not be deprived of the conditions in which there is a reasonable incentive to modernisation and greater efficiency.

Lambeth Bridge House,
S.E.1

16th July, 1966.
C(66) 107

18th July, 1966

CABINET

THE ECONOMIC SITUATION

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate, for the consideration of the Cabinet, the attached memorandum prepared by officials, on economies in Government overseas expenditure.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

18th July, 1966
Ministers have directed that studies should be undertaken of ways of achieving, in the financial year 1967/68, savings in Government foreign exchange expenditure of £100 million compared with expenditure in 1966/67 (the saving to be net of any overseas terminal payments necessary as a direct consequence of the withdrawal of forces, or discontinuation of the use of defence or other facilities overseas, or cessation of aid whether military or civil); and of the implications, military, political and economic, of making such savings.

2. Possible savings are indicated below. But these indicate only rough orders of magnitude which may be liable to a very considerable margin of error. Likewise time has not permitted a full study of all the implications of making the cuts.

3. The main blocks of Government overseas expenditure, and the broad amounts in each case on 1966/67 estimates, are as follows:

<table>
<thead>
<tr>
<th>Block</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defence</td>
<td>287</td>
</tr>
<tr>
<td>Military aid</td>
<td>23</td>
</tr>
<tr>
<td>Overseas economic aid (net of capital repayments only)</td>
<td>195</td>
</tr>
<tr>
<td>Diplomatic Service Vote and Information Expenditure</td>
<td>25</td>
</tr>
<tr>
<td>Subscriptions to International Organisations</td>
<td>30</td>
</tr>
<tr>
<td>Payment Overseas of certain Pensions</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total Government Overseas Expenditure</strong></td>
<td><strong>580</strong></td>
</tr>
</tbody>
</table>

4. Ministers left for further consideration, in the light of the studies by officials, where the cuts might be met as between these blocks of expenditure. As indicated below, the only items where major economies can be achieved are: Defence, Overseas Economic Aid, Military Aid.

* Only a proportion, variously estimated as between one-third and one-half of the total of economic aid, is a net charge upon the balance of payments. An even smaller proportion of military aid represents such a charge. The whole of both, however, constitute a burden on resources and on the Budget.
For the purpose of our studies we have assumed that it is inevitable that defence should bear the larger part of any cuts, and we have therefore considered possible means of achieving cuts in overseas defence expenditure of £50 million, £80 million and £100 million. The two lower figures would enable account to be taken of the possibility of a contribution from the Federal German Government to the cost of stationing British forces in Germany, either of the full amount of £50 million which we have sought or of a lower amount, say £20 million. It would also enable Ministers to consider the option of a saving of £80 million on defence and £20 million on economic aid. We have also considered possible savings in economic aid expenditure of £20 million and £10 million, and in military aid of £25 million. These give further options of the ways in which the total can be achieved. Clearly more variations should ideally be considered, but any figures that could be offered in such a short time of such precise variations would not be worth having.

5. The results of these studies, item by item, are set out below. There is, however, a difference in the timing of the practicability of cuts in the field of aid on the one hand and defence on the other to which we must first draw attention. In the long run, both defence and aid can be cut on the basis of a judgment of our political and economic interests involved. In the short run, defence is more intractable than aid for purely practical reasons. Provided we are prepared to accept the political and economic consequences both for others and for ourselves, it is possible to obtain whatever cuts Ministers may decide on in capital aid by the next financial year. As regards defence, the sheer physical difficulties of transporting troops and equipment in large quantities back to the United Kingdom, even if
we were prepared to do it on the basis of a Dunkirk-type evacuation, would mean many months' work before the troops and equipment were all back in the United Kingdom and hence before the savings in oversea expenditure were achieved. Moreover, terminal payments, e.g. to local employees (as with diplomatic and information establishments overseas), contracts and leases would, in the first year, offset a substantial part of the savings. Finally, when hostilities are actually taking place, e.g. as they are for practical purposes at present in Aden and Borneo, withdrawal at the wrong time may involve the loss of British and Allied lives, and a realised as distinct from potential setback to our political aims.

6. We set out below the means by which, provided that Confrontation is seen to end by 1st January 1967, very substantial savings can be achieved in 1967/68, primarily from savings on defence. Briefly these consist in bringing forward the achievement, broadly speaking, of the Defence Review force levels for 1969/70 to mid 1967/68. Subject to the ending of Confrontation and the acceptance of significant political difficulties this can be done by being carried out hurriedly in a manner which will inevitably affect the terminal charges on foreign account and also increase the United Kingdom budgetary burden.

7. We must, however, make it clear that the present defence proposals include no margin for contingencies. There is therefore no provision for meeting new commitments or any unforeseen contingencies that may occur between now and the end of that year.

DEFENCE

8. The following table shows the effect of bringing forward the Defence Review targets by eighteen months as proposed above.

<table>
<thead>
<tr>
<th></th>
<th>Estimate 1966/67</th>
<th>Expenditure 1967/68 at final Defence Review force levels</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(NB less present offset of £40 million)</td>
</tr>
<tr>
<td>Germany</td>
<td>94</td>
<td>97</td>
</tr>
<tr>
<td>Mediterranean</td>
<td>38</td>
<td>23.5</td>
</tr>
<tr>
<td>Middle East</td>
<td>27</td>
<td>10.5</td>
</tr>
<tr>
<td>Malaysia, Singapore and Nepal</td>
<td>96</td>
<td>70.5 (excluding contribution from Hong Kong Government)</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>Other</td>
<td>31</td>
<td>26.5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>237</td>
<td>24.1</td>
</tr>
<tr>
<td>DIFFERENCE</td>
<td></td>
<td>46</td>
</tr>
</tbody>
</table>

TOP SECRET
9. This saving would be increased by whatever additional contribution is received from the Hong Kong Government which might bring the total to, say, £30 million. On the other side account must be taken of the inevitable difficulties of forecasting expenditure when making such a major change on a closely worked out plan. This is bound to mean some additional expenditure. Furthermore there will inevitably be substantial terminal charges, particularly through the bringing forward of the date and this may amount to several million pounds. We think therefore it would be unwise to count on a saving of much more than £40 million by this means.

10. These are the savings which we think might be achieved by bringing forward the Defence Review reductions. We next consider what savings might be achieved in Germany.

Europe and Defence Savings in Germany

11. Even the almost complete withdrawal of teeth arms and front-line aircraft from Germany would leave a balance of some £45 million in foreign exchange costs. This relates to logistic backing (e.g. ports, line of communications and advance base facilities). Moreover the present offset agreement, highly unsatisfactory though it is, does provide an offset of £40 million. This clearly would not continue if we withdrew forces on a scale which suggested withdrawal from the Alliance and there would therefore be a point where withdrawal, short of total withdrawal from the Alliance, would mean an addition which carried a net foreign exchange penalty.

12. Any reduction, however small, of our forces in Germany involves our obligations under the North Atlantic and Brussels Treaties. There are prescribed procedures for seeking changes in these obligations. In brief we need either the agreement of a majority of our WNW allies or if we are pleading financial strain a certificate of need from the North Atlantic Council. In each case SACEUR's views would have to be sought.
13. NATO is at present trying to collect itself after the French defection. We have taken a leading part in holding the integrated defence system together. A unilateral withdrawal of a substantial part of our forces would be inconsistent with our attitude so far and would make integrated defence impossible. The effect would be even worse if we had to withdraw our equipment and installations as well as our men, thus being in no position to increase our force contribution again in an emergency. This would be tantamount to withdrawal from NATO.

14. Withdrawal of forces from Europe, leaving the German army preponderant there, is bound to affect our relations with the other European members of NATO and to jeopardise the support which they have so far given to our European policy. Moreover, in several cases, these are precisely the countries on whom we rely for financial support for sterling. This problem goes much wider than the effects on Anglo-German relations which would also undoubtedly be adverse.

15. The prospect of German agreement, in present circumstances, to meet the whole gap of £50 million between our DM costs and present offset seems to us small. Some improvement should be possible. We conclude, in the light of all these considerations, that it would be unrealistic to expect that any sum approaching the full gap can be secured either from German sources or by withdrawal of forces. A combination might be negotiated of additional German contributions and savings by withdrawals which could yield £15 to £20 million. This would depend on German consent to continue (and improve) present offset in spite of the withdrawals involved.

Political Implications for other Theatres

Far East

16. The Defence Review was on the assumption that Confrontation would have ended before withdrawals took place. Confrontation must have ended by 1st January, 1967 if we are to achieve the accelerated defence run-down.
If before Confrontation is clearly ended we move troops or show that we intend to, then:

(a) We should concede victory to Indonesia just when the new Indonesian Government seem prepared for a negotiated settlement; and we should throw away all that we have fought for over the last three years.

(b) We should be seen to be dishonouring our commitments under the Defence Agreement with Malaysia.

(c) Malaysia would have no alternative but to make the best terms she could with Indonesia in humiliating circumstances; she might well decide that her only course was to throw in her lot entirely with Indonesia and eject us from our bases in Malaysia.

(d) We have committed ourselves to the United States, Australia and New Zealand to stay in Malaysia and Singapore as long as we can. The facilities which Australia and New Zealand use in Malaysia and Singapore would be put at risk and their troops in Borneo would have to withdraw with ours. They would doubt our willingness to maintain a military presence in the Far East.

17. President Sukarno may well be able to continue to hold up ratification of the Bangkok agreement should there seem to Indonesia to be prospects of victory falling into their hands if they hold on a little longer. In these circumstances in order to achieve, under satisfactory conditions, an early major reduction of our forces, we need to make it clear to the Indonesian Government that friendly relations and the withdrawal of our forces from Borneo are available to them if, but only if, they ratify and carry out the Bangkok agreement.

18. Reductions on the scale of the full programme will have major repercussions on the Singapore economy; the Singapore Government will insist on aid to counter this as a quid pro quo for our retaining the base. There is no provision for this even on the present aid programme, let alone on a reduced one.
Hong Kong

19. Hong Kong provides a special problem. The present defence contribution falls short of meeting the cost of those of the units which are stationed in Hong Kong for purposes of internal security. The total cost of these amounts to £5.5 million and it is proposed to seek an additional contribution from the Hong Kong Government which would meet the gap.

Middle East

20. The saving from the Middle East implies no change in present plans for withdrawal from South Arabia. Earlier withdrawal of fighting units would increase the risk of leaving behind an unstable successor State, and therefore inviting early Egyptian intervention. It might even lead to the need for a fighting withdrawal with loss of equipment etc. Chaos or an Egyptian takeover immediately following our departure would gravely threaten the stability of the Persian Gulf area.

Persian Gulf

21. Apart from the military disadvantages of changing the Defence Review decision and leaving the Persian Gulf, a decision to leave would have the short-term political effect of risking international chaos in the Gulf area with the rival ambitions of Iran, Iraq and Saudi Arabia. Whatever the outcome, this could disrupt oil production in the short term and could, therefore, impose a heavy new foreign exchange loss on the United Kingdom.

Mediterranean

22. In our costing of the accelerated run-down to Defence Review force levels we have assumed that we shall be proceeding with present plans to complete the run-down of British forces in Malta by mid-1968. We have also assumed the retention of the Dhekelia stockpile until mid-1968. The accelerated run-down should not therefore have any implications for Malta, Cyprus and Libya over and above those already foreseen, but not yet examined by Ministers, as a result of the Defence Review. These are however considerable.
23. Completion of the Defence Review reductions will have the most severe effects on the Maltese economy involving an increase in unemployment there to some 15-20 per cent. When we consult Malta (as we are committed to do under the Defence Agreement) we must expect them to react strongly. We may at least have to consider a renewal or enlargement of the special immigration quota into this country and increased opportunities for employment in the British forces.

Cyprus

24. Since the run-down will be unrelated to progress towards a Cyprus settlement, it will inject a new element of instability into the situation which might lead to an armed clash between Greece and Turkey. In particular, our run-down would probably make it impracticable for a United Nations force to operate in Cyprus, if this was still in existence in 1968.

Conclusion on Economies from Defence

25. The conclusion of the preceding paragraphs is that we might hope to achieve economies of some £40 million net by advancing the date of the Defence Review run-down (assuming Confrontation is seen to end by 1st January, 1967), and a further £15/20 million in respect of Germany. If we fail to obtain the £15/20 million from Germany and further economies are sought from defence, the following are the implications.

26. A further saving from defence costs of £30 million could only be achieved either by withdrawing half our effective units from Germany and thereby endangering NATO or by reducing force levels in the Far East to little more than a token military presence which would serve little purpose. The same reduction could be achieved by a cut of about half these amounts in both Germany and the Far East, but this would result in the worst of both worlds.
27. A further £20 million would only be added to this saving by withdrawing virtually all our troops from Germany, or virtually all our troops from the Far East, or by total withdrawal from Cyprus and the Persian Gulf. If any of these measures were to be adopted, our military capability would be drastically affected and in the area concerned would disappear altogether. This would involve a total reappraisal of our external policies. We cannot in the time available say whether it would be possible in fact to make withdrawals on this scale to affect significantly the financial position in 1967/68.

General

28. The accelerated run-down can hardly fail to entail considerable further strain upon the members of the forces and particularly on their families by hurried arrangements for departure, by increased periods of separation and by makeshift arrangements for accommodation both for the forces and for their families in the United Kingdom, and would also raise a serious training problem. All this may have a significant effect upon the morale of the forces generally.
29. The table shows the distribution of estimated disbursements for 1967/8 between the main heads and illustrates how cuts of £10 million and £20 million might fall.

<table>
<thead>
<tr>
<th>Present Estimated Disbursements for 1967/8</th>
<th>Cut on £10m. basis</th>
<th>Revised Cut on £20m. basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colonies</td>
<td>12.7</td>
<td>12.2</td>
</tr>
<tr>
<td>South Arabia</td>
<td>8.9</td>
<td>8.4</td>
</tr>
<tr>
<td>Commonwealth (except India and Pakistan)</td>
<td>60.3</td>
<td>60.35</td>
</tr>
<tr>
<td>India and Pakistan</td>
<td>52.3</td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td>19.05</td>
<td></td>
</tr>
<tr>
<td>Bilateral Technical Assistance</td>
<td>37.6</td>
<td></td>
</tr>
<tr>
<td>Multilateral</td>
<td>24.5</td>
<td></td>
</tr>
<tr>
<td>CDC</td>
<td>10.2</td>
<td></td>
</tr>
<tr>
<td>Civil Aerodromes</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td>231.0</td>
<td></td>
</tr>
<tr>
<td>Estimating adjustment</td>
<td>26. (say)</td>
<td></td>
</tr>
</tbody>
</table>

* against a ceiling of £225

**NOTES:**
1. The figure of £225 million is the gross figure for estimated disbursements for both 1965/67 and 1967/68. The difference between this figure and the £195 million shown in paragraph 3 is accounted for by estimated capital repayments of £30 million.

2. The estimates of disbursement allow for an "estimating adjustment" which experience has shown to be necessary, since disbursements always fall short of forecasts owing to factors outside our control (e.g., delays on the part of recipient governments). The estimate of total disbursements therefore exceeds £225 million and the amounts required to produce the necessary cuts are slightly higher than £10 million and £20 million.
30. The aid ceiling is at present fixed in cash terms - i.e. unlike other civil expenditure programmes it has not been revised since last year to allow for rising costs. The latest estimates of disbursements to cover existing commitments and policies for 1967/68 add up to approximately £225 million, with virtually no provision for contingencies. It will therefore be necessary, after applying any cut which Ministers may decide upon for the total programme, to reduce some of the individual items further in order to make some provision for unforeseeable contingencies, as experience suggests to be necessary.

Colonial Territories

31. Our special responsibilities make cuts particularly difficult, since they receive aid only from us. Most of the remaining Colonies are grant aided and little or no reduction is possible in budgetary aid. The cuts would therefore fall disproportionately on development aid. The effect would be increased by the probable need to increase our aid to Gibraltar.

South Arabia

32. It would be necessary to reduce the provisions which Ministers recently agreed as necessary to ensure the possibility of orderly independence and the safe withdrawal of our troops.

Commonwealth other than India and Pakistan

33. In many of these countries we are virtually the only donor and any action on our part has a crucial effect on their economies. We also have a number of heavy budgetary aid responsibilities which we cannot suddenly reduce. A cut of £20 million would involve substantial withdrawal from commitments or near-commitments both in Africa and elsewhere. Departments are not agreed how cuts should be made and further discussion will be needed.
India

34. A cut of £2 million would come at a time when India has just agreed with the World Bank to devalue her currency and liberalise her import programme on the understanding that aid would be increased. The World Bank assessment is that India needs a substantial increase in aid quite apart from the immediate needs created by the present drought (for which we have given virtually no additional aid) and the requirement for refinancing debt to which we are in principle committed. A cut of £4 million involved in a total cut of £20 million would mean a choice between our discontinuing or postponing the Durgapur project, or reducing general aid to sustain the economy. Any cut would create the impression that we were disregarding her own very serious economic crisis.

Foreign Countries

35. Our aid to most individual countries is relatively small, though crucial in some cases (e.g. Turkey), so that the main adverse effects of cuts would be political and commercial. A cut of £10 million would involve the withdrawal of an outstanding loan offer to Colombia of £1 million and the slowing down in disbursements of loans to the Sudan and Ethiopia; a cut of £20 million would also involve reducing aid to Laos and to Turkey and slowing down aid to Iran.

Multilateral Aid

35A. Relatively small cuts are proposed in view of the importance which Ministers have attached to supporting United Nations activities. A total cut of £20 million would involve the deletion or postponement of our contribution to the World Food Programme (which Ministers have decided against in the past) or a reduction in our contribution to the United Nations Development Programme. Both would be unprecedented departures in policy.
Commonwealth Development Corporation

35B. Cuts of the size proposed would interfere with the Corporation's capacity to undertake new business, without which it cannot continue to operate effectively or acceptably to the countries concerned. It is one of the most efficient ways of giving economic aid, combining productive investment, good management and training for local people. It attracts foreign capital and promotes British exports.

Conclusions

36. Either level of cuts would have serious effects on overseas economic development and on our relations with the countries of Africa, Asia and Latin America, but a cut of £20 million would have disproportionately severer implications. Most of the cuts would oblige us to go back on, or to defer the implementation of, pledges or expectations which we have encouraged on the basis of aid policies previously agreed upon by Ministers. A number of very poor countries would be severely hampered in their economic progress. Even in our present economic situation these countries would regard a big cut in our aid programme as showing a lack of appreciation of their own persistent and acute economic problems and as falling short of our international commitments in this field.

37. The precise distribution of any cuts would require much further interdepartmental examination, and the above are only illustrations of what would be involved.

38. Ministers may feel that in the context of the defence cuts mentioned in paragraph 8 above, a cut of £10 million in aid, difficult though it is, must be accepted in present circumstances. Beyond that point, the difficulties get progressively greater, and a cut of £20 million would create severe difficulties.
MILITARY AID

39. Estimates for the current year amount to £24.7 million. We believe that a reduction of £4.6 million could be achieved. In addition there will be a further saving if a frigate now being built for Ghana on loan terms can be sold elsewhere. Of the remainder the largest part is accounted for by South Arabia. Any cut in aid to South Arabia would endanger the orderly withdrawal of our own forces. Smaller sums relate to that part of our aid to India to which we are formally committed, and the cost of loaned personnel to Malaysia needed to maintain Malaysian security after the end of confrontation and the withdrawal of our forces from Borneo.

SUBSCRIPTIONS TO INTERNATIONAL ORGANISATIONS, DIPLOMATIC SERVICE ADMINISTRATION, INFORMATION SERVICES

40. No saving is obtainable in respect of subscriptions to international organisations, save by withdrawal, cutting unilaterally our rate of subscription or falling into arrears. We have found no organisation from which we think we should withdraw. We assume we cannot face cutting down our contribution to the peace-keeping activities of UNFICYP (Cyprus Force) or UNEF (Israel-Egyptian Border). The other courses would involve immense difficulties for negligible savings.

41. The diplomatic service and information services have already undergone stringest economies in the estimates for the current year. Even in existing circumstances we can recommend only a further small saving. We do not recommend it should be sought by closing posts. For example, to close four of our smallest posts in Latin America would produce a net saving of only about £40,000; but would leave some £7 million of exports and £14 million of United Kingdom capital investments unattended to.
42. Savings would be better made by a combination of reducing or delaying building programmes, by certain economies in overseas information and the work of the British Council, and by certain personnel reductions. We estimate these savings would total some £1 million in the financial year 1967-68.

PAYMENT OVERSEAS OF VARIOUS PENSIONS

43. No saving is possible short of default.
SUMMARY AND CONCLUSIONS

44. Ministers have instructed us to consider how £100 million can be saved in 1967/68 on Government expenditure overseas. This saving must come almost entirely from defence and economic aid. There are two major uncertainties. The first is whether we can obtain a significant contribution from Germany and the second is whether Confrontation is seen to have ended in time.

45. Now that Confrontation looks like ending earlier than could be expected at the time of the Defence Review, the date for the reduction in force levels can be brought forward in the Far East by eighteen months. This is, however, absolutely dependent on the ending of Confrontation by 1st January, 1967. This coupled with the run-down in the Mediterranean and the Middle East should achieve a net saving of £40 million in 1967/68. Certain risks to our political position are involved and are brought out in paragraphs 16-24.

46. Some further savings can be extracted: £10 million from economic aid, nearly £5 million from military aid and about £7 million from the Diplomatic Service and information services. These could bring the total saving to something over £55 million.

47. Even a saving of this order involves substantial political and other difficulties. These are set out in paragraphs 16-24, 28 and 31-38.

48. If we were to get as much as £50 million from Germany we should then have achieved the target, but we think this is most unlikely and we therefore consider other means of achieving it.

49. We might get a saving from Germany of £15-20 million, partly by an additional German contribution and partly by some agreed withdrawal of forces, thus bringing the total saving to £70-75 million. Such agreement would of course preclude any other withdrawals from Germany, except by imperilling the whole of the enlarged offset agreement and thereby incurring a foreign exchange penalty.
50. To achieve a further saving of £25-30 million, thus reaching the target, would mean a cut in aid of e.g. a further £5 or £10 million, coupled with such a reduction of our forces in the Far East that without much further study (which is already in progress) we cannot say whether they would then serve any useful purpose. The alternative of a total withdrawal from the Persian Gulf would risk international chaos in this area with a consequent disruption of oil production in the short-term and would interfere with our communications to the Far East.

51. If we get no additional help from Germany at all, the financial and practical limitations in respect of what we can do by way of withdrawing forces from Germany are:

(a) Short of withdrawal from the Alliance we cannot remove base facilities and installations and these cost about £1.5 million in foreign exchange.

(b) Even if we could bring back all our teeth arms without this being held to constitute such withdrawal we should undoubtedly forfeit our offset agreement from which we get about £40 million. Moreover there are practical limitations to the numbers which can be accommodated and trained in the United Kingdom in the short run.

52. We have nevertheless considered the possibilities of obtaining the further sum required to meet the target of £100 million by withdrawing all our forces from Germany. We have also considered the implications of obtaining the whole amount by withdrawal from the Far East. The political implications of these courses are set out in paragraphs 26-27.

Cabinet Office, S.W.1.,

C(66) 108

18th July, 1966

CABINET

THE ECONOMIC SITUATION

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate, for the consideration of the Cabinet, the attached memorandum, prepared by officials, on the Regulator.

(Signed) BURKE TREND

Cabinet Office, S.W. 1.
18th July, 1966
THE REGULATOR
Note by the Treasury and Customs

The Regulator Power

1. The power to impose the Regulator "if it appears to the Treasury that it is expedient, with a view to regulating the balance between demand and resources in the United Kingdom" was originally given in Section 9 of the Finance Act, 1961. Since then, the power has been renewed in Finance Bills at annual intervals.

2. The Regulator power extends to all of the Customs and Excise Revenue duties (other than licence duties) and the Purchase Tax. In 1964, greater flexibility was introduced by subdividing the duties into five groups -

   (a) Tobacco
   (b) Spirits, beer and wine
   (c) Hydrocarbon oil
   (d) Purchase Tax
   (e) Other duties, principally those on betting, matches and mechanical lighters.

Under Section 8 of the 1964 Act, either a surcharge or a rebate (but not both) may be applied selectively, at different rates up to a maximum of 10 per cent., to any one or more of these groups. But each group must be treated as a whole, i.e. it is not possible to raise just one of the rates of purchase tax.

Yield of a 10 per cent. Surcharge

3. The yield of a full 10 per cent. surcharge on the respective groups on a full year basis is shown in the following table. Figures are shown both gross and net: the net figures allow for the effect of the hire purchase proposals now before Ministers and for the additional export rebate which will become payable following the increases in the oil duty and purchase tax.

<table>
<thead>
<tr>
<th>Group</th>
<th>Gross £ million</th>
<th>Net £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Tobacco</td>
<td>Uncertain (see para. 7 below)</td>
<td></td>
</tr>
<tr>
<td>(b) Alcoholic drink</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>(c) Oil</td>
<td>74</td>
<td>68</td>
</tr>
<tr>
<td>(d) Purchase Tax</td>
<td>61</td>
<td>40</td>
</tr>
<tr>
<td>(e) Betting and other minor duties</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>
Effect on retail price index

4. The effect on the retail price index of increases in the respective groups is estimated at:

<table>
<thead>
<tr>
<th>Group</th>
<th>Direct effect on retail price index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco</td>
<td>+ 0.66</td>
</tr>
<tr>
<td>Drink</td>
<td>+ 0.34</td>
</tr>
<tr>
<td>Oil</td>
<td>+ 0.17</td>
</tr>
<tr>
<td>Purchase Tax</td>
<td>+ 0.18</td>
</tr>
</tbody>
</table>

1 There would be a further indirect effect of approximately +0.13 from a surcharge on oil, as the increased cost of oil works its way through into the price of other goods and services.

5. Thus the immediate effect of a 10 per cent. surcharge on drink, oil and purchase tax would be about two thirds of one per cent., and the ultimate effect about five sixths of one per cent.

Effect on Particular Prices

6. The effect on retail prices of a 10 per cent. surcharge is approximately as shown below.

(a) Tobacco

(Packet of 20 standard size plain cigarettes) 5d.
(Packet of 20 standard size filter tipped cigarettes) 4d.

(b) Alcoholic Drinks

Beer (pint of average strength) 1d.
Spirits (bottle of Whisky) 3s. 5d.
Wine (bottle of Port or Sherry) 7½d.

(c) Hydrocarbon Oil

Petrol (gallon) 3.9d. (in practice probably 4d. at the pump)
Paraffin (gallon) 0.2d.
(d) **Purchase Tax**

25 per cent. goods

<table>
<thead>
<tr>
<th>Item</th>
<th>Present Retail Price</th>
<th>Present Tax</th>
<th>Extra Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor car</td>
<td>£500</td>
<td>£87.10.0</td>
<td>£8.15.0</td>
</tr>
<tr>
<td>Motor car</td>
<td>£800</td>
<td>£139.46.5</td>
<td>£13.18.5</td>
</tr>
<tr>
<td>Washing machine</td>
<td>£100</td>
<td>£16.47.6</td>
<td>£1.12.6</td>
</tr>
<tr>
<td>T.V. Set</td>
<td>£65</td>
<td>£9.76.9</td>
<td>£0.18.9</td>
</tr>
<tr>
<td>Vacuum cleaner</td>
<td>£20</td>
<td>£3.45.3</td>
<td>£0.65.1</td>
</tr>
<tr>
<td>Electric blanket</td>
<td>£5</td>
<td>£0.15.6</td>
<td>£0.17.5</td>
</tr>
</tbody>
</table>

4C per cent. goods

<table>
<thead>
<tr>
<th>Item</th>
<th>Present Retail Price</th>
<th>Present Tax</th>
<th>Extra Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armchair</td>
<td>£20</td>
<td>£1.5.0</td>
<td>£0.2.6</td>
</tr>
<tr>
<td>Man's suit</td>
<td>£20</td>
<td>£1.8.0</td>
<td>£0.2.10</td>
</tr>
<tr>
<td>Pair of shoes</td>
<td>£3</td>
<td>£0.3.9</td>
<td>£0.0.4½</td>
</tr>
<tr>
<td>Saucepan</td>
<td>10s.</td>
<td>£0.0.7½</td>
<td>£0.0.0.5½</td>
</tr>
</tbody>
</table>

**Tobacco**

7. The duty on tobacco was substantially increased in both the 1964 (Spring) and the 1965 Budgets. Following these duty increases the consumption of tobacco (in quantity terms) has fallen but demand is so delicately poised that it is difficult to know what the effect on revenue of a further increase would be: any increase would be unlikely to exceed £25 million and might be considerably less and even the possibility of no additional revenue at all cannot be ruled out. To impose a Regulator surcharge at this stage might have an altogether disproportionate effect on demand and so on the future yield of the tobacco duty. This is not the purpose of the Regulator and it is recommended that group (a) be not included.

**Betting and Other Minor Duties**

8. The yield of a 10 per cent. surcharge on this group is small - only some £4 million a year. Moreover the new general betting duty will fall within the group and a surcharge could complicate its introduction and perhaps even prejudice its success. It is recommended therefore that group (e) also be not included.
The Regulator and the Export Rebate

9. Broadly speaking the export rebate counteracts the effect on export costs of the otherwise unrelieved elements of indirect taxation due to the oil duties, the purchase tax and the vehicle licence duties. If the surcharge remains in force for any length of time the question will arise of increasing the rates of export rebate to compensate for it. It will of course take a little time for the additional duty to work its way fully through into the cost of goods being exported but it is estimated that the additional export rebate payable following 10 per cent. surcharges on the oil duties and purchase tax would ultimately reach £7 million a year.

Recommendation

10. It is recommended by officials that a surcharge of 10 per cent. be applied to groups (b), (c) and (d), that is to the duties on alcoholic drinks and oil and to purchase tax. It will yield £175 million gross (£148 million net) in a full year. It would be possible to make an Order to bring this surcharge into operation at midnight Wednesday 20th/Thursday 21st July provided that a decision were taken and communicated to Customs by the evening of Tuesday, 19th July, or in the last resort by noon on Wednesday, 20th July. Any announcement in the House should be made not earlier than 3.30 p.m. in order to limit forestalling before the Order takes effect. The Order would require to be confirmed by Resolution of the House of Commons within 21 calendar days.


18th July, 1966
CABINET

THE ECONOMIC SITUATION

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate, for the consideration of the Cabinet, the attached memorandum, prepared by officials, on Public Sector Investment.

(Signed) BURKE TREND

Cabinet Office, S.W. 1.

18th July, 1966
PUBLIC SECTOR INVESTMENT

Note by the Treasury

We were instructed to prepare cuts in public sector investment, including expenditure by Central and Local Government, and by Nationalised Industries, totalling at least £100 m. in 1967/68.

2. We now suggest for the consideration of Ministers the cuts listed in this paper. If all were effected, the result would be a reduction in capital expenditure in 1967/68 of about £180-210 m., with smaller but still significant reductions in the current year. This total is made up of £70 m. for public service investment and £110-140 m. for nationalised industries. It is therefore possible for Ministers to exercise some degree of choice between the various possibilities listed, and still achieve cuts amounting to a figure well in excess of £100 m.

3. These proposals have been discussed with representatives of most of the Departments concerned. There has obviously not been enough time to follow the implications of each through in any detail; but we are satisfied that they are realistic and fully capable of achievement.

4. We have sought to concentrate on those items which, however desirable on broad general grounds, are not essential to the furtherance of the social and economic programmes to which the Government attach the highest priority. In particular, we have not considered any cuts affecting housing, schools or the health service, although the total exclusion of these programmes has inevitably limited our freedom of choice; these priority programmes also have implications for nationalised industry investment.

5. The reductions we have considered are as follows:

1. Investment by Central and Local Government

   (a) Water and Sewerage. Very stiff cuts on rural schemes in England and Wales, without touching schemes necessary on grounds of public health or housing development might save £11 m.

   (b) Swimming Baths. A virtual embargo on the construction of new swimming baths by local authorities (with some small savings on parks and recreational facilities) £12 m.

   (c) Local Government Offices. A virtual embargo on building of new Local Government Offices - £210 m.

   (d) Town Centre Re-development. A severe cut on new schemes for re-development of town centres (including purchase of land) - £2 m.

   (e) Roads. The Chancellor has already reserved the right to call for savings of £12 m. in 1967/68 as a continuation of the deferment exercise. The Ministry of Transport consider that the absolute limit for reductions is £17 m. (of which £16 m. fall on the Exchequer) if the road programme is not to be completely disrupted. This would involve postponing about £100 m. worth of work this year and next - perhaps one-quarter of the new starts over that period. These figures relate to England only; the
Ministry of Transport have indicated that if cuts of this order were enforced they would look for commensurate savings in Scotland and Wales. This would probably bring the total to £20 m., but we have not been able to discuss this with Scottish and Welsh Departments.

(f) Covent Garden Market. The postponement of the move of Covent Garden Market to Nine Elms would save £5 m. The viability of this scheme has not been fully established, and might be considered during the period of deferment.

(g) Farm Structure. The P.E.S.C. figures include £7 m. for new proposals. It now seems as though not more than £2 m. could be spent in 1967/68. Even this amount could be saved by deferring the making of schemes under the Agriculture Bill.

(h) Ministry of Public Building and Works. A cut of 50% in new starts planned for building on behalf of Government Departments would save £2 - 2\(\frac{1}{2}\) m. (including site purchases).

(i) Local Health and Welfare. A cut of 10% in loan sanctions would save £3 m.

(j) Police and Prisons. Capital cuts of £8\(\frac{1}{2}\) m. appear possible (some of this might be found on small related Home Office Services rather than on Police and Prisons proper).

(k) Higher and Further Education. A saving of £2 - 2\(\frac{1}{2}\) m. should be achievable - again with some elasticity as to where it might fall on these services.

6. To summarise, the possibilities examined are:

<table>
<thead>
<tr>
<th>Description</th>
<th>£m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water and Sewerage</td>
<td>11</td>
</tr>
<tr>
<td>Swimming Baths</td>
<td>12</td>
</tr>
<tr>
<td>New Local Government Offices</td>
<td>10</td>
</tr>
<tr>
<td>Town Centre Re-development</td>
<td>2</td>
</tr>
<tr>
<td>Roads (England)</td>
<td>12 - 17</td>
</tr>
<tr>
<td>Roads (Scotland and Wales)</td>
<td>3</td>
</tr>
<tr>
<td>Deferment of Covent Garden Market</td>
<td>5</td>
</tr>
<tr>
<td>Postpone Farm Structure payments</td>
<td>2</td>
</tr>
<tr>
<td>M.P.B.W. Public Building in U.K.</td>
<td>2 - 2(\frac{1}{2})</td>
</tr>
<tr>
<td>Local Health and Welfare</td>
<td>5</td>
</tr>
<tr>
<td>Police</td>
<td>2(\frac{1}{2})</td>
</tr>
<tr>
<td>Higher and Further Education</td>
<td>2 - 2(\frac{1}{2})</td>
</tr>
</tbody>
</table>

66 - 72
Nationalised Industries Investment

7. The bids for nationalised industries investment in 1967/68 had not been finalised but looked like running at a figure of £1,689 million.

8. The extent to which this investment can be cut depends to a large extent on the effect of the other measures taken by the Government to restrain consumer expenditure. In the context of the sort of package which we are considering, the following reductions appear practicable. In every case, however, they involve the deferral of projects which would in themselves be worth doing and also some risk of failure to supply essential services. On balance, however, we believe that this is a risk which it would be justifiable to take.

Electricity

9. This accounts for £760 million of the total. The deferral of one conventional power station, together with other reductions in reinforcement, distribution, showrooms, etc., would save £25 million. The alternative would be to defer a start on Hinkley B nuclear power stations: this would save £35 million in all, and even so the safety margin would still be higher than it is now. To these figures must be added about £4 million for corresponding reduction in Scotland.

Gas

10. This investment is particularly susceptible to decisions on housing, hire purchase and the regulator (in that order). It is also particularly difficult to take risks with. As part of a package, however, it might be reasonable to cut £10 million.

Coal

11. £10 million could be saved mainly by cutting out smokeless fuel plants and certain diversification projects.

Railways

12. £10 million could be saved by delaying electrification from Weaver Junction to Glasgow and on the Great Northern Line, by deferring some signalling improvements schemes and by rephasing expenditure on stations improvements.

London Transport

13. £5 million could be cut by making no provision for extensions to the London tubes in 1967/68 and by reducing the Routemaster contract.

Transport Holding Company

14. £5 million could be saved by making no new acquisitions in 1967/68.
British Transport Docks Board

15. £5 million could be saved, mainly by deferring a start on the new dock at Southampton. In addition if non­nationalised ports were subject to roughly a pro rata cut a further £10 million would be saved.

British Waterways Board

16. Nil. This Board only invests £1 million a year.

Post Office

17. £15-£20 million provided telephone demand can be damped down by requiring rentals to be paid in advance.

Air Corporations

18. Up to about £5 million might be cut from the airports and non-aircraft expenditure of the two Air Corporations. In addition, about £20 million could be saved by cutting an order for a replacement fleet for B.E.A. which the Minister of Aviation is about to put to his colleagues.

19. In addition a reduction of about £4 million should be possible in respect of A.E.A. Civil R & D which is not included in the total of the nationalised industries investment.

20. All the above figures include known or reliable forecast slippage. There is, of course, bound to be some slippage elsewhere in the programmes which cannot now be foreseen. But it would be unwise, given the reductions we are now making to put it at higher than £50 million.

21. To summarise, the total reductions possible seem to be:

\[
\begin{array}{lcc}
\text{Industry} & \text{1967/8} \\
\hline
\text{Post Office} & £15 - 20 \\
\text{National Coal Board} & 10 \\
\text{Electricity Council} & 25 - 35 \\
\text{Scottish Electricity Boards} & 4 \\
\text{Gas Council} & 10 \\
\text{B.O.A.C.} & \\
\text{B.E.A.} & 5 - 25 \\
\text{British Airports Authority} & \\
\text{British Railways Board} & 10 \\
\text{London Transport Board} & 5 \\
\text{British Docks Board} & 5 \\
\text{British Waterways Board} & \\
\text{Transport Holding Company} & 5 \\
\hline
\text{Total} & 94 - 129 \\
\text{Add} & \\
\text{A.E.A. Civil R & D} & 4 \\
\text{Non-nationalised docks} & 10 \\
\hline
\text{Total} & £108 - 143 million
\end{array}
\]
CABINET

THE ECONOMIC SITUATION

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate, for the consideration of the Cabinet, the attached memorandum, prepared by officials, on the extension of office control.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

18th July, 1966
Extension of Office Control

Memorandum by Board of Trade

1. In connection with further measures of restraint, the Board of Trade have been asked to consider an extension of the areas at present subject to control under the Control of Office & Industrial Development Act, 1965. These areas are (a) the Metropolitan Region (b) the Birmingham conurbation.

2. It would be technically difficult to extend the control to Scotland because of the differences in planning legislation. Moreover, it is assumed that it would not be intended to extend the control to those parts of the country that are to be designated as Development Areas as soon as the Industrial Development Bill has been enacted. These include the whole of Scotland except for Edinburgh and the surrounding district.

3. Of the remaining parts of England and Wales, a case can be made out for extending the control to the whole of the Midlands and the South East. This could be done by making an order extending the control to the East and West Midlands Regions and to those parts of the South East Region outside the Metropolitan Region. Congestion is increasing in these Regions; The Board are already operating a very severe policy in dealing with applications for Industrial Development Certificates, and control of office development would be a useful reinforcement of that policy.

4. If it were desired to extend the control beyond these Regions, the next step would be to cover certain additional large conurbations e.g. Bristol, Manchester, and the Leeds-Bradford area. On the same criteria, Cardiff should be included, but this would raise political difficulties in relation to Edinburgh, which could not readily be brought within the control. There is, however, no case on grounds of congestion for an extension to these conurbations.

5. A further step would be to cover the whole of England and Wales outside the new Development Areas. The difficulty over Cardiff would, however, still arise and the case on merits is even weaker than that for extending control to the major conurbations.

6. The control could be extended by an Order made on the day of the announcement to come into effect the following day. It would be subject to affirmative resolution of both Houses.

Board of Trade
18th July, 1966.
CABINET

THE ECONOMIC SITUATION

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate, for the consideration of the Cabinet, the attached memorandum, prepared by officials, on hire purchase restrictions.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

18th July, 1966
Hire Purchase Restrictions

Note by Board of Trade

The present restrictions (which were imposed on 4th February 1966) are as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Deposit</th>
<th>Repayment period (months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Cars</td>
<td>25%</td>
<td>27</td>
</tr>
<tr>
<td>(b) Domestic Appliances</td>
<td>25%</td>
<td>24</td>
</tr>
<tr>
<td>(c) Furniture</td>
<td>15%</td>
<td>30</td>
</tr>
<tr>
<td>(d) Cookers and Water Heaters</td>
<td>10%</td>
<td>48</td>
</tr>
</tbody>
</table>

2. If Ministers wish to include in further measures of restraint some tightening of hire purchase restrictions, the Board suggest that the new rates should be as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Deposit</th>
<th>Repayment period (months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Cars</td>
<td>40%</td>
<td>24</td>
</tr>
<tr>
<td>(b) Domestic Appliances</td>
<td>33 1/3%</td>
<td>24</td>
</tr>
<tr>
<td>(c) Furniture</td>
<td>20%</td>
<td>24</td>
</tr>
<tr>
<td>(d) Cookers and Water Heaters</td>
<td>Unchanged</td>
<td></td>
</tr>
</tbody>
</table>

In order not to upset the balance in favour of hiring agreements, it would be necessary at the same time to increase the minimum rental period under the Control of Hiring Order from 32 weeks to 42 weeks.

3. The total effect on net borrowing on hire purchase of all these changes would after one year be a reduction of £160 m., made up as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Reduction in net borrowing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cars</td>
<td>£100 m.</td>
</tr>
<tr>
<td>Domestic Appliances</td>
<td>£30 m.</td>
</tr>
<tr>
<td>Furniture</td>
<td>£30 m.</td>
</tr>
</tbody>
</table>

4. An alternative would be to increase the deposit on cars to 33 1/3% instead of 40%. This would reduce the effect on net borrowing to £120 m. It would then be necessary to have two minimum rental periods, 35 weeks for cars and 42 weeks for domestic appliances. This would complicate the preparation of the Order and to some extent the administration.
5. For comparison, Ministers may wish to know what the stiffest hire purchase terms were (in February 1956), and what the effect on net borrowing would be if they were to be imposed now:

<table>
<thead>
<tr>
<th></th>
<th>Deposit</th>
<th>Repayment period (months)</th>
<th>Reduction in net borrowing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cars</strong></td>
<td>50%</td>
<td>24</td>
<td>£150 m.</td>
</tr>
<tr>
<td><strong>Domestic Appliances</strong></td>
<td>50%</td>
<td>24</td>
<td>£90 m.</td>
</tr>
<tr>
<td><strong>Furniture</strong></td>
<td>25%</td>
<td>24</td>
<td>£50 m.</td>
</tr>
<tr>
<td><strong>Cookers and Water Heaters</strong></td>
<td>20%</td>
<td>48</td>
<td>£5-10 m.</td>
</tr>
<tr>
<td><strong>Floor Coverings</strong></td>
<td>25%</td>
<td>24</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Total (say) £300 m.

6. If Ministers were to decide to adopt the more severe restrictions described in para. 5, it would be necessary to make corresponding changes in the Control of Hiring Order. The minimum rental periods would be:

- Cars: 52 weeks
- Domestic Appliances: 64 weeks

This would introduce the same complications as those already mentioned in paragraph 4 above.

**Timetable**

7. Orders to give effect to the changes described in para. 2 above have already been printed in draft. They could be made, and the changes announced in the afternoon to come into effect as from mid-night on any day when Parliament is sitting, provided that a final decision is taken not later than 12 noon on that day.

8. Orders to give effect to the changes described in para. 4, 5 and 6 could be ready by Wednesday morning (20th July) and the changes could be announced that afternoon.

18th July, 1966.

At the time of the severest restrictions, floor coverings were in the same category as furniture. Under the present restrictions, they are treated in the same way as domestic appliances.
CABINET

THE ECONOMIC SITUATION

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate, for the consideration of the Cabinet, the attached memorandum, prepared by officials, on discriminatory measures to increase exports.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

18th July, 1966
Discriminatory measures to increase exports

Note by the D.E.A.

We were asked to consider the possibility of introducing special measures to increase exports quickly. The most effective methods are those which increase the profitability of exports at a time when deflationary measures should be making further capacity available for export.

2. In the exhaustive examination of export incentives over the last year and a half we have stopped short of recommending direct export subsidies for fear of international retaliation. The extent of discrimination so far has been the subsidising of manufacturing industry, as the major provider of our exports, through the investment grants scheme and the selective employment tax. We have considered three possible ways in which the Government could subsidise exports more directly.

(a) Direct export subsidy

3. The simplest way would be to replace the existing export rebate of 2½ per cent by a 10 per cent subsidy. With deflation at home this should be effective and, once introduced, quick working. But legislation would be needed to authorise such payments and a direct subsidy would be the most explicit breach of all our international obligations. It would bring quick and damaging retaliation.

(b) Charging a lower rate of Corporation Tax on exports.

4. Companies would be relieved of corporation tax in proportion to their export turnover. This would amount to a straight export subsidy. It would be open to the same objections as (a) above, yet be less direct and therefore probably less effective, more difficult to arrange and more complicated to administer. The
arrangements would have to be incorporated in a Finance Bill.

(c) **Inducements to individual exporters**

5. A third method of making exporting more profitable could be to provide special financial or other assistance - not related in amount directly to their exports - to good exporters. Industry would be opposed to any scheme discriminating in favour of individual companies and if one were brought in (or hinted at) without prior consultation, Government/Industry relations would be gravely damaged. And if a scheme involving, for example, preferential tax treatment for particular companies, were announced as part of a package designed to save the pound, it would be regarded here and abroad as a stratagem of desperation. It seems certain that, so far from strengthening confidence in the Government's ability to maintain the parity, it would weaken it. (This is not to say that there may not be useful scope for the Government to negotiate with individual companies to see whether it can exercise its controls and incentives e.g. industrial development certificates, training, etc., in order to persuade them to increase their exports. This will be followed up, but it needs careful working out and the effect on exports is bound to be gradual.)

**Cheap credit for exporters**

6. Of the various possibilities we have examined the only one where there seems to be any prospect at all of working out a practical scheme is the provision of cheap credit to exporters. This is already done on a limited scale here and more widely abroad. With the increase in interest rates such a scheme would be more valuable.
7. The simplest arrangement would be to extend to short term export credits the low rate of interest (5½ per cent) now available on export credits of two years or more. This would involve a direct Government subsidy to the banks if they could not be prevailed upon to absorb the cost themselves (as they do under the present scheme). We might be accused in doing this of breaching international obligations and it would almost certainly fall foul of E.F.T.A.; but other countries, notably France, do something similar and we might get away with it outside E.F.T.A. However, the total value to exporters of a scheme of this kind would probably be less than £10 million a year, so its effects on exports would be marginal.

8. A more substantial measure would be to reduce the cost of overdrafts used to finance production for export. This too would be an export subsidy proscribed by G.A.T.T. and E.P.T.A. for which, however, there is so far as we know, no international precedent. It would require legislation, it would be difficult to administer and very difficult to ensure that the credit is used for exports. Large scale abuse of the scheme would undermine the credit squeeze. On the other hand, if some practicable and internationally acceptable arrangements could be devised this scheme could have a significant impact.

Conclusion

9. None of these measures would be suitable for announcement in this week's "package". A direct export subsidy, a lower rate of corporation tax on exports and financial discrimination in favour of good exporters are unacceptable internationally and would weaken confidence. There may be scope for reducing the
cost of credit to exporters and for negotiating with individual firms to get them to increase their exports. These last two possibilities are being examined. It is not yet clear that any practical schemes can be worked out and until this is established, they should not be mentioned as possibilities.

Department of Economic Affairs.

18th July, 1966
18th July, 1966

CABINET

THE ECONOMIC SITUATION

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate, for the consideration of the Cabinet, the attached memorandum, prepared by officials, on exchange control measures.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

18th July, 1966
EXCHANGE CONTROL MEASURES

Note by the Treasury

A. RESTRICTIONS ON TRAVEL ABROAD

One course would be to introduce a limit of £50 per head on holiday travel (excluding fares) in the non-Sterling Area. Travel in the Sterling Area would remain unrestricted. A £50 limit would be announced as being fully in force from 1st November, 1966 for one year, the implication being that thereafter it would be revised upwards or abolished.

2. It would not be practicable to introduce the new limit at once in the middle of the holiday season. We can, however, take some measures to prevent people accumulating foreign exchange now for expenditure next year (see below).

The facts

3. Travel has been unrestricted since 1959. Expenditure in the non-Sterling Area has risen from £208 million in 1965 to £227 million this year and is forecast at £241 million in 1967. The deficit on travel account with non-sterling countries is expected to rise from £81 million in 1965 to £95 million in 1966 and £104 million in 1967.

Estimated savings

4. The following estimates have been made of savings that might be made on expenditure forecast for 1967:

<table>
<thead>
<tr>
<th>Allowance per person</th>
<th>Saving (£m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIL</td>
<td>175</td>
</tr>
<tr>
<td>50</td>
<td>49</td>
</tr>
<tr>
<td>60</td>
<td>38</td>
</tr>
<tr>
<td>75</td>
<td>25</td>
</tr>
<tr>
<td>100</td>
<td>12</td>
</tr>
</tbody>
</table>

These estimates must be treated with considerable reserve. No allowance is made for evasion, which may be considerable; the lower the limit the more likely there is to be evasion.
International obligations

5. Restriction on travel expenditure would require the prior consent of the International Monetary Fund under Article VIII of the Agreement and also derogation under the O.E.C.D. Code of Liberalisation of Current Invisible Operations (with an obligation to reverse the derogation within eighteen months). Also it would be contrary to the terms of UNISCAN Declaration.

Domestic difficulties

6. A restriction to, say, £50 would be widely unpopular and would result in administrative difficulties for the banks and travel agents. Longer trips, e.g. to the United States, would become difficult or impossible, but the ordinary family should be able to manage Western Europe. Average expenditure a head on holiday travel in Western Europe has been estimated at between £40 and £45.

Timing

7. Because of prior commitments of both travel agents for package tours and of individuals for their own bookings, it would not be practicable to enforce a new £50 limit until 1st November. During the intervening period there would be no restriction on sterling payments through travel agents, but the amount of foreign currency any one person could have would be limited to £50 unless they had already made bookings and had already given firm instructions to their bankers for more money. This is only a partial solution of the difficulty, but is the best we can devise. It would be criticised on the grounds that people could have whatever hotel accommodation they liked, however expensive, and have £50 for spending, provided they booked through a travel agent, but would be restricted to £50 for everything if they booked their own hotels. But by far the largest amount of travel agency bookings is for cheap package tours. Applications from individuals who had made hotel bookings direct (or who had made firm plans for their holidays) costing more than £50 a head would be dealt with by delegating authority to the banks to give extra exchange where evidence of hotel bookings was produced. Applications where there was no clear evidence would be considered by the Bank of England.

Administration

8. The new limit can be brought in under existing Exchange Control powers by means of a Notice to the market. The Bank have the necessary forms available to operate the interim arrangements at once.
Consequential changes to date from 1st November, 1966

9. We recommend that if the ordinary travel allowance is £50 a head we should leave business travel at £20 per day but would reduce the total amount per journey from £1,500 to £1,200.

10. We would introduce the following other changes:

1. Reduce permitted export of sterling notes from £25 per head to £15. This will mean stricter supervision by Customs at the ports and airports.

2. Reduce annual cash gifts from £250 to £50.

3. Introduce a car allowance (mainly for petrol) of £25 (motor cycles £15).

4. The health allowance would be cut from £10 per day each for patient and companion to £7 per day each. (The allowance does not include medical expenses.)

5. **Credit cards**

   It would be necessary for the issuing companies to suspend their overseas facilities by 1st November at the latest. The Bank of England, however, will explore with the companies whether it is possible for them to suspend these facilities at an earlier date, say by 1st September. The amount which is expected to go out through this channel over and above the sums that will be permitted in the interim period should be small being mainly a matter of payment for meals.

**Conclusion**

11. As mentioned above, there would be evasion. We cannot estimate how much, but we certainly could not expect the net saving of a £50 limit and the consequential changes to be more than £40 million — and it could well be less. By the same token, a £60 limit would produce a net saving of about £30 million, which could be less.
B. EMIGRANTS' REMITTANCES

The proposal

12. Emigrants may at present remit up to £5,000 per family unit at the official rate of exchange. Any balance of sterling capital in excess of this figure is blocked but is realisable for foreign currency through the security sterling market. The proposal is to substitute realisation over a period of four years of all amounts above the £5,000 through the investment currency market instead of the security sterling market.

Cost of present arrangements

13. In 1965, 10,700 persons were granted emigration facilities. Their total sterling assets amounted to £39 million, of which £14 million was remitted at the official rate of exchange (an average of about £1,500). About one-half of the balance of emigrants' assets, i.e. some £12 million, is thought to have been realised through security sterling and the remainder left invested in the United Kingdom. The amounts for 1966 look like being larger because an increasing number of wealthy people are emigrating.

O.E.C.D. obligations

14. The O.E.C.D. Code of Capital Transactions requires the liberalisation of emigrants' remittances. The United Kingdom's use of security sterling is accepted as satisfying this requirement. Any action which restricted the ability of emigrants to make transfers by one of the approved methods would oblige the United Kingdom to invoke the derogation clause of the Code on balance of payments grounds and to attempt to comply with its obligations again within eighteen months. The approved methods are official exchange, security sterling or investment currency provided the variations from the official rate of exchange are small. It is likely that the O.E.C.D. would take the view that a change to the use of investment currency, if it remained at its present high level, would not satisfy the requirements of the Code.

Case for a change

15. The present arrangements would be satisfactory if the security sterling arrangements prevented any loss to the reserves as originally intended.
In some conditions of the sterling security market an increase in the supply of security sterling, such as comes from emigrants realising their assets, is equivalent to a loss of foreign exchange; in others to a postponement of the time when foreign exchange could be expected to accrue to the reserves. In present circumstances, when the rate is significantly below par, an increase in the supply of security sterling would put pressure on the rate but involve no immediate loss of exchange. But such a loss could take place if the security rate were to rise to near parity with the official rate as confidence in sterling is restored. Although we cannot therefore be certain about the precise effect of an increase in the supply of security sterling it is clear that the use of investment currency is a much surer way of safeguarding the reserves than operating through security sterling.

16. It is impossible to estimate to what extent the reserves would benefit as a result of the change. This would depend on two elements: the first would be how far the investment currency premium led emigrants to keep more of their money in this country for the four-year period than would otherwise have been the case in order to avoid what amounts to about a 25% tax on their capital; the second would depend on the degree of saving to the reserves, if any, afforded by the present requirement that realisation above £5,000 should be through security sterling. If, in the event, the protection to the reserves afforded by security sterling would have been negligible, then the saving resulting from changing to investment currency would be considerable.

17. After the four-year period, emigrants would be free to remit any remaining balances at the security sterling rate. The scheme can therefore be represented as one to help us over a difficult period.

Assessment

18. It is a tough measure which will give rise to complaint given that the investment currency premium is now over 25%, while the penalty for the use of security sterling would normally be only 1% or less. It is bound to have some effect on the investment premium but we cannot tell how much. The very height of the premium will be an incentive for those emigrants who do not really need to realise their capital to leave it in the U.K.
(thereby increasing the relief to the reserves). While those who wish to take their money will be free to choose when to buy foreign exchange and how much.

19. In effect, we will be giving emigrants the same facilities (over and above their initial £5,000 at the official rate) to buy foreign exchange as other residents. After the end of the four year period they will be entitled to take their remaining balances at the security sterling rate like other non-residents.

18th July, 1966

Treasury Chambers,
London, S.W.1.
C(66) 114

18th July, 1966

CABINET

THE ECONOMIC SITUATION

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate, for the consideration of the Cabinet, the attached memorandum, prepared by officials, on a prices and incomes standstill.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

18th July, 1966
It has been suggested that, as one of a series of measures to meet the immediate economic situation the Government might declare a freeze (which might best be officially called a "standstill") on increases in prices and incomes for a specified period.

2. Experience during and since the War suggests that very little reliance could be placed on legal enforcement for this purpose. No satisfactory and acceptable way was found during the War of controlling directly increases in pay. Early attempts at price control in 1939/40 had little success until price control was linked with elaborate controls over quality (the Utility schemes), rationing, state trading, Exchequer subsidies, etc. backed by a very large administrative machine.

3. This suggests that the proposed standstill will have to rely largely on voluntary co-operation. It will have in any case to start on a voluntary basis until any legislative powers are enacted. This emphasises that the scheme for a freeze must be of a kind which will be generally accepted by the community as necessary in the national interest. From a strictly economic point of view the present need is to combine a freeze on money incomes with measures to reduce demand. But in practice a pay freeze would be regarded as tolerable by trade unions and public opinion only if it was accompanied by a comparable standstill on prices and dividends.

**Type and period of Standstill**

4. There is no possibility of an absolute freeze on prices. On the incomes side there is a broad choice between an attempt to secure either a complete freeze for a short period or a standstill with some provision for exceptions for a longer period.

5. To be most effective the first course would provide for no exceptions (even for lowest paid workers or for productivity). There would be a prohibition on the implementation of existing commitments, including pay increases due under long term agreements and on the payment of wage and salary increments for the period of the freeze. A complete freeze of this kind would involve pretty rough justice for many groups and, in so far as prices rose, would involve a cut in real incomes. It would probably not therefore be possible to sustain it for more than six months. Negotiations and arbitration and reports by the N.B.P.I. would continue, and agreements reached would be implemented at the end of the six months period.

6. A short but complete freeze could be expected to have an immediate and dramatic impact, both on home costs and on overseas opinion. It would have the appearance of greater equality of treatment even though the treatment would be harsher, but the anomalies and inequities would accumulate over the six months, and there would be a flood of pent-up increases at the end of the period, which could be very damaging. Six
months would be a very short period in which to make effective arrangements for an orderly and moderate pattern of pay increases to follow the freeze. Making the freeze effective so long as it lasts is likely to take up most of the Government's energies during this period.

7. The second course would involve a less crude approach to pay increases and could therefore be sustained for a longer period, say 12 months. But it would have a much less immediate impact, particularly if existing commitments and cases in the pipe-line were allowed as exceptions. Once some exceptional cases are admitted, it becomes very difficult to draw the line. The main advantages of the second course are that it would be likely to be more acceptable and therefore more effective and that it would provide a longer period in which to plan for the orderly growth of incomes following the standstill. Although there would be very considerable difficulties in defining the criteria for exceptions and operating the machinery for applying them, these criteria and the machinery could continue to be used with any modification thought desirable after the standstill period.

8. It might be possible to combine elements of both these courses by having a year's standstill which provides for strictly limited exceptions together with a six-month deferment of all increases under existing commitments, including annual increments, due in the course of the year. This would combine some of the advantages (as well as the disadvantages) of both courses.

Legislative provision

9. Since it would be impossible to enforce detailed controls over prices and pay by law, there would be no advantage in introducing detailed legislation. Even if it were possible to take comprehensive statutory powers of control fairly quickly, it would take a considerable period to build up the machinery needed for enforcement, by which time many people would have "jumped the gun".

10. It would, however, be desirable to support the request for a standstill with some statutory powers, if only to deter some of those who deliberately set out to flout the policy. The alternative possibility of fitting selective provisions into the Prices and Incomes Bill is discussed in para. 38 (iii) below.

11. It should be recognised that even if the standstill were reinforced by some statutory powers, it could not be expected to be completely effective. But given a reasonable measure of public support it could be sufficiently effective to strengthen the economy in the short-term.
Incomes standstill

12. In principle it would be necessary to call for a standstill on all personal incomes, including incomes of self-employed persons, fees, dividends, etc., if it were not to be regarded as discriminating unfairly against wage and salary earners. In practice it would be difficult to make a standstill effective except in respect of those wages, salaries and fees which are negotiated.

13. One of the biggest problems is how to treat existing commitments. These fall into several categories:

(a) Pay increases due under agreements already in force. In the 12 months to 31st July, 1967 increases in wage rates or reductions in hours (or both) averaging 5.5% per annum are due under existing agreements to about 5 million manual workers (about a third of the total number of wage earners) including workers in engineering and shipbuilding, iron and steel, and railways. There is no commitment at present outstanding in respect of the non-industrial Civil Service, although about 60,000 civil servants are due for increases under pay research.

(b) Pay increases recently agreed but not yet in operation. Examples are electrical contracting, local authority manual and non-manual workers. In some cases the settlement and its implementation may have been delayed as a result of Government pressure. Wages Council proposals not yet approved by the Minister of Labour might be regarded as falling in this category.

(c) About two million workers are covered by cost of living sliding scale arrangements, mainly in construction, iron and steel, printing and hosiery.

(d) Some groups are expecting pay increases as a result of action taken or supported by the Government. Examples are the dockers, railwaymen, policemen and Government industrial workers.

(e) Some workers have contractual rights to pay increases at future dates, which employers could not be expected to abrogate on a voluntary basis; others are entitled to pay reviews. Civil Service P.R.U. Surveys covering over a quarter of a million civil servants are due for completion by the middle of next year.

(f) Many salaried workers (and some wage-earners) receive pay increases in the form of annual increments on a scale.

14. These forward commitments pose a difficult dilemma. If a standstill is introduced on the basis that they are to be honoured (as was done in the 1961/62 pay pause) its effectiveness would be much reduced and it would be regarded as falling unjustly on those workers who by chance or for other reasons (including pressure from the Government in some cases) are not covered by an existing commitment. On the other hand to deprive large numbers of workers of pay increases to which the employers have agreed would be no less unpopular and, so far as the private sector is concerned, might be impracticable.
15. If the standstill made any provision for exceptions it would be necessary in addition to declaring a "norm" of zero -

(a) to lay down much more stringent criteria for deciding exceptions, probably with a relatively low upper limit on exceptional increases;

(b) to channel exceptional cases through the Board, since it would otherwise be very difficult to control them. This would call for a re-thinking of the scope and functions of the Board, since a very large number of cases might need to be handled over a short period of time.

16. The functions of statutory wage-fixing bodies would need to be modified or suspended; arbitration awards would have to conform to the criteria laid down by the Government or would have to be put in abeyance for the standstill period.

17. There would in practice be no effective way of preventing pay increases at work-place, site or factory level, nor would this necessarily be desirable in a case where a pay increase was the only way of getting work done. There would be widespread pressure from workers, if the cost of living increased significantly during the standstill period. There would be no effective way of preventing collusion between employers and individual employees to secure pay increases through upgrading, reclassification of jobs, etc. The attempt to impose a legal standstill on pay increases would be strongly resented by some if not all trade unions. If pressed very far it would result in strike action and a general worsening of industrial relations.

18. The main danger of a complete standstill (which would apply to a lesser extent to the less rigid forms) is that the pressure for pay increases which would build up during the standstill period, exacerbated by the inevitable feelings of unfairness would result in a spate of increases as soon as it was over which would nullify the economic advantage that had been gained. It would be necessary, therefore, to try to phase out the increases at the end of the standstill in accordance with priorities that had been worked out in agreement with the T.U.C. and C.B.I. and with the assistance of the N.B.P.I. Alternatively, by using amended powers under Part II of the Prices and Incomes Bill it might be possible to ensure that the implementation of settlements reached during the standstill period and subsequently was deferred by up to six months from the date of the settlement.

19. The standstill would have to be imposed rigorously in respect of the pay of public servants and employees of nationalised industries. It would probably be desirable for statutory directions to be issued to the Boards of nationalised industries forbidding them to increase rates of pay without Ministerial consent. It would be necessary to secure similar restraint on the part of local authorities. It would probably be difficult to avoid a widening discrepancy between the treatment of employees in the public and private sectors. This would be strongly resented by employees in the public sector.
prices standstill

20. It would be impossible to secure a complete standstill over the whole field of goods and services. There are important differences between movements of incomes and of prices because of the direct influence on prices of e.g. increases in Purchase Tax and of world market prices of food and raw materials. Nevertheless the trade unions would expect every effort to be made to have a standstill on all types of prices and charges. Management also would tend to feel that it would be unfair if the standstill on prices covered only a part of the field.

21. An attempt to secure by statutory control that no prices were increased would tend to be ineffective unless extensive machinery, involving very large staffs, was devised to control prices and police them. Moreover in much of the consumer goods field it is almost impossible to define price except in relation to quality, style, etc., e.g. clothing and furniture. Given wartime experience, it is clear that the controls would have to extend to defining quality.

22. Initially there would have to be a voluntary approach with an appeal to all concerned not to increase prices and the response would depend on the reception of the proposed Government measures as a whole. This should apply to all prices and charges.

23. But for the statutory phase it would seem unavoidable that the main emphasis should be placed on a selective approach resting on the list of goods and services covered by the current voluntary early warning and standstill arrangements. It should be possible to extend this list somewhat, though groups such as clothing and imported foods and foods subject to seasonal fluctuations could not readily be covered. It might be possible, however, to develop the technique in use by the Ministry of Agriculture, Fisheries and Food of keeping certain food prices under constant watch to apply over a wider field.

24. For all the items listed, there would be a statutory early warning covering an initial period of up to three months (or possibly even six months) and a total period of up to one year if the proposed price change was referred to the N.B.P.I.

25. The criteria for judging whether a case existed for a price increase would need to be narrowed, compared with those set out in the White Paper on Prices and Incomes Policy (Cmd.2639). But the following would have to be accepted from the outset as reasonable grounds for seeking an increase:

(a) Increases in the cost of imported materials;
(b) Marked seasonal factors;
(c) Increases in costs imposed by the Government such as Selective Employment Tax and increases in indirect taxation.

26.
26. Provision might also be made in the Prices and Incomes Bill to the effect that where a price not covered by the early warning requirement had been increased and had been referred to the N.B.P.I., the Government should have power, if the Board so recommended, to require the enterprise to lower its price to the original level. As in the case of incomes references, the Board would have to be organised to be able to deal with large numbers of cases on the basis of more stringent and precise criteria.

27. It would be important to try to enlist the immediate support of larger firms, both in manufacturing and in distribution. If a number of the largest firms were willing to give specific pledges this would be a valuable example to the business community as a whole.

28. Inevitably, the public would tend to expect most prices to remain unchanged and there would no doubt be a large flow of complaints about price changes. These would at least provide some help in watching the behaviour of firms and might make it possible to take some exemplary action against unjustifiable increases.

29. Given a measure of deflation in the economy and some check to incomes increases, the climate might in time become more favourable to holding prices. But it must be remembered that prices have shown greater stability than incomes over the past year and that some recent

/large

6.
large increases in labour costs have not yet been reflected in prices. The initial phase of the standstill might therefore prove difficult, particularly if there was any real lag between announcement and legislation.

Charges by Nationalised Industries and Government Departments.

30. The price standstill would need to apply with particular rigour to the prices and charges of the nationalised industries. This would mean in practice that no price or charge could be increased without reference to and a favourable report from N.B.P.I. In so far as charges are fixed by independent statutory bodies (e.g. London passenger fares) special legislative provisions might be necessary.

31. As far as other public sector prices and charges are concerned, the position is less straightforward because some of them e.g. charges for school meals reflect public expenditure and taxation considerations. An increase in charges of this type could best be presented as part of the measures to reduce public expenditure.

Rents and Rates

32. Rents give rise to difficulty. In the public sector there is already a wide measure of subsidisation and if rent increases were held up there would be pressure on local authority finance. This could be eased only by increased Exchequer assistance or by increases in rates. But a considerable number of wage earners would expect local authority rents to be frozen if their pay was being frozen, particularly if taxation had been increased.

33. Private sector rents are now subject to the machinery of the Rent Act 1965, which allows for reduction as well as increases. But here again, the public generally would expect rents to be covered by a prices and incomes standstill.

34. Although rates are a form of taxation, they are also a significant element in the cost of living index. Substantial further increases in rates seem inevitable on present policies, but it hardly seems realistic to envisage a real standstill on increases in rates.

/Mortgage
Mortgage Rates

35. These could only be subjected to a standstill if interest rates generally were kept stable.

Dividends

36. A standstill on dividends paid by individual companies during the twelve months would seem to be essential for presentational and political reasons. Provision might possibly be made for special treatment in cases approved by the Government or approved by the N.B.P.I. but it is in fact probable that dividends this year and next will on average be lower than last year especially with a more marked deflationary trend, so that a standstill might not give rise to undue difficulty.

Other Money Incomes

37. It is open to the Government themselves to have a considerable influence on the incomes of Farmers. The incomes of self-employed persons are more of a problem in the circumstances of a general standstill. It might be necessary to try to devise some arrangements for re-assuring public opinion that such incomes, particularly all forms of professional fees, were being kept under constant watch so that any increases could be referred promptly to the N.B.P.I.
Summary and Conclusions

38. (i) There is no possibility of bringing into existence rapidly the elaborate administrative machine that would be needed to enforce statutory controls over prices and incomes. In any case a standstill would need to become effective as soon as it was announced in order to avoid anticipatory increases in prices and pay. For both these reasons it would be necessary to rely largely on voluntary co-operation.

(ii) This means that a standstill would need to apply to prices, incomes and dividends and to treat them on a basis which was regarded by everyone affected as reasonably fair.

(iii) There would be no advantage in introducing detailed legislation for wage and price control, since this could not effectively be enforced. But it might be desirable to strengthen Part II of the Prices and Incomes Bill by:-

(a) extending the powers of compulsory standstill from one month to three (or six) months in the first instance, and from four months to twelve months in all;

(b) taking power to require prices to be lowered on the recommendation of the N.B.P.I.;

(c) to require notification of all existing commitments for increases in pay;

(d) to indemnify employers for breach of contract resulting from the standstill;

(e) to amend the requirements of legislation relating to Wages Councils, etc;

(f) to impose a standstill on dividends.

Standstill on Incomes

(iv) There are two possible approaches:-

(a) To impose a rigid standstill with virtually no exceptions for a period of six months.

(b) To reduce the norm from 3\% to zero and to introduce more stringent criteria government treatment of exceptional cases. A less rigid standstill of this type might be maintained for twelve months.

The main advantage of course (a) lies in its shock treatment and the impression which this might make on foreign opinion. The advantage of course (b) would lie in the fact that it gave greater scope for dealing with anomalies and obvious inequalities and would make it easier to control pay increases in an orderly fashion at the end of the standstill period.
(v) A possible combination of these approaches would be to require all increases due under existing commitments to be deferred six months from the due date and to permit other increases on the recommendation of the N.B.P.I.

(vi) It would be necessary to lay down more stringent criteria governing increases in incomes and prices. In particular it would be necessary to make it clear that any price increases resulting from increases in indirect taxation or import prices were not to be regarded as justifying increases in pay.

Price standstill

(vii) It would be necessary to accept that increases in prices could still be justified by movements in import prices or seasonal factors or by governmental action (for example, Selective Employment Tax or indirect taxation).

(viii) In addition to an appeal for voluntary co-operation, use might be made of the statutory early warning requirements (as extended in (iii) above).

Dividends

(ix) Companies would need to be required not to increase their dividends for 12 months.

Department of Economic Affairs,
Storey's Gate,
S. W. 1.

16th July 1966
CABINET

THE ECONOMIC SITUATION

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate, for the consideration of the Cabinet, the attached memorandum, prepared by officials, on import controls.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

18th July, 1966
IMPORT CONTROLS

Note by Officials

This note is addressed to the question whether import controls should enter into the statement now expected on Wednesday. It comes to the following conclusion.

2. If any reference at all were made to the possible introduction of quantitative restrictions, or to consultations with this in mind, it would provoke an immediate and substantial increase in all the imports likely to be affected. There is evidence that forestalling of this kind is already taking place. Moreover there is a strong danger that, if q.r. were presented as part of the package, foreign opinion would conclude that the rest of the package was not likely to be effective by itself. If the package were sufficient q.r. would not be needed.

3. It recommends that the idea of introducing quantitative restrictions or of retaining the import charge should not be pursued. If Ministers accept this recommendation it would be important to reassure the public that no such control is contemplated. So long as there is uncertainty there will be forestalling.

4. The only control that could safely be announced is the possible introduction of import deposits, but this would only produce a limited short term advantage.

5. There are three possibilities: quantitative restrictions, import deposits and the continuation of the temporary import charge.

6. Fresh legislation would not be needed. A possible scheme could produce a net cut of about £200m. in a full year (as compared with £100m. for the present surcharge) but in the first six months the saving in practice would be at considerably less than half the planned annual
annual rate. The scheme would cover manufactured consumer goods, certain other manufactures (including "off-the-peg" machinery), a range of manufactured foodstuffs and certain semi-manufactures readily available domestically. Most imports of machinery are not susceptible of restraint by a system of quotas because each individual import is specially procured, frequently by its eventual user, and there is no question of a regular demand for similar items; if machinery imports were to be restrained this would have to be done by individual licensing. Before the scheme of quota restrictions could operate 8 weeks would be needed for the necessary decisions (e.g. on coverage) to be taken, and for the 350 staff required to be recruited and housed. The staff required would be mainly in the executive and clerical grades where serious shortages already exist following the build-up of work e.g. on investment grants and the selective employment tax. If individual licensing were to be imposed on imports of machinery there would be an additional staff requirement of the same order of magnitude; the difficulties of recruitment would be even greater since the scheme would require a considerable number of trained technicians to assess comparative needs. These are not available in Government Departments and would have to be drawn from productive industry.

7. The Board of Trade advise strongly that it would be undesirable to announce the scheme before preparations were complete. It would be impossible to police until the administrative apparatus was set up, and effective arrangements could not be made for retrospection of the quotas to the date of the announcement. The effect would be widespread forestalling on a considerable scale.

/Import Deposits
Import Deposits

8. This would require legislation which would be extremely controversial. In particular it would not be possible to avoid numerous amendments relating to the coverage of the scheme. Although a draft Bill already exists its passage through Parliament could not be very rapid.

9. The effect on imports of a scheme of import deposits is difficult to estimate in view of the lack of any past experience. A scheme with the same coverage as the temporary import charge, with deposits of 100 per cent for three months would freeze £100m. of credit. The economic advisers concluded that as a continuing method of import restraint an import deposit scheme would not be effective; but that it might be useful as a means of dampening the surge which would follow the removal of the import charge. The case for such a scheme will have been weakened by the severity of existing monetary restraints and by their prospective intensification as a result of the incidence of the selective employment tax payments.

10. It is not expected that the announcement of a scheme of import deposits before the expiry of the temporary import charge would give rise to significant forestalling. A period of some months would, however, be required to recruit and train the 130 staff needed to operate a scheme with the same coverage as the temporary import charge, and to programme the computer and obtain additional equipment. It may be doubted whether the short-term savings to be obtained would outweigh the considerable legislative and administrative difficulties.

Continuance of the temporary import charge

11. Fresh legislation would be required to prolong the temporary import charge beyond the end of November 1966. The Bill would be straightforward but it would nonetheless be controversial and would be /susceptible
susceptible of a great deal of detailed amendment. No new administrative machine would have to be created and no problem of forestalling would arise; but there are formidable international difficulties.

**International aspects**

12. The temporary import charge has been under continuous international fire, particularly in E.F.T.A., for a period of nearly two years. It has been tolerated only in the face of repeated assurances that it was a temporary measure introduced to hold the situation until longer term policies became effective. We have argued all along that, although it contravened the letter of international agreements, they did permit the use of direct restraints on imports as a temporary measure by a country in balance of payments difficulties and the charge was less rigid and less permanent than any system of q.r. In the past two months since the removal of the charge was announced, firm assurances have been given both to the House of Commons and to E.F.T.A. that

"While Her Majesty's Government cannot be expected to give a hard and fast undertaking of indefinite duration, not to take alternative direct measures, if e.g. the balance of payments once again deteriorated seriously, Her Majesty's Government do not intend to replace the surcharge by any other measure of direct import restraint on the demise of the charge."

13. The continuation of the import charge or its immediate replacement by quantitative restrictions would be regarded as a direct breach of faith. It would provoke massive international criticism in the I.M.F. and GATT which would, almost certainly, lead to retaliation. It might well put an end to E.F.T.A. It could well aggravate the difficulty of obtaining support for the pound and do serious damage to confidence in sterling.
14. The position in GATT is that quantitative restrictions might have been tolerated in the past two years to deal with balance of payments difficulties which were regarded as temporary. But instead we chose the import charge (claiming that it was preferable to q.r.) and we have kept it for as long as a "temporary" restriction would normally be justified. Conceivably we might obtain further tolerance in the GATT if the I.M.F. were satisfied that the totality of our measures acting on the balance of payments would enable us to achieve equilibrium within a reasonably short space of time. If we resort to q.r. both they (and others) may well consider that our other measures will not be effective. Their confidence is already badly shaken by the fact that we shall not succeed in getting into balance in the course of 1966 without the import charge. Some of our partners in GATT would therefore be sure to retaliate by taking counter measures against our exports.

15. A special difficulty would arise in E.F.T.A. where the free trade area is due to come into force on 1st January 1967. Article 19 of the Stockholm Treaty permits the use of q.r. exceptionally - but only for a specified period of 18 months. (This would be regarded as having begun in October 1964 and as expiring last April.) After that period other countries are entitled to retaliate, e.g. by reimposing tariffs or q.r. on U.K. exports. The imposition of q.r. by the U.K. coming after two years of the import charge, would destroy the whole basis of E.F.T.A. Discrimination in favour of E.F.T.A. would in practice be impossible because of the attitude of our creditors, who rejected such a move when the t.i.c. was imposed in October, 1964.
16. In short, the international difficulties we have had with the import charge these past two years would pale into insignificance compared with the hostility we should expect to encounter by switching to quantitative restrictions in the immediate future.

17. The effects of a move on confidence in sterling would depend on many factors. Such drastic action would have to be justified by reference to the seriousness of our balance of payments situation, which could in itself tend to undermine confidence. On the other hand, mild action or inaction could also damage confidence, as being an inadequate response to the balance of payments situation. Foreign opinion might differ somewhat between those observers who are primarily concerned with trade, and those who are primarily concerned with finance. But disappointment over our inability to fulfil our undertaking to be in balance at the end of 1966, the risk of threat of retaliation, and the likelihood of acrimonious debate in international bodies, would all be a source of great risk to sterling. The course most likely to command confidence is an effective package which, by definition, does not require the addition of direct restraint of imports.

18. The continuation or intensification of the temporary charge on imports would be administratively far easier than the imposition of quantitative restrictions. Ministers have decided in April that the retention (and a fortiori an increase) in the rate of the temporary import charge would be unacceptable. Yet it seems likely that despite past experience the continuation of the temporary import charge would, if anything, arouse less international hostility than a switch to quantitative restrictions.

19. An import deposit scheme might be tolerated under the rules of the GATT and the International Monetary Fund, and would raise much /less
less animosity than q'r., but it would mean convincing other
countries that it was not being applied so as to afford protection
to domestic production. It would also be necessary to convince the
I.M.F. that the deposit was not a prior exchange deposit which
would be contrary to the I.M.F. Articles.

Restraint by persuasion

20. The possibility of a modern version of the Buy British
campaign (with a different title) has also been considered. Before
making any recommendation we need to seek advice from publicity
experts and from the retail trade on how the public would respond
to a campaign and whether it would be worth the cost. It would
seem undesirable for the Ministerial statement to refer to the
possibility of launching a formal campaign which would take a
minimum of three months to prepare. On the other hand the statement
might well include a sentence to the effect that: "Everyone can
help the country by taking care over what he or she buys; British
products should always be bought when they are of good value even
if their prestige is less than that of goods from overseas".

Department of Economic Affairs
18th July, 1966
CABINET

THE FUTURE OF CONCORD

MEMORANDUM BY THE MINISTER OF AVIATION

On 30th June, the Cabinet invited me to circulate a further report on the commercial prospects for the Concord with particular regard to the effect of the sonic bang.

2. The Attorney-General’s advice (a copy of the Attorney-General’s minute to the Prime Minister is at Appendix A) is to the general effect that the problems relating to sonic bang do not provide grounds which would justify our unilateral withdrawal from the project.

3. My predecessor reaffirmed in the House on 20th July, 1965 (a copy of his statement is at Appendix B), our intention of proceeding with Concord and the joint communiqué issued after the recent visit of the French Prime Minister stated “... they confirmed their intention of proceeding with this [Concord], while maintaining constant scrutiny of the financial aspects”. This statement will be interpreted as an indication of our determination to proceed with the project and the French will be quick to expose any reservations in our position. The French will ask whether we accept, as they have already, the report of the Committee of Officials (Annex B to C (66) 88) recommending the continuation of the programme.

4. So far about £45 million has been irrevocably committed to the development of the Concord. Just to continue the existing contracts which cover the construction of two prototypes will result in a commitment of about £60 million by the end of the year. The continuation of the programme however also implies entering into new contractual commitments for the construction of two pre-production aircraft and two airframes for test purposes, and for materials for series production. By the end of the year these further commitments will have taken the total up to £65-70 million. Financially the commitment will build up steadily, but politically a very critical point has been reached as the report of the Committee
of Officials explained. Once we have indicated that we are prepared
to continue with the project despite its increased development costs
and the need for the Government to underwrite the production, it
will be even more difficult to discuss withdrawal.

5. The fuller note on commercial prospects which was requested
is at Appendix C. It is based on extensive work carried out by
British and French officials and is the most authoritative advice we
can obtain. Inevitably it makes a number of assumptions on such
matters as rates of traffic growth, the fare structure which airlines
will agree to adopt, the relative attractions to passengers of different
kinds of travel and the extent of sonic bang restrictions by
Governments around the world. Some of these assumptions may
be proved wrong but we cannot know for a number of years.
Equally we cannot know for certain until the prototypes fly in 1968
whether or not Concord will be a technical success.

6. A note on the effect of the sonic bang is at Appendix D
but the short point is that no testing in this country will enable us
to forecast directly or accurately the restrictions which other
Governments may place on operations by supersonic transport
aircraft (SSTs).

7. No new factors are likely to emerge until we have
committed most of our money. I believe therefore that there are
only two alternatives:

   either (a) we accept the Committee of Officials report and
   announce our firm intention to proceed with the project
   thereby committing ourselves to the increased
development costs and the need to underwrite production,

   or (b) we seek to withdraw unilaterally.

For the reasons explained in my earlier paper (C (66) 88) I consider
that (a) is the only practical course.

F. M.

Ministry of Aviation, S.W.1,
18th July, 1966.
1. On 30th July the Cabinet invited the Minister of Aviation to consult me on the question, inter alia, whether technical considerations (and particularly the sonic bang) constituted a technical drawback which would legally justify our withdrawal from the Concord project. I have now considered this problem, in consultation with officials of the Foreign Office and the Ministry of Aviation; you may find it helpful to know my conclusions before the visit of M. Pompidou. I understand that the Minister is preparing a report on the broader question of the commercial prospects for the Concord in relation to technical considerations and rising costs of development.

2. I am informed that the extent to which the operations of civil supersonic transport aircraft (SSTs) would be restricted by Governments so as to limit the disturbance from the sonic bangs, which these aircraft must inevitably produce while they fly supersonically, has been a major cause of concern since they were first mooted. This applies as much to the proposed American SST (and to the one the Russians are known to be developing) as to Concord. The problem is thus not peculiar to Concord, and it has not hitherto deterred any of the four countries which are capable of doing so from embarking on the development of SSTs. The sonic bang question will thus require our attention whether or not we continue with Concord, as we shall in any event have to determine our policy about allowing SSTs to fly over this country, and to have regard to the restrictions which other Governments may place on supersonic flight over their territory. On the other hand, I understand that SST’s operating into or out of the United Kingdom are not likely to cause sonic bangs even if we place no restrictions on them at all, because the aircraft will not achieve supersonic speed within 100 miles or so of take-off or landing, at which stage they would generally be over the sea.

3. There have, I am told, already been extensive, but inconclusive, tests in the United States, and more limited ones in the United Kingdom and France, to determine the effects of sonic bangs, and public reaction thereto. I am also told that it can be expected that further tests in this country would add to our knowledge and enable us to speak with more direct authority in these matters, but they would not remove the uncertainty about the attitude which other Governments may eventually take toward the restriction of regular supersonic operations by airlines over their territories.

4. The conclusions which I draw from these considerations are:

(a) the development of Concord has not in itself created any new technical problem in relation to sonic bangs;

(b) even if we were to withdraw from the Concord project we would still have to face the problems arising from supersonic flights by the aircraft developed by other countries and which BOAC or BEA might have to acquire to stay in the business with competitors who may fly them; and
(c) the most that can, I think, be said about the sonic bang problem in relation to our liability under the agreement is that the impact of sonic bangs on the commercial viability, and therefore the saleability, of Concord remains uncertain. It cannot be said that this uncertainty gives us a let-out at this stage. Nor do I think that we would be able to contend successfully before the International Court that the problems relating to sonic bangs were not in the contemplation of the parties when the agreement was entered into, and that their emergence now constitutes such a fundamental change of circumstances as would entitle us to withdraw unilaterally from our commitments under the agreement.

5. Despite these conclusions you may wish to note that in the course of the preliminary discussions between British and French officials which took place in London on 2nd October, 1961, M. Moussa, the Directeur des Transports Aeriens, is reported to have said “the expectation would be that the aircraft would be completed, but if some technical snag, like the sonic boom, proved insuperable, then the [French] Government would cut its losses and abandon the project”. This is an extract from a Unilateral British Note which has not been agreed by the French, and therefore its value as evidence is limited. No provision was made for the contingency referred to by M. Moussa in the treaty that was signed a year later and there is no record that the British delegates referred to it at all. Moreover, it is clear that the sonic bang has not as yet proved an insuperable snag, and there is no evidence that it is likely to do so.

6. I am sending copies of this minute to the Lord Chancellor, the Chancellor of the Exchequer, the Foreign Secretary, the Secretary of State for Defence and the Minister of Aviation.


F. E. J.

APPENDIX B

STATEMENT BY THE MINISTER OF AVIATION IN THE HOUSE ON 20TH JANUARY, 1965

“We have now completed the review of the Concord project which we set in hand in October and we have exchanged views with the French Government.

We had, and we still retain, some doubts about the financial and economic aspects of the project. We have, however, been much impressed by the confidence of our French partners and my right hon. Friend the Prime Minister has informed the French Prime Minister that we stand by the treaty obligations into which the last Government decided to enter.

During the coming months we shall be discussing with our partners the detailed programme of development and production.

Now that the uncertainty over the future of this project has been removed I am sure that all those concerned with it on both sides of the Channel will press forward with a real sense of purpose. In this, they will have the full backing of Her Majesty’s Government.”
COMMERCIAL PROSPECTS FOR CONCORD

1. The basic facts regarding the costs of development were given in paragraphs 5 and 6 of my previous paper (C (66) 88). The estimate for the United Kingdom share of development costs now stands at £225 million—or £250 million when contingencies of £25 million have been added. This includes £40 million for development beyond certification of airworthiness. The amount of technical progress achieved to date is one reason for our having confidence in our present estimates. This confidence is further supported by special investigations by British and French officials into the cost-control methods of the main contractors.

2. It has long been recognised that the money spent on developing the Concord will not be fully recovered from sales. At best one-third of our outlay may be recovered. (This assumes at least 150 aircraft are sold plus spares to an equivalent value, and that the market will bear development levies ranging from 4 to 10 per cent.) But I believe that we can develop and produce a technically satisfactory aircraft at a time and at a production cost which will result in its being sold in considerable numbers to the world's airlines, with consequential benefits to our balance of payments. The commercial prospects of the aircraft have to be considered in relation to our technical ability to carry through the planned programme, the operating economics that Concord is likely to be able to offer, and the competition from other types of aircraft to which it will be exposed.

Prospects of the technical programme being achieved

3. My previous paper (C (66) 88) and the report from the Anglo-French Committee of Officials recorded the British and French officials' view that the planned performance will be achieved and that there is a good prospect of first deliveries to airlines before the end of 1971, as planned. This view follows 10 years of continuous work in the United Kingdom, of which the last 3½ have been in association with the French. The preparatory technical work, leading by progressive refinement to the present design, has thus been on a larger scale than usual. Agreement with the French firms and officials is complete on all important technical features. Eighteen months' manufacturing work on the prototypes has enabled the basic production methods to be established. In all areas there is now an unusually good understanding of the total work involved in developing and producing the aircraft. Leading American (e.g., Pan Am and United) and other airlines are known to regard the Concord as a practical technical and engineering proposition and to have confidence in its manufacturers and in their ability to maintain the time-schedule.

Operating economics

4. C (66) 88 stated that the total operating cost of the Concord per seat/mile on the North Atlantic will be about 25 per cent greater than the cost of the most economic present-day aircraft and that the
projected large subsonic aircraft (the so-called "jumbo jets") will increase this difference to 30–35 per cent. This is based on estimates by the Anglo-French Official Committee.

5. Airlines however are concerned not just with the operating cost per seat/mile, but also with the proportion of seats they can expect to fill. Concord should have an advantage in this respect, especially in its earlier years when it will have the supersonic field to itself. Experience has shown that reductions in journey time are important to many passengers, especially over long distances. Concord will make a quite dramatic advance in this respect, bringing New York within some 3 hours and Sydney within 15 hours flying time of London. (At present the journeys take nearly 2½ times as long.) The first aircraft to provide such service will undoubtedly be popular and operate with a high average complement of passengers. Its profitability to airlines can hardly be doubted in this initial phase and even in later years when passenger loadings may fall to a more normal level, profitable operation can still be expected.

6. A fare differential will, however, be needed, not only to ensure the profitable operation of the Concord but also to protect subsonic aircraft against the Concord.

**Competition from other aircraft**

7. On the long-distance routes for which it is designed, Concord will have to face competition from subsonic jets and, eventually, rival American and Russian supersonic transport aircraft (SSTs).

8. The general belief is that in the 1970s there will be a demand for both subsonic jets and SSTs and that long-haul carriers will need some of each in their fleets in order to meet passenger demands.

9. Among SSTs the only potential competitors are a Russian aircraft, the Tu-144, which is very similar in conception to Concord and which may be expected to be available in roughly the same timescale, and the American design (by either Boeing or Lockheed) which will not be available until at least two years and possibly three or four years later. Russian competition can be discounted—our real competitors are the Americans.

10. The United States Government intends to spend the rest of this year in evaluating the rival designs of Boeing and Lockheed for a Mach 3 aircraft, and to decide at the beginning of 1967 which of them to proceed with. The United States SST's weight is now approaching twice that of the Concord and its first cost and its productivity will be so large that these factors must form a severe restriction on the market for it. Thus the American aircraft will be largely restricted to routes such as the North Atlantic with very heavy traffic. It is likely that by such time as the American SST is in service the Concord, with its smaller capacity, will be used on less dense routes. To a large extent therefore, the United States SST and the Concord should be regarded not as competitors but as complementary aircraft.
The market

11. The general agreement on both sides of the Atlantic is that there should by 1980 be a market for some 300–400 supersonic transport aircraft and that, if all goes well, the Concord should, in the opinion of British and French officials, capture 150 or more of this market. This is supported by independent United States assessments. On the assumption that traffic will continue to increase between 1975–80 at the same rate as up to 1975 (instead of the more modest increases actually assumed the Concord market up to 1980 would increase from 150 to 225 aircraft.

12. "Partial" sonic bang restrictions have been assumed in these calculations. Even assuming the most extreme restriction—i.e., a complete ban on supersonic flying over populated areas—this would still leave half the long-distance market open to supersonic aircraft, i.e., at least 200 aircraft of Concord type by 1980, and on the same assumption as in the earlier paper, the Concord's share would be about 100 aircraft. The reason for this is that on many routes, e.g., the bulk of BOAC's, such a ban would have less effect than might be expected. The extra distance flown to avoid such areas, or alternatively subsonic flying over them, is quite small.

13. The following airlines have already taken out options for the following numbers of aircraft:

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<th>Airline</th>
<th>Options</th>
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<td>Pan American</td>
<td>8</td>
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<td>TWA</td>
<td>6</td>
</tr>
<tr>
<td>American Airlines</td>
<td>6</td>
</tr>
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<td>Qantas</td>
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<td>Continental Airlines</td>
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<td>Japan Airlines</td>
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<td>Eastern Airlines</td>
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<td>United Airlines</td>
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With the addition of 16 aircraft reserved for BOAC and Air France, this makes a total of 60. Negotiations are far advanced for 2 more for Eastern Airlines, and 3 for Braniff. Almost every one of the United States airlines for whose route network Concord would be suitable has already signed up, or is about to do so. The number of options, both actual and projected, more than 18 months before the first prototype is due to fly, support the view that it should be possible to sell 150 eventually.

Conclusion

14. We are unlikely to get much return on our development expenditure, but Concord is likely to have sufficient appeal to enable us to sell around 150, with spares to an equivalent value. Our share of these sales could improve our balance of payments by a total of around £1,000 million over the decade 1970–80.
APPENDIX D
SONIC BANGS

Causes and nature of sonic bang

1. Sonic bang has no connection with the familiar noise from jet aircraft: this derives from the engines and is a nuisance only in and around airports. With sonic bang the reverse applies. When an SST is within about 100 miles of take-off or landing its speed will be too low to cause a bang (and thus SSTs using British airports need cause no bangs over the United Kingdom). But as soon as the aircraft achieves supersonic speed it produces a bang and continues to do so for as long as it is flying supersonically. The bang thus sweeps across the countryside over which the aircraft is flying. It is most intense immediately below the aircraft’s flight path, but occurs with diminishing intensity for several miles on either side of it. The size and height at which the aircraft is intended to operate are the only design features which can have any significant effect on the intensity of the bang: altering its shape, or designing it for a lower speed (so long as it is still supersonic) can have no significant effect. Peculiarities in atmospheric conditions or in the lie of the land or in the disposition of buildings can greatly affect the intensity of the bang otherwise to be expected, and this is one of the main reasons for anxiety.

Effects of sonic bang and results of earlier tests

2. The effects of sonic bang are known from theoretical studies, the incidental experience gained from flying military aircraft supersonically, and from tests directed specifically to the problem. We know that intensities far greater than those expected from normal operations by SSTs have to be reached before damage to buildings definitely attributable to sonic bangs occurs, although bangs of lesser intensity could occasionally, for example, result in falls of loose plaster and broken windows. The main reason for anxiety about sonic bangs is that people will find them disturbing and annoying.

3. Only the Americans have so far conducted large-scale experiments aimed at a direct assessment of public tolerance of bangs. Their report on these tests, carried out over Oklahoma City in 1964, which they have been unable to summarise, says:

"There will be many conclusions and judgments on the basis of this total Oklahoma City record, and there may be room for technical controversy in some areas."

Both supporters and opponents of the SST programme have found ammunition in the Report in support of their case. The Americans are about to start a further series of tests. They have mildly reproached us (and the French) for having done so little beyond theoretical studies. Despite the public reaction to the tests, the Americans intend to go on with their SST project and for the first time to vote federal funds for a civil aircraft.
4. The French have produced a survey of public reactions to sonic bangs of which the populations of eastern and south-western France have had considerable experience as a result of military flying in recent years. Like the American report, this leaves much scope for controversy. In Britain, the only sonic bangs heard in recent years have been from occasional flights by military aircraft under development; and these give rise to a fair volume of complaint. Service aircraft are required to do their supersonic flying over the sea. Our own efforts in the field of sonic bang research have been confined to theoretical studies and a few brief, simple and inconclusive tests (e.g., the one-day test (Operation Westminster) at Peterborough in April 1965).

The need for regulation

5. Undoubtedly the annoyance which would be caused by unrestricted operation of SSTs in regular airline service would be so great that Governments will be obliged to restrict their operation. Tolerance of bangs is dependent on frequency as well as intensity. Most experts consider that the level at which people would find frequent bangs intolerable probably lies between 1 and 2½ pounds per square foot. Both Concord and the American SST are expected to produce bangs within this range while cruising at supersonic speed. No one knows whether people’s tolerance would increase or decrease with increasing experience of bangs. Even if there were no Concord, it would still be necessary to decide our attitude to overflights of United Kingdom territory by foreign SSTs and to restrictions by foreign Governments on overflights of their territory by SSTs operated by British airlines.

Possible further tests

6. It would be possible to use RAF aircraft to produce a few unannounced sonic bangs over populated areas. If the bangs were light, it might be possible to demonstrate that they were not noticeable against the background of ordinary urban noise in large cities. If heavy bangs were deliberately made over small towns a most adverse public reaction could readily be evoked which could be used to support an argument that regular supersonic operation over populated areas would be intolerable. But none of this would be at all scientific, convincing, or conclusive. The thorough tests which my colleagues asked me to consider would have to be carefully planned and prepared (especially from the public relations and social survey aspects). They would have to extend over several months (at least six months, to be of any real value) and they would take further time to evaluate. Even if we were prepared to proceed to such tests without legislation (and I am very doubtful whether, in the light of the Attorney-General’s advice to which I refer below, we should risk doing this) and even if we regarded the tests as a first claim on the resources of RAF Fighter Command (whose Lightnings are the only aircraft capable of producing the bangs we would need), we could not hope to have the results before the summer of 1967 at the earliest. Such tests, therefore, cannot help us to decide whether or not to continue with Concord for the next year or so.
7. Thorough tests would involve a series of flights by RAF Lightnings over populated areas (which we should have to select in advance), starting with one light bang a day and building up gradually, over six months, to about eight bangs a day of about the intensity to be expected from Concord. There is no doubt that the tests would be unpopular with a large number of people and that a large number of damage claims would be made. These would be investigated and wherever there was a reasonable supposition that sonic bang had been the cause of damage the Claims Commission would make *ex gratia* payments in the usual way. I am advised by the Attorney-General that there is some risk of an aggrieved person bringing an action against the Crown for damages or for an injunction to stop the tests. While he does not consider that this risk in itself necessitates legislation, it would, in his view, be undesirable for the Crown to initiate tests on a large scale which would inevitably cause damage to property and be a nuisance in law. For this reason he suggests that legislation would be desirable. A preliminary estimate of the costs of the social survey and other scientific research that would be required and of the settlement of claims arising from the test is £70,000. To these might be added the costs of the use of RAF aircraft, for which the charge by the Ministry of Defence to the Ministry of Aviation might be about £50,000.

8. We could hope to gain from the tests a better understanding of the intensity and frequency of sonic bangs which people might tolerate and of the possibility of their becoming acclimatised to them. We should have demonstrated that we are prepared to investigate the problem in practical terms and would have a better basis on which to discuss with other Governments the regulation of SST operations. For these reasons I think the tests would be worth while, and if my colleagues agree, I shall submit more detailed proposals. I should in this context consider the possibility of carrying out joint tests with the French, or of pressing them to carry out their own tests in parallel.

9. Meanwhile, however, I must emphasise that there is nothing we can do in this field in the short term which will help us materially in deciding whether or not to continue with Concord. I am doubtful whether, even if we do carry out tests such as I have indicated, we shall at the end be in a much better position to decide, since no tests in this country will enable us to forecast directly or accurately the restrictions which other Governments may place on operations by SSTs.
CABINET

EUROPEAN LAUNCHER DEVELOPMENT ORGANISATION

MEMORANDUM BY THE MINISTER OF AVIATION

At their meeting on 30th June, the Cabinet authorised me (CC (66) 33rd Conclusions, Item 6) to confirm, at the European Launcher Development Organisation (ELDO) Ministerial Conference to be held on 7th/8th July, the continued participation of the United Kingdom in the ELDO A programme and its agreement to participate in the further programme (ELDO-PAS) subject to the following conditions:

(i) With effect from 1st January, 1967, the United Kingdom percentage contribution should not exceed 27 per cent. (I was instructed to seek to reduce our percentage contribution to 26 per cent, with a corresponding reduction in our total contribution, if the reported willingness of the French Government to increase their percentage proved to be accurate.)

(ii) The United Kingdom total contribution for the financial years 1966-67 to 1971-72 should not exceed £44.18 million.

(iii) Satisfactory amendments to the Convention or to the financial protocol should be agreed whereby there would not only be an annual review of the cost of the ELDO programmes but also provision for a number of break points at which the United Kingdom could withdraw from further participation in the programme if the Government judged this desirable because of increasing costs. (The Prime Minister subsequently authorised me, if it proved impossible to negotiate a provision for unilateral withdrawal, to settle for a formula which would provide that any increase in the overall ceiling needed the unanimous vote of the member States.)
2. My colleagues will wish to know that the outcome of the conference was that the Cabinet's conditions were met and we are therefore able to continue participation in the ELDO programmes.

**Percentage contribution**

3. It was immediately apparent that neither the French nor any other delegation was willing to increase its percentage contribution above those suggested at the June session. I nevertheless tried privately and publicly to explore the possibility. All the delegations had, however, been authorised by their Governments to accept the percentages which had then been suggested. It being impossible to obtain a percentage contribution less than 27 per cent as authorised, I accepted this figure. The agreed contributions for the member States are therefore:

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<tr>
<th>Per cent</th>
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<tbody>
<tr>
<td>United Kingdom</td>
<td>27</td>
</tr>
<tr>
<td>France</td>
<td>25</td>
</tr>
<tr>
<td>Italy</td>
<td>12</td>
</tr>
<tr>
<td>Germany</td>
<td>27</td>
</tr>
<tr>
<td>Netherlands</td>
<td>9 (to be divided between them)</td>
</tr>
<tr>
<td>Belgium</td>
<td>9</td>
</tr>
</tbody>
</table>

Australia continues as at present, paying no fixed contribution but providing facilities at Woomera.

**Total commitment**

4. The principle of safeguards against automatic commitment to escalating costs had been accepted at the previous meeting but the consequential amendment to the financial protocol proved to be a contentious matter. Other member States were strongly opposed to giving any country a unilateral right to withdraw before the end of the programme and thus make nugatory all the work which had been done in other States. But I secured in the end a clear declaration limiting our financial commitment to our share of the overall ceiling and giving us the right of unilateral withdrawal. In doing so I had to agree that, if a member country did not wish to contribute to any expenditure above the fixed ceiling, it would be bound nevertheless to assure the completion of work allocated to it but I coupled this with the specific proviso that the member country would not thereby be liable for any costs in excess of its agreed share of the overall ceiling. The condition laid down by my colleagues in (iii) above was therefore met in full and I did not have to rely on our fall-back position (the relevant text giving effect to this agreement is at Annex A).

**Distribution of work and financial control**

5. The broad lines of an equitable distribution of work between member States were agreed. Whenever possible, however, the choice of contractor and the award of sub-contracts will be made on the basis of tendering and of fixed prices. To improve the management of the Organisation, and the technical and financial...
control of the programmes the Secretariat will be responsible for placing contracts with firms in member States. There will be separate Project Management Directorates, firstly for the completion of the Initial Programme, and secondly for the Perigee/Apogee system, each Directorate having full responsibility for the completion of their programme within the accepted technical specifications and financial limits. Member States will nominate a body of inspectors, responsible to the ELDO Council, who will undertake control missions. There will be meetings twice a year between experts from member States and the prime contractors to review the technical progress and cost of programmes. There are to be annual reviews of progress at Ministerial level. The Final Resolution giving effect to our conclusions is reproduced at Annex B.

Equatorial site

6. The choice of an equatorial launching site lay between Darwin in Australia and Kourou in French Guiana. Although the balance of technical considerations was in favour of the French site, I supported the Australian solution which had a marginal advantage financially. It was clear all other delegates were already committed to the French site. Under pressure, however, the French delegation offered to provide the French Guiana site at a reduced fixed price of £8·9 million. This saving of contingency provision reduced the overall ceiling by 5 million monetary units (about £2 million). The Australians accepted defeat and it was not necessary for me also to declare against the Darwin site. The Australian delegation expressed their appreciation of our support. Test firings will continue at Woomera.

The programme as it now stands

7. As a result of the conference it is now agreed that the ELDO A programme will be completed and that the further programme involving the development of a Perigee/Apogee system will be carried out. For purposes of contributions and overall ceiling the two programmes are joined and become a new or further programme. A total ceiling of £118 million has been agreed for the cost of this work, covering the calendar years 1967-71. The United Kingdom contribution for the financial years 1966-67 to 1971-72 is limited to a maximum commitment of £41·27 million. This is about £3 million less than the £44·18 million based on our own estimates.

F. M.

Ministry of Aviation, S.W.1,
18th July, 1966.
ANNEX A

"Should, in the opinion of a member State or the Secretary-General, the cost to completion of the programme be liable to exceed the overall ceiling of contributions approved by the member States, as given in column 4 of Annex II, paragraph 3, the Council shall at once order an enquiry into the reasons for the overspend and, after examination of the conclusions of such enquiry, shall within 30 days frame recommendations to the member States.

The measures to be taken shall be determined by unanimous agreement of all member States. If such an agreement is not reached within six months from the date the enquiry has been ordered by the Council, any member State may declare that it cannot accept an obligation to contribute to any increase in the overall ceiling. If a member State declares that it does not wish to contribute to any overspend of the fixed ceiling, it will nevertheless be obliged to ensure the completion of the work allocated to its contractors, without thereby incurring any liability to exceed the total financial commitment implied by the overall ceiling."

ANNEX B

TEXT OF RESOLUTION No. 1 ENTITLED ELDO PROGRAMMES AND ACTIVITIES

The conference of the Ministers of the member States of the European Space Vehicles Launcher Development Organisation (CECLES/ELDO), meeting at Paris during the three sessions held respectively on 26th, 27th and 28th April, 9th and 10th June and 7th and 8th July, 1966, having reviewed all the problems of interest to ELDO in the light of the latest technological developments, the requirements of possible users, the questions relevant to a co-ordination of European space policy and the misgivings lately voiced, wishing that ELDO should continue and complete the initial programme laid down in the convention establishing the organisation, and that the performance of the ELDO A launcher (Europa 1) built under this initial programme should be upgraded so that the launchers meet not only the requirements of the European Space Research Organisation (ESRO), but also the specifications of a stationary communication satellite such as the one whose construction is envisaged by the European Conference on Satellite Communications (CETS), recalling its resolutions ELDO/CM (April 1966) 17 and ELDO/CM (June 1966) 16, respectively adopted at its first and second sessions:

1. Decides that ELDO shall undertake as from 1st January, 1967, a further programme in which all the member States will participate, comprising on the one hand a reorientation of the initial programme, including the necessary improvements, and on the other a supplementary programme (inertial guidance, operational equatorial base, A/SP system).
2. **Decides** that for the execution of this programme as well as for the administrative costs and for studies and experimental work:

(a) The member States' contributions shall be assessed on the following scale:

<table>
<thead>
<tr>
<th>Country</th>
<th>Per cent</th>
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<tbody>
<tr>
<td>Federal Republic of Germany</td>
<td>27</td>
</tr>
<tr>
<td>France</td>
<td>25</td>
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<tr>
<td>Italy</td>
<td>12</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>27</td>
</tr>
<tr>
<td>Belgium and The Netherlands (to be shared by joint agreement)</td>
<td>9</td>
</tr>
<tr>
<td>Australia</td>
<td></td>
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</table>

(b) The overall ceiling of commitments shall be fixed at 331 million monetary units (MU), including both contingencies for under-estimates and technical difficulties, and also a lump sum of 30 million MU for possible changes in economic conditions. With expenditure up to the end of 1966, this corresponds to an overall total of 626 million MU.

(c) This overall ceiling includes 10 million MU for studies and experimental work, with a possibility of increasing this amount, by a decision of the Council, up to a maximum of 25 million MU provided that the overall ceiling of 331 million MU is not exceeded.

(d) The annual financial ceilings shall be fixed at the following figures:

<table>
<thead>
<tr>
<th>Year</th>
<th>MU</th>
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<tbody>
<tr>
<td>1967</td>
<td>90+</td>
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<tr>
<td>1968</td>
<td>95</td>
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<tr>
<td>1969</td>
<td>90</td>
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<tr>
<td>1970</td>
<td>60</td>
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<tr>
<td>1971</td>
<td>30</td>
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</table>

With the proviso that notwithstanding that these annual ceilings together total 365 million MU, the total commitment of the member States shall not exceed the overall ceiling of 331 million MU fixed in sub-paragraph (b) above.

3. **Approves** the proposals (ELDO/CM (July 1966) 4 REV and ELDO/CM (July 1966) 6) of the Working Group set up at its second session concerning:

(a) The management of the organisation (ELDO/CM (July 1966) 4 REV 19).

(b) The establishment of procedures for improved technical and financial control and observance of the ceilings fixed (ELDO/CM (July 1966) 4 REV 21).

It is stipulated that the total new appropriations required of the member States for 1967 shall not exceed 85 million MU.

4. **Decides** that the operational equatorial base of ELDO shall be established at Kourou, in Guiana, on the following conditions:

(a) France shall accept the prime responsibility for the construction of the base to current secretariat
specifications at a fixed cost of 25 million MU, inclusive of contingencies.

(b) The arrangements to be concluded between the organisation and France under Article 5 (4) of the Convention for the use of the Guiana facilities shall include provisions ensuring free access to the base by the State concerned for all launching operations which ELDO or the member States cause to be carried out using solely or partly the vehicles developed and launch pad financed by the organisation. France shall supply them on equitable terms with other supporting range facilities and personnel required for such firings.

(c) Research and development firings will continue to be conducted at Woomera.

5. Approves the proposals (ELDO/CM (July 1966) 4 REV and ELDO/CM (July 1966) 9 REV, including the approved amendments by the Netherlands delegation to Annex B of the latter) of the Working Group set up at its second session on the broad lines of the A distribution of the work on the organisation's further programme, the ratios to be maintained between work and financial contributions, and the principles to be observed with regard to the choice of contractors and the award of sub-contracts.

6. Approves the secretariat's proposals for a practical solution of the problem of the use of German, Italian and Dutch (ELDO/CM (July 1966) PV/2 REV, Item 2A).

7. Invites the Council:

(a) To make the required amendments to the financial protocol by implementing the decisions set out at paragraph 2 above regarding the revision of the scale of contributions and the adoption of an overall financial ceiling and annual financial ceilings in the sense proposed by the Working Group set up at its second session (ELDO/CM (July 1966) 4 REV and ELDO/CM (July 1966) 10 REV, including the amendments agreed by the conference to Annex 3 of the latter).

(b) To delegate to the Secretary-General, pursuant to Article 14 (3) (D) (3) 5 of the Convention establishing the organisation, the necessary powers for implementing the proposals set out at paragraph 3 (a) above concerning the management of the organisation.

(c) To take any other necessary steps to ensure the implementation of the decisions and proposals mentioned in the foregoing paragraphs by the end of 1966 at the latest.

8. The conference, having taken cognizance of the report (ELDO/CM (July 1966) 11) presented by the ELDO secretariat in implementation of paragraph 3 of Resolution ELDO/CM (April
1966) 17 on the general issues concerning the continuance of the organisation’s activities, believing that these activities should be chiefly aimed at meeting the peaceful requirements, joint or individual, of the member States and that to this end it will be expedient on the one hand to define relations with users and on the other to review and perfect ELDO’s programme management methods and its organisation:

(a) Finds that, within the framework of the Convention establishing ELDO, the organisation’s activity should consist not only of developing and constructing prototype space vehicle launchers, but also of producing ready for use vehicles and launching them on behalf of users.

(b) Decides that on the withdrawal of a member State from the organisation arrangements shall be made, in accordance with Article 23 (3) of the Convention, for the continued application of Article 9 thereof concerning the acquisition and production of jointly developed equipment by the member States and that similar arrangements shall be made in the case of a State ceasing to be a member of the organisation under Article 24 of the Convention.

(c) Decides that countries having participated in the organisation’s programmes should supply, on a repayment basis, to the organisation or user member countries the jointly developed launchers or components thereof and ensure that the requisite facilities and equipments are available for an adequate period (to be determined by the Council) after the operational nature of the corresponding complete launcher has been established. This is on the understanding that no additional costs over and above the overall financial ceiling agreed in this resolution will fall on the supplying countries as a result of this provision.

(d) Invites the Council of ELDO to supplement, on the basis of the secretariat’s proposals, the definition of the principles that should govern the relationship between the organisation as the supplier of vehicles ready for use and possible users of these vehicles, in respect of:

(i) Implementation of the protocol on privileges and immunities of ELDO in the case of sales and launchings.

(ii) Third party liability of ELDO in the event of damage or loss.

(iii) Sale price of launchers. It being understood that for any member State the price will be on the basis that only marginal costs, i.e., the manufacturing cost of the vehicles and launching, plus the cost of any modifications to the vehicle or ground equipment to meet the specific requirements of user member States, shall be taken into account.
9. Finally, the conference:

Decides pursuant to paragraph 4 of Resolution ELDO/CM (July 1966) 16 taken at its second session, that its next meeting shall be held on the 13th and 14th December, 1966, in Paris.
19th July, 1966

CABINET

BLACK ARROW

Note by the Minister of Aviation

I attach a report from the Chairman of the Official Committee on Technology inviting Ministers to decide whether the Black Arrow programme for the development of a small launcher and the associated series of satellites shall continue.

2. In the space field national self-sufficiency at all levels is out of the question; but, in order to equip itself to play a part in international space activity, whether of a scientific or a commercial character and to evaluate developments in this field the United Kingdom must clearly maintain some expertise and capability.

3. Apart from our international co-operative ventures our space effort, apart from Black Arrow, is limited to a modest programme largely financed by the Science Research Council of firing sounding rockets. While this programme has achieved excellent results it does not provide the launcher necessary to test satellite components in space during their development. Unless we proceed with the Black Arrow launcher we shall have to buy launchers from the United States for this purpose. This, for the reasons stated in the attached paper, would be unsatisfactory technologically.

4. The development of the Black Arrow launcher itself is estimated to cost £9.5 million of which £1.5 million has already been spent and the commitment of a further £600,000 authorised up to 30th September. The balance of the programme is for satellite development. While it might be possible to obtain the actual launcher from elsewhere, I consider the development of adequate satellite technology in the United Kingdom to be essential. This is a rapidly expanding field and one likely to grow in importance, commercially as well as for our technology.

5. The most effective way of enabling us to develop our space, and more particularly our satellite, technology is in my view to proceed with the Black Arrow programme. But I recognise that in the present grave economic situation it may be difficult to endorse a programme which entails expenditure of the order proposed in the next two years.
6. In these circumstances, I hope colleagues can agree, in view of the importance of maintaining and developing our technological capacity in this field, that officials should be asked to explore urgently the possibility of devising a more modest means of keeping the teams in being and so enabling us to keep abreast of satellite technology. In this connection I think we need to consider the Black Arrow programme together with the proposals which have been made for the co-operative development of an experimental communications satellite on a European basis in the European Conference on Telecommunications Satellites (CETS) which, if approved, will involve the United Kingdom, on a basis of 25 per cent of the cost, in expenditure of £1.5 million a year for the next 4 years. A Ministerial conference to decide on CETS is planned for October and we shall be invited to decide on the policy to be followed by the United Kingdom in the next few weeks.

7. I hope, therefore, colleagues can agree to consider, if need be, a revised programme at the same time as we decide on our policy towards CETS.

F, M.

Ministry of Aviation, S. W. 1.

18th July, 1966
In December, 1965, when the Cabinet decided that we should work towards terminating our commitment to the European Launcher Development Organisation (ELDO), Ministers were disposed to approve the BLACK ARROW programme (the Chief Secretary, Treasury reserving his position). Now that, on the basis of a substantial revision both of the technical aspects of the ELDO programme and of the United Kingdom financial contribution to it, the Cabinet has decided that we should continue to participate, the question whether we should complete the development of BLACK ARROW calls for further consideration.

2. The newly proposed ELDO-PAS launcher is a heavy launcher capable of putting a weight of 150 kilogrammes into a geo-stationary orbit of 35,700 kilometres from an equatorial launching site. BLACK ARROW will be capable of putting 100 kilogrammes into a polar orbit of 550 kilometres from Woomera. Our decision to participate in ELDO is not based to any significant extent on the technological interests of the programme to the United Kingdom, nor on its economic prospects, but on the desirability of the United Kingdom maintaining an interest in the development of heavy launchers, because of possible future uses, and on political considerations arising from our relations with Europe and the United States.

3. Such participation does not provide of itself for the maintenance and development by the United Kingdom of the techniques associated with space activities. To enable us to maintain our technological position in this field vis-a-vis such industrial powers as France and Japan (we cannot hope to compete with the United States and the Soviet Union) a complementary national space programme is necessary. Our interest is primarily in satellite technology which is a rapidly developing subject and is likely to grow in importance. To test satellite components and sub-assemblies under actual space conditions we need a launcher.

4. The ELDO-A launcher is not competitive for this purpose; it is much too large and too powerful a vehicle for testing components and sub-assemblies; the cost of an ELDO-A launching would be more than six times that of BLACK ARROW; and its use in this role would therefore be quite uneconomic. The present French DIAMANT would be too small and the only other alternative to BLACK ARROW would be to buy SCOUT launchers from the United States. This would not, however, be technologically satisfactory, primarily because the volume available for experimental purposes which can be launched by the SCOUT is less than half that of BLACK ARROW. The Japanese are developing a launcher comparable with SCOUT and subject to the same limitations. Furthermore it is not known when development will be completed, although we understand that the first test launching is planned to take place towards the end of this year. Quite apart, therefore, from the possible disadvantages which might come from our
abandoning launcher techniques, BLACK ARROW (which is based on the fully proved BLACK KNIGHT) is the only really satisfactory launcher for the purpose in paragraph 3. The programme for its development and for the continued research into basic satellite technology have been planned as a single integrated and self-contained project. The purpose of the launcher will be to provide United Kingdom industry and United Kingdom technologists with a research and development facility which would on the one hand enable us to carry out in actual space conditions the experiments that are necessary to test the performance of satellites and satellite components and on the other hand, to gain direct experience of the problems of injecting satellites into prescribed orbits and controlling them.

5. In addition, a review of the technological possibilities has shown that the retention of a national programme of this nature could well lead, at very moderate cost, to quite new developments which might, for example, greatly increase the performance both of BLACK ARROW itself and ultimately of larger launchers like ELDO-A. One interesting possibility which is opening up is the use of electrical propulsion systems to alter the nature of a satellite orbit after the satellite has been launched - a possibility which would enable higher orbits (for commercial and other purposes) to be obtained with much smaller launchers than are needed at present using conventional methods.

6. The estimated total cost of the BLACK ARROW programme for the period April 1966 - March 1975 is £43.7 million. When Ministers previously considered BLACK ARROW they were concerned only with the civil expenditure represented by the extramural element, £32.1 million included in this total because it was assumed that costs of work done in Ministry of Aviation establishments would be met from the Defence Budget and (b) that the costs of launchings at Woomera would be shared between the Defence Budget and the Australian Government. As the attached Annex shows, this assumption is no longer valid, and therefore the costs of (a) and (b) which total £11.6 million over the period 1966-75 would fall to be regarded as additional civil expenditure. This additional charge is one reason for reconsidering the BLACK ARROW programme. A recent review has confirmed the total figure of £9.5 million for the development of the launch vehicle and the ultimate rate of extramural expenditure in the utilisation phase of £4 million a year for three launchings. However, it was found that the cost of developing satellites for the utilisation phase would be higher than had previously been expected (because more sophisticated experiments are now envisaged), and the build-up of the utilisation phase has therefore been retarded in order to keep within the original annual and ten year ceilings. The annual rate of three launchings a year would therefore not be reached until 1972-73 and the maximum number of satellites launched in the utilisation phase would be 13 rather than 17. This slowing down would not significantly affect the technological benefits to be derived from the programme.
7. The case for continuing with the BLACK ARROW programme is that it enables us to maintain a sufficient national programme in space technology, to permit us to play an appropriate part in future international developments and to take up, either alone or in co-operation with other countries, any option which might appear profitable or advantageous in a field in which the potentialities are quite unknown, but may be of considerable importance to us. Without such a programme we cannot expect to play a significant part in space either now or in the future, national or international, and we may be cutting ourselves off from other advanced technologies. The case against BLACK ARROW is that these admittedly hypothetical benefits and the absence of present economic justification for the BLACK ARROW programme (the sales of space components which might be developed would not warrant the R and D investment) do not justify the cost involved, particularly now that some £6 million a year on average has had to be added back to the costs of the Ministry of Aviation space programme to cover EIT00.

8. The question for Ministers is whether or not in the light of these conflicting circumstances we should continue with BLACK ARROW programme.
1. In the original costings for the BLACK ARROW programme it was noted that the intramural costs, which are now assessed at £1.2 million per annum, had hitherto been borne on the defence budget. Nothing was included for the costs of the launchings from Woomera, which it was assumed would be carried on the Joint Project expenditure which is shared between the United Kingdom and Australia. The total costs to the Joint Project have been tentatively estimated at £200,000 on capital facilities and £100,000 per launching on identifiable operating costs (of which only half would be additional costs throughout the programme). Under the present Joint Project financial arrangements the United Kingdom bears £45.6 per cent of Joint Project expenditure as a charge against the Defence Budget but the terms of the agreement will have to be renegotiated shortly as it expires on the 30th June, 1967.

2. The Secretary of State for Defence has informed the Minister of Aviation that he does not consider that the defence interest in this programme is sufficient to justify continuing to bear the intramural costs and the costs at Woomera on his Defence Budget. In these circumstances it is an open question whether the Australians will accept launchings of BLACK ARROW under Joint Project arrangements.

3. The Secretary of State for Defence has suggested that if it would help vis-à-vis the discussions with the Australians it would be perhaps possible for a notional addition to be made to the defence budget to cover these additional extra costs of BLACK ARROW provided it was understood that the defence ceiling would be raised by the cost, whatever it may prove to be, in any particular year. But as it is clear that he is not prepared to find these costs from within the ceiling of the defence budget and since there is no provision for them in the programmes of any other Department they would represent a net addition to public expenditure unless any other Department were prepared to give up a corresponding share of its currently approved programme. This addition would, over the period 1966-75, amount to £9.6 million on intramural costs and £2.2 million for Woomera costs. Both these amounts are included in the total cost of the whole programme, £43.7 million, given in paragraph 6 of the main paper.
26th July, 1966

THE AIRCRAFT INDUSTRY

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

At their meeting on 25th July the Ministerial Committee on Economic Development considered three memoranda by the Minister of Aviation on:

(a) Re-equipment of British European Airways Corporation (BEA) (ED(66) 74)

(b) Proposed merger of the Two Aero-engine Groups (ED(66) 72)

(c) Reorganisation of the Air-frame Industry (ED(66) 71)

The problems are fully set out in those memoranda, and I do not try to do more than summarise them here.

BEA re-equipment

2. The main issue for decision on BEA re-equipment was whether BEA should be allowed to buy American aircraft, which would be more economical for them but would cost a substantial sum in dollars, or whether they should be required to buy British aircraft. The penalties for buying British aircraft include higher capital costs to BEA, something like a year's delay in the introduction of new aircraft, and somewhat higher operating costs because the seating capacity of the British aircraft would not be the optimum capacity for the routes in question, at any rate in the early years. This would amount to a penalty of £26 million to £32 million taking capital and operating costs together, and would mean a return on capital so low as to involve BEA in a loss of £4 million to £6 million a year. In addition the Government would be expected to spend up to £20 million on launching aid for the British aircraft (probably "stretched" VC 10s and Tridents). BEA would need an assurance that, if the Government required them to buy British, the Government would in one way or another indemnify them against the loss which they would be likely to incur as a result.
3. There was general agreement on the Ministerial Committee on Economic Development that BEA should be required to buy British aircraft, even though it would mean giving British aircraft a preference of over 60 per cent. The main considerations leading to this decision were the implications for the balance of payments of authorising BEA, as well as BOAC, to order Boeings, and the thought that, if BEA now bought American, the prospects of the British aircraft industry in the medium-haul civil airline field would be seriously, perhaps irreparably, damaged. The Committee accepted that this would entail an assurance to BEA that the Government would see them through the consequences of this decision, but thought that there should be further detailed study of the amount of assistance and the means by which it should be given to BEA, of the size, makeup and timing of BEA orders, and of the implications of asking BEA to postpone re-equipment on domestic routes in order to reduce investment expenditure in 1967-68.

Aero-engine merger

4. The proposal is for a merger which would amalgamate Bristol Siddeley Engines Limited with Rolls Royce. This would be a straight commercial merger; there is no question of Government participation in the new concern. The Committee agreed that the merger was in the interests of the efficiency of the industry and of enabling our industry to stand up to competition with American manufacturers (particularly Pratt and Whitney) in international markets.

5. If the merger goes ahead, there will be a problem of what to do with Bristol's holding in Short Brothers and Harland. There may be some expectation that the Government should buy this to add to their existing holding in the company. No decision was taken on this; the Minister of Aviation was invited to put it up as a separate proposition if he wished to do so.

Reorganisation of the air-frame industry

6. The question here is what to do about the two main companies, British Aircraft Corporation (BAC) and Hawker Siddeley (HS), following the Plowden Report. The Minister of Aviation suggested that there were five possible courses of action:

(a) To leave things as they are.

(b) To take a 100 per cent shareholding in both BAC and HS.

(c) To take a 100 per cent shareholding in BAC and a minority, say 30 per cent, shareholding in HS.

(d) To take a 100 per cent in BAC with no shareholding in HS.

(e) To take a 100 per cent in BAC and use this holding to represent a minority holding in a merged HS and BAC.

In view of uncertainty in the industry he was anxious for an early decision. He thought that in practice the choice was between leaving things as they are and taking a 100 per cent shareholding in both firms, and he argued in favour of the latter.
7. Some of us had a good deal of doubt about the proposal that the Government should entirely take over both companies, which between them represent the greater part of the air-frame industry. The forecasts of future load on the industry make clear that after 1970 both research and development and production are bound to decline; this will sooner or later mean rationalisation of the structure of the industry and its use of resources, and some tough and painful decisions. None of us has great confidence in the management of BAG, but we think that the existing management of HS would be capable of carrying a process of this kind through; and we are not clear that the existing management of HS would be available to a 100 per cent Government-owned concern. Several members of the Committee doubted whether the Government should take over the air-frame industry just at the point when it can be seen to be facing a substantial decline, and thought that more consideration should be given to the other possibilities, and in particular to the possibility of buying out BAC and then combining HS and BAC in a new company in which Government ownership of BAC would represent a substantial minority holding. This could set a useful precedent, not unlike the Fairfield arrangement, for other measures of rationalisation in which Government and private enterprise co-operated and shared responsibility.

8. The Committee agreed that this whole problem should be further studied in detail by a Sub-Committee of Ministers before decisions were taken, and agreed to defer a decision for the time being. From the point of view of the industry I doubt if anything fundamental will be lost by some further delay in taking a decision; and in any case, even if we were eventually to come down in favour of a 100 per cent takeover of both companies, this might not be the best moment at which to announce such a decision.

Conclusions

9. I therefore invite the Cabinet to endorse the following conclusions:

(1) BEA should be required to buy British.

(2) BEA should be given an assurance that the Government would be willing in principle in one way or another to help BEA to deal with the commercial problems with which this decision would present them.

(3) There should be further study of the means by which assistance should be given to BEA, of the size, makeup and timing of BEA orders and of the implications of postponing re-equipment of domestic routes.

(4) Rolls Royce and Bristol Siddeley should be told that the Government see no objection in principle to the proposed merger of their aero-engine interests.

(5) No decision should be taken for the time being on reorganisation of the air-frame industry, while the matter is further studied by a Sub-Committee of Ministers.
Proposals are being put to the Prime Minister for the composition and terms of reference of the proposed Sub-Committee, and I propose that it should be asked to deal not only with the reorganisation of the airframe industry but with the matters arising from the decision to require BEA to buy British (see (3)).

G. B.

Department of Economic Affairs, S. W. 1.

26th July, 1966
ZAMBIA: INTENSIFICATION OF SANCTIONS

Memorandum by the Secretary of State for Commonwealth Relations

On 22nd July, the Ministerial Committee on Rhodesia considered a paper by the Commonwealth Relations Office which recommended the offer of further aid to Zambia to assist the Zambian Government to undertake a phased cut-off of their trade with Rhodesia. The Committee invited me to discuss the matter further with the Treasury and the Board of Trade and, if agreement could not be reached, to bring it to the Cabinet.

A further meeting was held yesterday and no agreement was reached. I must therefore ask my colleagues for a decision on the recommendations set out in paragraph 10 of the attached paper by the Minister of State for Commonwealth Relations.

A. G. B.

Commonwealth Relations Office, S. W. 1.

26th July, 1966
1. Sanctions Policy

Our Rhodesian policy rests upon pursuing sanctions to the point at which the regime will be ready to reach a settlement on our terms. Sanctions are certainly now having an increasing effect on the Rhodesian economy. But unless they can be significantly stepped up, and their effect accelerated, we may well face a long haul during which it is possible that other countries will lose heart and allow their own sanctions to crumble. Experience shows that it is only by the continuous injection of steam that our policy of non-mandatory sanctions can maintain its momentum with international support.

2. Rhodesian foreign reserves are likely to be enough to last at least another year; oil and essential imports continue to flow in via South Africa and Mozambique; last year's budget surplus has been used to finance the new planting of the tobacco crop. But it is now the case that industry and employment are suffering the effects of loss of export outlets, to the extent that the business community is now distinctly worried about future prospects.

3. It is only by blocking the remaining export outlets that our sanctions policy can be made more effective. The one measure left to us is to block and keep blocked Rhodesian exports to Zambia. Before i.e., these amounted to £46 million a year, including re-exports from Rhodesia; constituted 30 per cent of Rhodesian-produced exports; and accounted for 17-18 per cent of the output of Rhodesian manufacturing industry.

4. According to an interdepartmental review undertaken last month by a Working Party of economists and officials from all the Departments concerned, "the elimination of the remainder of these manufactured imports, together with the multiplier effects of such a move within Rhodesia, would obviously deal a further serious blow to the Rhodesian economy which might have a critical effect on the Rhodesian will to resist."

5. The more effectively sanctions can bring about a rapid end to the Rhodesian crisis, the more quickly we shall be relieved of a continuous heavy drain on our own balance of payments. The Working Party estimated that the cost to Britain's balance of payments of maintaining sanctions at their present level, and other expenditure associated with the Rhodesian crisis, is about £50 million a year.

British Proposals

6. Since May we have been continuously engaged in trying to persuade the Zambians to impose a planned and selective cut-off of their remaining trade with Rhodesia. At the beginning of this year Zambia started the first stages of such a plan by banning some 43 per cent of normal Rhodesian imports (largely inessentials). In April,
however, the situation was greatly complicated by the Rhodesia Railways crisis, with consequent effects on Zambian imports and copper exports, as described in Annex A to this paper. The latest information is that essential imports through Rhodesia will be resumed.

7. During the period March-May, Zambia reached a new policy decision to undertake a long-term total disengagement of trade from Rhodesia over at least 18 months, and linked with a steady but slow development of alternative routes, on the assumption that there would not be an earlier solution to the Rhodesian crisis. There was an obvious dichotomy between this approach and our own need for a much more rapid programme of sanctions, which was bridged by a "time-scale formula" relating our assistance to the actual duration of the emergency. This meant that we would be released from any undertakings on longer term assistance when the emergency ended. Conversely, the Zambians would be given a basis from which to proceed rapidly with the initial steps in their longer term disengagement from Rhodesia. The present position is that an offer from us lies on the table, which the Zambians have so far refused to accept, consisting of £6.85 million for expenditure in the rest of 1966, plus an offer to review the situation in December, 1966, if the emergency still continues. Our offer, of course, represents a continuation of the assistance to Zambia which we have been giving since L.d.l.

8. Zambia's rejection of our June offer was principally due to the following factors:

(a) Suspicion of Her Majesty's Government's motives in the Salisbury talks, which our repeated assurances have so far failed to remove.

(b) The feeling that by putting a financial ceiling on our offer we were limiting our financial commitment to Zambia and thus also our moral commitment to ending the Rhodesian rebellion. The Zambians claim that we should "see Zambia through" by open-ended support of the projects needed to develop alternative supply routes, and power and fuel sources.

9. We cannot accept any obligation to "open-ended" commitments. Nor do I think it reasonable, in our present economic situation, to ask for a greater amount of assistance for expenditure in 1966. But Ministers have already agreed to a review at the end of the year. I therefore suggest that the way through this problem is to ask Ministers, in effect, to have now the review that would otherwise be carried out before the end of 1966; to determine the amount of continuing assistance on agreed projects to be given for the first half of 1967, assuming always, that the emergency still continues; and to allow me to inform the Zambians of this at this stage. This, I believe, will enable me to give to the Zambians the assurance they ask of British commitment to essential projects.
10. I therefore propose:-

(i) that we extend our present offer of £6.85 million, for expenditure on agreed projects in 1966, by a further £7 million for the continuation of agreed projects during the first half of 1967;

(ii) that our assistance should be discontinued if there is a return to constitutional rule in Rhodesia and to normal communications between Rhodesia and Zambia; (see paragraph 12 below)

(iii) that we should be reimbursed with the residual value of any assets acquired with British money on disposal;

(iv) that within the assistance offered, there should be a flexibility of allocation to agreed projects; (see paragraph 13 below)

(v) that should 1966 expenditure on agreed projects exceed £6.85 million, Zambia should be reimbursed from the £7 million offer for 1967; (see paragraph 11 below)

(vi) that should Zambia leave the Commonwealth or break relations with Britain, the British offer would be reconsidered. (See paragraph 15 below)

Zambian capacity to spend

11. It is in fact most unlikely that more than two-thirds of the amount allocated for 1966 could be spent on the projects identified as essential. The Zambians believe that these projects can be achieved in 1966 by the mounting of a crash programme, and that this will require more than £6.85 million - or in other words that only money is the limiting factor. Our technical advice, however, is that the limiting factors will be those of planning, contracting, equipment and man-power. But if we should prove to be wrong, the Zambians can be reimbursed in the first six months of 1967.

12. It is emphasised that the principle of discontinuing assistance at the end of the emergency would of course apply. It has already been made clear to the Zambians that, except for inevitable compensation payments for any cancellation of contracts, British assistance would cease as soon as there is a return to constitutional rule in Rhodesia and normal communications with Zambia have been restored.

13. In renewing our offer of £6.85 million a reasonable degree of flexibility is necessary. Even with the most thorough advance technical investigations precise forecasts of expenditure are not possible. Adjustment must be made in the light of experience, and allowance given for new problems and priorities. Therefore a degree of overall flexibility is essential if we are to get the best and fastest results for our money. At Annex B, I suggest an allocation as between projects of our offer for 1966 of £6.85 million which is likely to meet the present assessment of priorities, recognising the possible need for flexible adjustment.
14. In return for our offer we would expect the Zambians to develop and sustain a planned programme of sanctions against Rhodesia, by careful selection of each item to be embargoed, taking into account the degree of labour intensiveness involved in its production in Rhodesia (particularly in terms of European employment), its bulk (in terms of import route capacity), and its importance for Zambian needs.

15. It would also be indicated to the Zambians that the British offer would be made as between Commonwealth partners. Should Zambia leave the Commonwealth or break off diplomatic relations with Britain, the British offer would need reconsideration in the light of whatever the new situation proved to be.

A Commonwealth crisis of confidence

16. Ministers will wish to consider the proposals in this paper in the light of the present delicate and difficult situation which is developing within the Commonwealth as a result of the Rhodesian crisis.

17. Zambian distrust of Britain has mounted steadily over the last five months. It has now reached a climax of emotionalism and irrationality, despite all our efforts. As we approach the Commonwealth Prime Ministers' Conference in September, British-Zambian relations are near flash-point: any explosion could affect the whole British position in Africa, the Commonwealth and the United Nations. We cannot hope to resolve the problem merely by reaching agreement with the Zambians on the intensification of sanctions. In any case it may now be that no offer we make will induce them to agree with us. Kaunda will continue to doubt the sincerity of our intentions about Rhodesia unless he gets the political assurances he is seeking, but the Zambian crisis could start off a chain-reaction in the African Commonwealth. Our High Commissioners have told us that, for example, Nigeria, Ghana, Uganda and perhaps even Kenya the Governments would certainly be influenced in their own decisions about continuing membership of the Commonwealth, by the mood and context of a Zambian departure, and the reaction of other African Commonwealth countries to it. This involves aspects of Her Majesty's Government's policy which lie beyond the scope of this paper. But if agreement could be reached on the lines I suggest between Her Majesty's Government and Zambia about British assistance for the intensification of Zambian sanctions against Smith, this in itself would go a long way to increase African confidence in the firmness and sincerity of Her Majesty's Government's intentions about Rhodesia, and would help to create a much more receptive atmosphere at the September Conference of Commonwealth Prime Ministers. We face, of course, a difficult Prime Ministers' Conference in any case; but at worst we could also face a possible break-up of the Commonwealth.

18. I therefore request the approval of Ministers to the resumption of negotiations on the basis recommended in this paper.

J.H.

Commonwealth Relations Office, S.W.1.

26th July, 1966

SECRET
Rhodesia Railways

Zambia's trade relations with Rhodesia, and hence her effectiveness as a partner in our sanctions policy, have been complicated by difficulties over Rhodesia Railways, which is a unitary system of communications serving both countries. It is this fact which made it only too easy for both countries to use the Railways as a pawn in their political and economic confrontation. For the first four months after i.d.i. both countries permitted traffic to continue virtually unhampered, but the Railways gradually ran into severe financial difficulties (mainly because our oil embargo stopped freight earnings on POL). Zambia's refusal to help resolve these difficulties by permitting cash transfers from the Railways account in Zambia to the RC account in Rhodesia aggravated the situation and brought a counter-demand from Rhodesia that all payments for Zambian imports and exports should be met in advance, and in hard currency. The Zambians refused to accept these conditions, because they were unwilling thereby to increase Rhodesian foreign reserves, and in the present situation no copper is being exported via Rhodesia Railways (which has reduced copper exports to less than one-third of normal) and only a modest trickle of essential imports (except coal) has entered Zambia.

2. The latest information, however, is that the Zambians have agreed to a resumption of essential imports, and of exports, over Rhodesia Railways, on condition that no freight payments are made direct to Rhodesia. So far as exports are concerned this stipulation has direct implications for us, which are discussed in the following paragraph.

3. Under present exchange control rules payments by United Kingdom residents to residents of Rhodesia, including the Railways, may be made only in sterling to Rhodesian Account. The Smith regime insist on convertible currency in advance. It would be contrary to our exchange control sanctions policy to allow United Kingdom residents to make such payments in convertible currency, whether directly or through a third country. I am aware that a refusal to relax our exchange control rules would have implications for our copper supplies, but any relaxation of our policy would certainly be criticised by the Zambians as a relaxation of sanctions because of British commercial interests, and would undermine our efforts to secure co-operation in our sanctions policy from other countries.
ANNEX B

(i) Improvements to raise the capacity for Zambia of Dar es Salaam Port

Shore equipment, engineering works, and floating craft
- £430,000
Depot for Zambian cargo
- £300,000
RN Landing craft requested by Zambians
- £10,000

(ii) Great North Road

Heavy maintenance in Tanzania to improve capacity by 10,000 tons per month
- £600,000
Grant for crash tarring of selected stretches, and cost of extra maintenance thus involved
- £860,000

(iii) Great East Road

Extra maintenance costs as a result of Zambian crash tarring programme
- £75,000

(iv) Mtwara Route

Improvements to Mtwara Airfield to enable it to be used by heavy aircraft
- £380,000
Measures necessary for utilisation of existing spare capacity of Mtwara port (i.e. provision of shore equipment, engineering works and floating craft)
- £287,500
Construction of new lighter jetty at Mtwara port to increase capacity by 150,000 tons a year (including equipment, floating craft etc.)
- £600,000
Transport costs of maximum utilisation of Mtwara road route (5 months at £300,000 per month)
- £1,500,000

(v) Coal

Purchase of British (AEC) vehicles necessary to increase delivery of Nkandabwe coal to line of rail
- £325,000

(vi) Additional heavy British vehicles (probably for use on Great North Road route)
- £500,000

(vii) Contingency Element (e.g. facilities at Mtwara airfield; additional help with coal projects etc.; consumer subsidies etc.)
- £974,500

TOTAL £5,875,500

TOTAL £6,850,000
EFECTS ON THE UNITED KINGDOM OF AN INTERRUPTION IN ZAMBIAN COPPER SUPPLIES

Note by the President of the Board of Trade

Although the Zambian Government has agreed to allow copper to be delivered free on rail Livingstone, the threat to our copper supplies is by no means ended. The tonnages to be allowed out in this way will be limited to those amounts which cannot be shipped over the alternative routes. The amount to be allowed out through Rhodesia will be determined monthly and the Zambian Government could close this route again. The Zambian Government could also refuse import licences for Wankie coal, on which copper production depends. Although there are adequate stocks of Wankie coal at present in Zambia to maintain full copper production for a short time, if Wankie coal were stopped copper production would be curtailed.

2. If we reach agreement with Zambia on a phased intensification of sanctions in exchange for continuing aid, we should avoid any unilateral action by the Zambian Government. If, however, no agreement is reached on a phased cut-off, either because we make no further offer to Zambia or because Zambia does not accept any offer we make, the movement of Zambia's copper rests in Zambia's hands. A curtailment of Zambia's copper exports before alternative routes had been improved would affect the price we pay for copper and would reduce our physical supplies of copper.

3. If Zambia exports to her normal production capacity of some 60,000 tons a month, and assuming that there is no interruption to world copper supplies elsewhere (for example, that there is no further Chilean strike), we expect copper prices to settle around £500 a ton in the coming months, although, given the current fall in world consumption, this theoretical price may fall towards the end of this year. Because there is now virtually a world price for copper (outside North America), any loss of copper from Zambia will impinge upon the world price and affect the cost of all our copper imports.

4. It is difficult to predict the level to which the world price would rise with a curtailment of Zambian copper, but over the past two months, during which time Zambian copper exports have not moved through Rhodesia and exports have been limited to the capacity of the alternative routes (some 20,000 tons a month), the three months' forward price for copper wirebars has been about £600 a ton. This price was expected to
rise in the autumn if the interruption to Zambian exports continued. The following table assumes the level to which world prices would rise, given various monthly levels of exports from Zambia, and estimates the increased cost of our imports of copper from all sources and the total additional burden to United Kingdom balance of payments resulting from increased imports of substitutes and lost exports:

<table>
<thead>
<tr>
<th>Monthly level of copper exports from Zambia</th>
<th>Assumed world price</th>
<th>Increased costs of imports of copper</th>
<th>Total additional burden to United Kingdom balance of payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tons</td>
<td>£ per ton</td>
<td>£m. monthly</td>
<td>£m. monthly</td>
</tr>
<tr>
<td>------</td>
<td>-----------</td>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td>38,000</td>
<td>570</td>
<td>1.9</td>
<td>3.4</td>
</tr>
<tr>
<td>30,000</td>
<td>600</td>
<td>2.4</td>
<td>5.6</td>
</tr>
<tr>
<td>20,000</td>
<td>640</td>
<td>2.9</td>
<td>7.4</td>
</tr>
<tr>
<td>Nil</td>
<td>720</td>
<td>3.4</td>
<td>9.4</td>
</tr>
</tbody>
</table>

5. Apart from the cost to our balance of payments of an interruption in Zambian copper exports, we have to consider the effect on the United Kingdom economy of a physical loss of copper supplies. As long as we can ensure that our copper fabricators have access to alternative supplies, we expect them to be able to make good part of the loss of Zambian copper. Nevertheless, our electrical engineering industry is dependent upon Zambia for half its supplies of copper and is, therefore, most vulnerable to any curtailment in these supplies. Our transport industry is also vulnerable because of its limited scope for economies in the use of copper. There would also be a number of smaller sectors where production difficulties and delays would occur because of a shortage of essential copper components. Although substitution is already going ahead in the electric cable industry, efforts to maintain efficiency with different grades of copper or alternative materials could mean re-designing, re-tooling and production delays. The higher the level of Zambian copper exports the less risk there is of serious disruption to overall United Kingdom industrial production; but if Zambian exports stopped entirely it would not be possible, especially in the short term, to avoid serious difficulties, including severe damage to our export trade. If the alternative routes for Zambian copper can be improved so that, even after a cut-off, some 38,000 tons a month could be exported, there should not be a serious disruption in our own economy.

D. F. T. J.

Board of Trade, S.W.1.

26th July, 1966
CABINET

PRICES AND INCOMES STANDSTILL

Memorandum by the First Secretary of State and
Secretary of State for Economic Affairs

I circulate for consideration by the Cabinet on 28th July -

(a) A revised White Paper.

(b) A note on the new clauses which it is proposed to
    add to the Prices and Incomes Bill.

G. B.

Department of Economic Affairs, S. W. 1.

27th July, 1966
1. In a statement in the House of Commons on 20th July 1966 the Prime Minister drew attention to the fact that money incomes have been increasing at a rate far faster than would be justified by increasing production and called for a standstill on prices and incomes. Details of the way in which it is proposed that the standstill should be applied are set out in the paragraphs below.

2. The country needs a breathing space of twelve months in which productivity can catch up with the excessive increases in incomes which have been taking place. The broad intention is to secure in the first six months (which can be regarded, for convenience, as the period to the end of December, 1966) a standstill in which increases in prices or in incomes will so far as possible be avoided altogether. The first half of 1967 will be regarded as a period of severe restraint in which some increases in incomes may be justified, where there are particularly compelling reasons which justify them, but exceptional restraint will be needed by all who are concerned with determining prices and incomes.
II. PRICES

1. The introduction of a general standstill on prices and charges until the end of 1966, to be followed by a six-months' period of severe restraint, is intended to apply to prices of all goods and services whether provided by private or public enterprise. All enterprises will be expected to make every effort to absorb increases in costs, whatever the circumstances in which these arise.

2. This standstill period will apply except to the limited extent that increases in prices or charges may be necessary because of marked increases, which cannot be absorbed in whole or in part, in

   (i) the cost of imported materials;
   (ii) costs arising from changes in supply for seasonal or other reasons;
   (iii) costs due to action by the Government, such as increased taxation.

3. In some instances an enterprise may feel compelled to propose an increase in price where it finds it impracticable to absorb increased costs over which it cannot exercise full control (e.g. manufacturers whose products include a high proportion of bought-in components.) Any such cases will be subject to the most rigorous scrutiny in the light of national economic needs, including the requirements of export trade.

4. The criteria for price increases appropriate throughout the whole period are thus much more stringent than those set out in the White Paper on Prices and Incomes Policy (Cmnd.2639, Part I, paragraph 9). The criteria for price reductions set out in the White Paper (ibid. paragraph 10) will still apply.
Type of Price Covered

5. Although the paragraphs above relate primarily to manufacturers' prices for the home market, the same general considerations apply to prices charged by wholesalers and retailers, who are expected, in common with manufacturers, to do everything possible to avoid any increases in their prices by increasing efficiency and, in particular, by avoiding any increases in their cash margins.

Early Warning Arrangements for the Period of Standstill and Severe Restraint

6. The early warning arrangements at present in force are to continue. But the Government considers it essential that they should be extended to cover a wider field of items and will be consulting the C.B.I. and other interested organisations about this.

7. The standstill is to apply equally, however, to goods and services within and outside the present early warning scheme. Any manufacturing enterprise, other than one to which the exceptions in paragraph 8 below apply, which considers that it is justified in proposing a price increase on the grounds set out in paragraphs 2 and 3 above should notify the appropriate Government Department. It will be expected to make no increase in price without receiving written confirmation from the Government that no further standstill on the increase is required.

8. Prior notification is not required:
   (a) in respect of increases in prices of the food items listed in Part B of the Appendix of Cmnd. 2808 which will continue to be kept under constant watch by the Ministry of Agriculture, Fisheries and Food in accordance with the terms of paragraph

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White Paper on Prices and Incomes Policy: An "Early Warning System" (Cmnd. 2808)
paragraph 5 of Cmd. 2808.

(b) from enterprises which are not included in the early warning arrangements and which employ less than $100$ workers.

References to the National Board for Prices and Incomes

9. The Government will refer proposals for price increases during the periods of standstill and severe restraint in appropriate cases to the National Board for Prices and Incomes for examination and report. The Board will be required to report as soon as possible. The enterprise concerned will be expected to defer the increase until the Board has reported, and in the light of the Board's recommendations will be expected to continue to hold the price unchanged until the end of the twelve months.
Rents

10. The level of rents charged by landlords for virtually the whole of the private housing sector is already determined within the statutory framework of the Rent Acts, but the Government will keep the movement of rents of private housing under close watch.

Local authority rents are already on a non-profit making and subsidised basis. If increased costs are not met from rents they must be recouped from rates which are also a charge on tenants, local authority tenants paying the two - rent and rates - in a single payment. In these circumstances the imposition of a general standstill would be inappropriate. In the period of the prices standstill until the end of 1966 the Government expect local authorities to take such practical steps as are possible to prevent rent increases. Where increases are unavoidable, the Government hope that local authorities will make provision for the protection of tenants of limited means through rent rebate schemes. Similar considerations apply to rents of houses provided by other public authorities, e.g. New Towns.

Rates

11. Local rates are a form of taxation, although they also enter into the cost of living, and are necessary to finance the whole range of services to the residents of the area provided by the local authority. Local authorities have been urged to ensure all proper economies in expenditure.

Rents of Business Premises and of Agricultural Land

12. In calling for a standstill on the prices of goods and services, the Government recognise that increases in the rents of business premises and of agricultural land have an effect on prices of goods and services. The principles of the standstill are expected to apply to all such rents no less than to the prices of goods and services and landlords should take them fully into account.
Prices of Houses

The prices of houses, both new and existing, are determined in almost all cases by individual negotiation between buyer and seller, or by auction. The standstill, therefore, does not appropriately apply to such transactions.

Mortgages, Bank Overdrafts and Hire Purchase

The charges made for the loan of money under these and similar arrangements reflect the general level of interest rates and it would be inappropriate to apply the principles of the standstill to them. It will be open to the Government, however, under the Prices and Incomes Bill to refer any such charges to the National Board for Prices and Incomes for examination and report but without imposition of a standstill.
III. INCOMES

1. As explained in para. 2 it is the Government’s intention that there should be a standstill on all forms of income up to the end of 1966, followed by a six-month period of severe restraint.

Employment incomes

2. The standstill is intended to apply to increases in pay and to reductions in working hours. It is not proposed that the standstill should be regarded as applying to other conditions of service, except in so far as these are likely to add significantly to labour costs.

3. The term "increases in pay" itself requires definition. Broadly it is intended to cover arrangements which have the effect either of increasing the remuneration payable for a given amount of work or of reducing the amount of work for which a given level of remuneration is payable. On this basis "pay" includes in addition to basic pay, rates of allowances which are in the nature of pay, rates of pay for overtime and week-end working, piece rates, etc.

4. It is not intended that the standstill should be regarded as applying to:

   (i) Increases in payments made in specific compensation for expenditure incurred, e.g. travel and subsistence allowances.

   (ii) Increases in pay resulting directly from increased output, e.g. piece-work earnings, commissions on sales, any necessary increases in over-time, profit-sharing schemes, etc.

   / (iii)
(iii) Increases in pay genuinely resulting from promotion to work at a higher level, whether with the same or a different employer. (On the other hand the intention of the standstill would be defeated if employers were to regrade posts as a concealed method of increasing rates of pay.)

(iv) It is not intended that the standstill should interfere with the normal arrangements for increasing pay either with age, as with apprentices or juveniles, or by means of regular increments of specified amounts within a predetermined range or scale. Such arrangements are equivalent to promotion according to age or experience; nor do increments as such add to the total wage bill. They can thus be distinguished from a commitment to increase pay for a group of employees as a whole, which is affected by the standstill.

Existing commitments
5. At the time of the Prime Minister's statement at least 6 million workers - approximately one worker in three - was expecting an increase in pay or a reduction in hours (or both) during the next twelve months as the result of a long-term agreement or other type of settlement made at some time in the past. It would clearly have been impossible to introduce a standstill on incomes while allowing these existing commitments to go ahead unchecked. Apart from the unfairness to other workers for whom no such future commitment at present exists, it would in practice have been bound to jeopardise the effectiveness of the standstill from the outset.
6. On the other hand the Government is deeply conscious of the need to restrict to the minimum compatible with the wider economic interests of the country any interference with obligations freely entered into by employers and workers or their representatives. In the present exceptionally difficult circumstances the Government thinks it right to call upon all concerned to accept some deferral of the implementation of any definite commitment to increase pay or shorten hours entered into before the beginning of the standstill. It is accordingly proposed that the following types of commitment, if entered into on or before 20th July 1966 but not yet implemented should be deferred by six months from the original operative date:

   (a) agreements to increase pay or shorten hours whether from an operative date before or after 20th July, 1966;

   (b) pay increases which may be due under cost of living sliding scale arrangements between 20th July 1966 and 30th June 1967;

   (c) commitments to review pay or hours from a date already agreed on or before 20th July 1966 or standing commitments for periodic review;

   (d) Wages Council proposals made on or before 20th July but not yet submitted to the Minister of Labour or submitted to the Minister but not yet embodied in a statutory order.

7. An existing commitment may be defined as any agreement to increase pay or shorten hours or any offer to do so which has been firmly accepted by or on behalf of the workers concerned on or before 20th July, 1966.

/8.
8. It would clearly defeat the intention of the standstill if the parties concerned were to seek to make good in subsequent negotiations any increases foregone as a result of the standstill. Similarly the deferment of existing commitments necessarily involves the deferment of retrospective dates where these apply.

New Agreements

9. It is not the intention that negotiations should be barred during the standstill period to the end of 1966. But no new agreements entered into after 20th July, 1966 should take effect before 1st January, 1967 at the earliest and should not take effect in the following six months unless they can be justified as falling within the revised criteria set out in para. 10 below.

10. During the six months period of severe restraint (i.e. the first six months of 1967) the criteria for consideration of new proposals for improvements in pay and hours will be much more stringent than those set out in Part I of the White Paper (Cmd. 2639) and for the time being the incomes norm must be regarded as zero. The guiding principle must be that of national economic and social priorities. It follows that even in cases which satisfy these more stringent criteria only limited improvements are likely to be justified during the period of severe restraint. The Government will be consulting the C.B.I., T.U.C. and other interested parties on the form which these new and stringent criteria should take in order to secure the restraint which the national interest demands.

11. The Government intend that the fullest use should be made of the National Board for Prices and Incomes in the examination of proposals for improvements which the parties consider to be justified in accordance with the new criteria.
12. In order that those groups which have an expectation of improvement under commitments already existing should not be treated more severely than those which do not, it will be open to the parties to existing commitments to renegotiate, subject to the standstill, their agreements to take effect during the following six months period of severe restraint in accordance with the new criteria.

Arbitration

13. Arbitrators, no less than the other parties involved in negotiations or industrial disputes, are expected to conform to the requirements of the national interest in reaching their decisions; and arbitration awards, like settlements negotiated voluntarily, are intended to be subject to the requirements of the periods of standstill and severe restraint.

Pay in the public sector

14. Employers and workers in the public services and publicly-owned undertakings will be regarded as under the same obligations to act in accordance with these requirements as the rest of the community.

Other forms of employment income

15. Many individual salaries and other forms of remuneration including that of company directors and senior executives are fixed outside the normal process of collective bargaining; but it is intended that the same principles should apply to these as to other forms of income. It is intended to incorporate in a Companies Bill for introduction in the current session of Parliament the statutory requirements relating to disclosure by companies of emoluments of directors and senior executives, to which the Prime Minister referred in his statement on 20th July.
16. **Other money incomes**

The Government have already pledged themselves to use their fiscal powers or other appropriate means to prevent any excessive growth in aggregate profits.

All company distributions including dividends paid by companies are subject to the standstill for twelve months and should not be increased above the average level paid in the period ............... (i)

It is recognised that there may be a very few cases in which it would be in accordance with the national interest to permit an increased distribution, but the Government will require strict examination of any such cases.

Companies are requested to inform the Government/Treasury of such cases in order that the justification may be examined. In important cases the Government would refer the matter to the N.B.P.I. for examination.

17. **The incomes of self-employed persons, including all forms of professional fees, are expected to be under similar restraint over the twelve months. The Government will have power under the Prices and Incomes Bill to impose a standstill on charges made for professional services.**

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**Footnote (i):** The tax rules applying to "closely controlled companies" may make it necessary to exclude such companies' distributions from the standstill.
Prices, Charges and Fees of Government Departments

1. The Government intend to apply the principles of the standstill to all prices, charges and fees of Government Departments.

Nationalised Industries

2. The nationalised industries will be subject to the same restraints as the private sector in relation to prices and incomes. They will be subject also to the general provisions of the Prices and Incomes Bill. The Chairmen of the nationalised industries have assured the Government of their full support in implementing the standstill.

The Air Transport Licensing Board, which has before it applications from British European Airways for increases in fares on the London-Scottish air routes, has assured the Government that it will take the Prime Minister's Statement of 20th July into account before reaching a decision.

Statutory Price-Fixing Bodies

3. Statutorily established price-fixing bodies, such as the Transport Tribunal or the Traffic Commissioners, are expected to conform to the requirements of the periods of standstill and severe restraint.
27. The Government, the C.B.I. and the T.U.C. attach great importance to the continuation of the work of the National Board for Prices and Incomes, both in the longer-term and in the special circumstances of the standstill.

28. The Board will be responsible during the twelve months for considering, in accordance with the above arrangements, such proposals for prices and incomes increases as are referred to it for detailed examination. The Board's examinations will be carried out as rapidly as possible and its organisation will be adapted and strengthened as necessary for this purpose.

29. The Board will continue during the next twelve months to examine references made to it from time to time by the Government on matters of longer term significance in the field of productivity, prices and incomes. This will be of particular importance in preparing for the period following the standstill and period of severe restraint when it will be essential to ensure that the growth of incomes is resumed in a manner consistent with the growth of national output.

VI. PROPOSED STATUTORY POWERS

[Section to follow]
VI. PROPOSED STATUTORY POWERS

In his statement on 20th July the Prime Minister said:-

"within the main field of collective bargaining we shall rely in the first instance on voluntary action. Nevertheless, in order to ensure that the selfish do not benefit at the expense of those who co-operate, it is our intention to strengthen the provisions of the Prices and Incomes Bill. ....... Meanwhile the Government will not hesitate to act within the powers they enjoy, or may further seek, to deal with any action involving increases outside and beyond this policy."

2. For this purpose the Government proposed to move the addition to the Bill of new clauses containing purely temporary provisions which would be operative from the date on which the Act comes into force but which would lapse automatically after twelve months without power of renewal.

3. The proposed provisions will:-

(a) give the Government power to make orders (subject to negative resolution by both Houses of Parliament) directing that such prices or charges, or rates of remuneration, as may be specified in the order shall not be increased from the date on which the order takes effect without Ministerial consent. These powers would enable the Government to impose a temporary standstill on both prices and charges and on levels of remuneration (allowing for the effect of changes in normal working hours) where this was necessary. Any organisation or person wishing to raise prices or pay that are subject to the standstill will first have to obtain the consent of the Government.

(b)
(b) give the Government power to enable price or pay increases implemented since 20th July which are unjustified to be reversed where this is necessary. The appropriate Minister would be empowered to direct that any price or charge specified in the direction should be reduced to a level not lower than that prevailing on or before 20th July. Such prices or charges would then not be able subsequently to be raised to a level higher than that specified in the direction without Ministerial consent. But before making any such direction, the Minister would be obliged to give 14 days' notice to the person to be affected by the order and to consider any representations made within that time. The direction itself could not be retrospective. A similar power in respect of rates of pay would enable the Government to require by order that any remuneration of a kind described in the order should be no higher than the rate paid by the employer for the same kind of work before 20th July, or higher only to an extent authorised in the order, without Government approval. Before such an order was made 14 days' notice would have to be given and account taken of any representations made by employers or trade unions or other persons affected by the order.

The sanctions for offences against any order or direction made under these powers will be the same as the sanctions for offences under clauses 11 and 16 of the Bill. Proceedings would, as in the case of offences under Part II of the Bill, require the consent of the Attorney General. Trade unions and employees would have the statutory protection conferred by Clause 16 (5) and (6) and Clause 17 in Part II of the Bill.
(c) to empower the Minister of Labour to delay the operative date of wages regulation orders made under the Wages Conciliation Act 1959, and to vary the effective date of pay increases under orders already made;

(d) to empower the Minister of Agriculture (and the Secretary of State for Scotland) to defer the effective date of wages regulation orders made by the Agricultural Wages Boards under the Agricultural Wages Act 1948.

(e) protect from any legal proceedings employers who, in response to the Government's request for a standstill, voluntarily withholds pay increases to which an employee may be entitled under his contract of employment.

4. As explained above, these powers would be of a purely temporary nature. The Prime Minister made it clear in his statement that it was not proposed to introduce elaborate statutory controls over incomes and prices, and that the policy must continue to rely on voluntary co-operation. Even though the temporary new powers will be used very selectively, they need to be potentially wide-ranging if they are effectively to deter any selfish minority who are not prepared to co-operate and to reassure the majority who are prepared voluntarily to observe the policy laid down in the White Paper.

27th July, 1966
In his Statement on 20th July asking for a prices and incomes standstill, the Prime Minister said:—

"within the main field of collective bargaining we shall rely in the first instance on voluntary action. Nevertheless, in order to ensure that the selfish do not benefit at the expense of those who co-operate, it is our intention to strengthen the provisions of the Prices and Incomes Bill, to speed its passage through Parliament and to redefine the role of the National Board for Prices and Incomes. Meanwhile the Government will not hesitate to act within the powers they enjoy, or may further seek, to deal with any action involving increases outside and beyond this policy."

2. At the first meeting of the Standing Committee on the Bill on 26th July, the First Secretary announced that the Government proposed to proceed by adding a new Part IV to the Bill containing purely temporary provisions which would lapse automatically after twelve months and would not be subject to renewal. He undertook to table the new clauses as soon as possible.

3. One possible amendment to the Bill which has been considered by the Government is a temporary provision to extend the 30 days 'early warning' period in Part II of the Bill to six months, and to extend the three months standstill period pending investigation by the National Board for Prices and Incomes to six months, so that the maximum standstill period on any proposed price increase or award or settlement could be twelve months. But this would effectively destroy the existing philosophy of Part II of the Bill, since the intention would be to use the 'early warning' provisions to impose a general standstill rather than to enable the Government to consider whether particular proposals should be referred to the Board and, if so, to enable their implementation to be deferred pending the Board's report.

/Moreover
Moreover, an amendment on these lines would be unlikely to provide an effective deterrent to the minority of persons who are not prepared to observe the standstill on a voluntary basis. Even if the need to bring in an Order in Council requiring statutory consultation and affirmative resolutions by both Houses of Parliament was to be waived during the next twelve months, the provisions in Part II of the Bill could not be used to reverse price or pay increases implemented since 20th July but which cannot be justified under the criteria to be set out in the White Paper. Reliance on the provisions of Part II to reinforce the general standstill would also be likely to undermine the goodwill which now exists in operating an "early warning" system on a voluntary basis, as well as encouraging people to put forward new price or pay proposals sooner than they would otherwise have done. For these various reasons the Government have concluded that the best course is to leave Part II of the Bill intact as a longer term measure and to take separate but temporary powers for the purpose of reinforcing the voluntary standstill.

4. The new powers which it is proposed to take would be effective from the date on which the Act comes into force. This contrasts with the powers in Part II of the Bill which can only be used after an Order in Council involving affirmative resolutions by both Houses of Parliament. This is essential since the new powers are required to reinforce a voluntary standstill which has already begun. The new powers will however lapse automatically twelve months after the passing of the Act and will not be subject to renewal.

5. The provision in the new Part IV of the Bill will give the First Secretary power to make orders (subject to negative resolution by both Houses) directing that such prices or charges, or rates of remuneration, as may be specified in the order shall not be increased from the date on which the order takes effect without Ministerial consent. These powers will enable the Government
Government to impose a temporary standstill on both prices and charges and on levels of remuneration (allowing for the effect of changes in normal working hours) on a more or less selective basis. Any organisation or person wishing to raise prices or pay that are subject to the standstill will first have to obtain the consent of the First Secretary or the appropriate Minister.

6. The power to impose standstills will not be retrospective to 20th July. Further powers are therefore needed to enable price or pay increases implemented since 20th July which are unjustified to be reversed where this is necessary. These further powers will enable any Minister to direct that any price or charge specified in the direction shall be reduced to a level not lower than that prevailing on or before 20th July. Such prices or charges shall not subsequently be raised to a level higher than that specified in the direction without Ministerial consent. Before making any such direction, the Minister must give 14 days' notice to the person to be affected by the order and must consider any representations he may make within that time. The direction itself will not be retrospective.

7. There will be a similar power on the pay side. This will enable the First Secretary to require by order that any remuneration of a kind described in the order shall be no higher than the rate paid by the employer for the same kind of work before 20th July, or higher only to an extent authorised in the order, unless the appropriate Minister consents to an increase above this level.
Before making such an order the First Secretary shall give 14 days' notice published in the Gazette and shall take account of any representations made by employers or trade unions or other persons affected by the order within that period. The order itself will not be retrospective, i.e., it will not affect payments made above the level on 20th July before the order comes into force.

8. The sanctions for offences against any order or direction made under these powers will be the same as the sanctions for offences under clauses 11 and 16 of the Bill. Proceedings would, as in the case of offences under Part II of the Bill, require the consent of the Attorney General. Trade unions and employees would have the statutory protection conferred by Clause 16 (5) and (6) and Clause 17 in Part II of the Bill.

9. To enable a standstill to be imposed on minimum rates of pay determined under statutory negotiating machinery, it will also be necessary:

(a) to empower the Minister of Labour to delay the operative date of wages regulation orders made under the Wages Councils Act 1959, and to vary the effective date of pay increases under orders already made;

(b) to empower the Minister of Agriculture (and the Secretary of State for Scotland) to defer the effective date of wages regulation orders made by the Agricultural Wages Boards under the Agricultural Wages Act 1948.

These powers would lapse automatically at the end of the twelve months period.

10. Finally, it is necessary for the Bill to protect from any legal proceedings employers who, in response to the Government's request for a standstill, voluntarily withhold pay increases to which an employee may be entitled under his contract of employment.
11. Although these new powers are potentially far-reaching, they are of a purely temporary nature. The Prime Minister made it clear in his statement that it was not proposed to introduce elaborate statutory controls over incomes and prices, and that the policy must continue to rely on voluntary co-operation. (Even if this were not the case, it would hardly be practicable to set up effective machinery for operating such controls within the twelve months period the new powers are to last). Even though the temporary new powers will be used very selectively, they need to be potentially wide-ranging if they are effectively to deter the selfish minority who are not prepared to co-operate and to reassure the majority who are prepared voluntarily to observe the policy laid down in the White Paper.

12. Provisional drafts of the new clauses are attached.

27th July, 1966
CABINET

THE NEED FOR AN INQUIRY INTO ASSIZES AND QUARTER SESSIONS

MEMORANDUM BY THE LORD CHANCELLOR

The administration of justice outside London, both in criminal and in civil proceedings, has for centuries been dependent on the existence of the Circuit system whereby the Judges of The Queen’s Bench Division are required to visit every county in England and Wales at least twice a year for the purpose of holding Assizes. The important part which the Assize system has played in the development of English institutions is a matter of common knowledge, but what is perhaps less well-known is the length of time for which complaints have been heard about the wastefulness and inefficiency of the system. As long ago as 1869 the Judicature Commission remarked that the distribution of a small amount of business among a large number of circuit towns was the cause of serious evil to the suitors and the Commission accordingly recommended the consolidation of several counties into districts for the trial of civil and criminal cases. However, no action was taken and a similar fate awaited the proposals made by a Council of Judges in 1892 for the grouping of civil cases at 18 centres throughout England and Wales. The recommendations made by the Gorell Committee in 1908 and the St. Aldwyn Royal Commission in 1913 were equally unsuccessful. It is therefore not surprising that in the light of the history of these and later inquiries the Peel Royal Commission on the Despatch of Business at Common Law (Cmd. 5065) reached the conclusion in 1936 that attempts to abandon the county basis of the Assize system stood no chance of success, although it is fair to add that the Peel Commission itself thought that the county basis should be retained.

2. There has been no radical inquiry into the Assize system since the Peel Commission reported. The Evershed Committee on Supreme Court Practice and Procedure, in its First Interim Report published in 1949 (Cmd. 7764), considered the possibility of fixing dates for the trial of civil actions at Assizes but concluded that this was impossible so long as the existing circuit system remained unchanged. The Streatfeild Committee on the Business of the Criminal Courts, which reported in 1961 (Cmnd. 1289), was not
invited to consider any fundamental alterations in the Assize system, its primary task on this side of its inquiry being to see what could be done to reduce the delays in bringing accused persons to trial. It is true that the Streatfeild Committee did recommend some important changes in the arrangements for holding Assizes, which resulted in many of the more important Assize towns being visited by the Judges four times a year and in the holding of Assizes simultaneously at more than one town on a Circuit. The implementation of these and other recommendations made by the Streatfeild Committee has undoubtedly been of some value in enabling the Judges to deal with the heavy increase in crime and in reducing the delays in the trial of criminal cases at Assizes as well as at Quarter Sessions.

3. Fundamentally, however, the system remains much the same as it has always been. There are still 61 Assize towns which must be visited by the Judges at least twice a year. Some of these are places at which there is often little or no business or where, on the other hand, the time available is quite insufficient for the trial of a long case. The present Assize towns are listed in the Annex to this memorandum and my colleagues will see at once that many of them are places at which one would not consider the holding of an Assize if one were free to start afresh. It is not surprising to find that the discontinuance of Assizes at such places as Appleby, Huntingdon and Oakham in England and Beaumaris, Mold and Presteign in Wales should have been recommended by Committees in the past. Yet the Judges are still required to visit these towns, while large centres of population elsewhere remain without any adequate facilities for the local trial of civil cases outside the jurisdiction of the County Courts and accused persons often have to travel long distances for trial.

4. The results are very much what one would expect. So far as civil cases are concerned, the universal complaint is of over-crowded lists and cases having to be postponed from one Assize to the next and sometimes to the next but one. In such conditions the fixing of dates for trial is, as the Eversheds Committee found, virtually impossible and litigants, witnesses, counsel and solicitors waste an inordinate amount of time in waiting for their cases to come on. So far as criminal cases are concerned, it is true that, following the changes recommended by the Streatfeild Committee, much has been done to reduce the waiting period before trial, but this often has to be achieved at the expense of civil cases and at the cost of committals to courts which may be some considerable distance from the magistrates' court at which the charge was first heard. The general dissatisfaction at the present state of affairs was most recently voiced by the Lord Chief Justice at the Judges' Dinner at the Mansion House on 30th June, when he urged the need for a radical reduction in the number of Assize towns.

5. I am satisfied that we now need a far-reaching inquiry by a strong Royal Commission. I should like to see this body given wide terms of reference which would enable it to consider not only
the re-organisation of the Assize system, but also the desirability of setting up district High Courts outside London. It should also, no doubt, have power to consider the extension of the Crown Court system on the lines of that existing at Liverpool and Manchester, although this was not recommended by the Streatfeild Committee and I am not myself in favour of it. I think the Commission should also be asked to look into the arrangements for the administration of justice at Quarter Sessions, which now tend to be over-loaded as the result of the increase in crime and the extended jurisdiction which they have recently been given following on the recommendations of the Streatfeild Committee, in consequence of which it is becoming more and more difficult for busy members of the Bar to act as Recorders and for barristers and solicitors to act as Chairmen and deputy Chairmen of Quarter Sessions. An important part of the Commission’s task will be to consider the availability of court accommodation and the arrangements for housing the Assize Judges: difficulties about accommodation of every kind at present play a wholly disproportionate part in determining the pattern of our court system at all levels.

6. Previous attempts to reform the Assize system have usually foundered on local opposition to proposals that a particular town should lose its Assize. No doubt strong feelings are still entertained on this score, many of them proceeding from motives which are entitled to respect, but I do not think that such feelings should any longer be allowed to stand in the path of reform. Moreover, I think we may well find that there is less opposition to change under this head than used to be the case, for many local authorities are to-day finding the cost of supporting an Assize a heavy financial burden. I have little doubt that an announcement of an early inquiry will be widely welcomed.

7. The Home Affairs Committee agreed on 22nd July (H (66) 18th Meeting, Minute 4) that an inquiry by a Royal Commission was highly desirable, but invited me to reconsider its scope and terms of reference in consultation with the Home Secretary and the Financial Secretary to the Treasury. I have now done this and we agree in thinking that the Commission should be asked “to inquire into the present arrangements for the administration of justice at Assizes and at Quarter Sessions outside Greater London and to report what reforms should be made for the more convenient, economic and efficient disposal of the civil and criminal business at present dealt with by those courts.” These terms of reference will enable the Commission to consider not only the present organisation and jurisdiction of Assizes and Quarter Sessions but also the desirability of any changes in the deployment of the Judges, for instance by the setting up of provincial High Courts.

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CABINET

CRIMINAL JUSTICE BILL

Memorandum by the Secretary of State for the Home Department

Introduction

In this memorandum I set out the provisions which, with the agreement of the Home Affairs Committee, I propose to include in the Criminal Justice Bill. This Bill will be a major measure which will make a number of significant reforms in the penal system and in the criminal law and the procedure of the criminal courts. I hope that it will be possible to take Second Reading before Christmas.

Release on licence

2. On 2nd December, 1965 (CC(65) 67th Conclusions, Minute 3) the Cabinet approved the publication of a White Paper on the Adult Offender. The central proposal in the White Paper (Cmnd. 2852), which the Bill will implement, is that a prisoner who has served one-third of his sentence or one year, whichever is the longer, may be released on licence subject to suitable conditions. Prisoners will be carefully selected for this privilege in the light of their response to training and general progress in prison, and the over-riding consideration will always be whether early release is likely to involve any appreciable risk to the public. Any prisoner released on licence will be subject to recall to prison until the date on which he would have left it under the existing law.

Persistent offenders

3. The Bill will also implement the White Paper's proposal that the sentences of preventive detention and corrective training should be abolished, and that the courts should be empowered instead to impose a persistent offender a longer sentence, subject to a statutory maximum, than that appropriate for the offence of which he was convicted. To offset this, prisoners in this category will be eligible to benefit by the arrangements for release on licence.

4. There has been widespread support in principle for these proposals, particularly for the concept of release on licence - though we may expect some debate on questions such as the minimum qualifying period for release.
Short terms of imprisonment

5. Many people are sent to prison unnecessarily for short terms. In my view this blunts rather than sharpens the deterrent effect of imprisonment. It also overcrowds our gaols with prisoners for whom no worthwhile remedial treatment can be provided. I propose to tackle this problem in four ways.

(a) Suspended sentences

6. The Bill will introduce the suspended sentence into our penal system, by empowering courts to suspend any sentence of imprisonment of two years or less. A substantial body of informed opinion supports the principle of the suspended sentence, and will welcome its introduction.

7. I also propose that, where an offender is dealt with for an offence which is not one involving violence against the person or a sexual assault, and the court imposes a sentence of imprisonment of six months or less, it shall be required to suspend the sentence if the offender has not previously been sentenced to imprisonment or borstal training. The restriction on the powers of the courts will not be welcomed by all sentencing authorities, but in my view it is essential if we are to make a substantial impact on the problem of short sentences; and the exception for offences of violence should meet most objections of substance.

(b) Offenders sentenced for drunkenness

8. When the development of hostels and other institutions has advanced far enough to secure sufficient accommodation of the right type, imprisonment will not in my view be necessary as a direct penalty for the offence of being drunk and disorderly. I therefore propose that the Bill should provide that, when the Secretary of State is satisfied that sufficient suitable accommodation is available for the treatment and care of those convicted of drunkenness offences, he may make an order providing that the offence of being drunk and disorderly is no longer punishable with imprisonment.

(c) Enforcement of Fines

9. The Bill will empower courts to attach the earnings or other income of fine defaulters and will restrict the present powers of the courts to commit the defaulter to prison. In my paper to the Home Affairs Committee I proposed that courts should have power to commit a defaulter to prison without giving him time to pay only if it appeared that either -

(a) he was able to pay straight away, or
(b) he was likely to disappear without paying;

and that once a court had given time to pay it should not commit a defaulter unless it had tried and failed to extract the fine by attachment of earnings or income. The Home Affairs Committee asked
me to consider further whether the courts needed the power at (a) above, bearing in mind, among other things, that it might result in some offenders under the Prices and Incomes Bill being committed to prison forthwith. My proposals already represent a considerable restriction on the present powers of the courts (indeed the Secretary of State for Scotland is disposed to think that they go too far in this direction) and we do not want the law to become too difficult to enforce against a defaulting offender. On the other hand, I fully recognise the need to take full account of the position under the Prices and Incomes Bill and I am considering the matter urgently in consultation with my colleagues primarily concerned.

(d) Remands in custody

10. With the object of eliminating unnecessary detention before trial I propose to restrict the present unlimited powers of magistrates' courts to remand or commit accused persons in custody rather than on bail by requiring bail to be offered, save in special defined circumstances, in specified categories of minor offences. I am particularly anxious that those who are most unlikely to be sent to prison, even if convicted, should not be kept in prison before trial.

The Jury System

11. There has lately been strong criticism of abuses which are possible under the present jury system. There has been a growing number of cases, involving serious crimes, in which there have been attempts to bribe or intimidate jurors. There have been other cases where a verdict of guilty has not been reached because one member of the jury, from a general dislike of the police or some similar prejudice, was not prepared in any circumstances to see a person convicted.

12. I propose, as an immediate measure to meet these criticisms, that the Bill should provide for juries to be able to convict by majorities of 10 to 2 instead, as at present, of requiring unanimity. The Lord Chief Justice has told me that the judges are unanimously in favour of majority verdicts. In addition, because of public anxiety about the present volume of crime and the need for effective enforcement of the law, I have reached the view that this proposal would be generally acceptable to lay public opinion. But a concession could be made during the passage of the Bill if it became clear that majority verdicts would be acceptable only if reached by at least ten to one. As a safeguard against the too hastily reached majority verdict I propose to provide that a verdict which is not unanimous may be reached after not less than two hours' discussion. In accordance with the conclusion of the Home Affairs Committee, I am giving some further thought to the suggestion that a jury should be instructed to seek to reach a majority verdict only after it has reported to the judge its failure to reach a unanimous verdict after not less than two hours' deliberation; and also to the question of how the judge should ensure that the verdict has been reached by an adequate majority.
13. We have yet to introduce the legislation to which we are committed to implement the recommendations of the Departmental Committee on Jury Service. This also concerns civil juries and would not be suitable for implementation in a Criminal Justice Bill. I am preparing a separate Bill - which can be taken in a Second Reading Committee - to deal with the Committee's recommendations but I propose to act in the Criminal Justice Bill on the Committee's recommendation that persons convicted of serious crime should be disqualified from serving on criminal juries, since this is a measure specifically aimed at the mischiefs described in paragraph 11 above. The Committee's recommendation was that conviction for serious crime should disqualify for five years. I propose to extend this to disqualify for life those sentenced to five or more years' imprisonment.

Legal aid

14. I propose to include in the Bill the provisions necessary to give effect to the recommendations - which have been generally welcomed - of the Widgery Committee on Legal Aid in Criminal Proceedings. The three main proposals requiring legislation are (a) the introduction of a contributions scheme; (b) the introduction of arrangements to enable persons convicted on indictment to obtain legal advice on grounds of appeal and (c) the adaptation of the statutory Legal Advice Scheme to make it more accessible to persons charged with a criminal offence.

15. Whereas the proposed contribution scheme involves legislation, the Committee's recommendations as to the circumstances in which courts should grant legal aid, which are likely to entail additional public expenditure, could be implemented by the courts under their present powers. I therefore propose, when announcing the Government's acceptance of the Committee's recommendations, to emphasise the desirability of viewing them as parts of a single scheme to be put into effect at the same time.

Preliminary proceedings before examining justices

16. Early in 1965 the Government announced their intention to give effect to the Byrne report (which recommended a limited use of written evidence in committal proceedings) and the Tucker report (which recommended restrictions in the reporting of these proceedings). It is now clear, however, that there is considerable support for going much further than the limited changes recommended by the Byrne report. I propose that committal proceedings shall be held only if the prosecution or the defence want them (the defence will have had an opportunity to study the written statements of prosecution witnesses in advance) and that, where they are held, oral evidence should be given only by those witnesses from whom either side want it; the remainder of the evidence will be in writing.

17. As regards the Tucker recommendations, the case for restricting press reports rests at present on no more than a balance of opinion, but if committal proceedings in their present form are to be the exception rather than the rule it would be wrong for pre-trial publicity to be given only to the exceptional case. I therefore propose...
to restrict press reports of such proceedings as shall be held, reserving to the accused the right to require that the restriction should not apply if he thinks publicity would help him (e.g. by dispelling rumour or bringing in witnesses who would not otherwise have known of the case). I also propose to accept a recommendation of the Criminal Law Revision Committee that accused persons should be required to give notice before the trial of any defence of alibi they propose to raise.

Other amendments to court procedure

18. I consider that the time has come to modify the procedure for bringing those charged with trivial offences (e.g. parking offences) before the court by (i) allowing trials to proceed in the absence of the accused even if the summons has not been acknowledged, and giving a new trial to those who claim ignorance of the summons; and (ii) prohibiting the use of warrants of arrest to bring trivial offenders before the court in the first instance. Following recommendations of the Criminal Law Revision Committee I propose to allow greater scope for written evidence in all criminal proceedings and the use of formal admissions of facts that would otherwise have to be strictly proved. Most of these proposals (and certain other minor ones) are directed to improving efficiency and saving time.

Amendments to the Prison Act 1952

19. The Bill will make various amendments to the Prison Act 1952. The most important is the abolition of corporal punishment for disciplinary offences in prison. This may be opposed by the prison officers, but it is a degrading form of punishment out of keeping with the aims and methods of modern penology.

Increase of maximum fines

20. The Bill will increase the maximum fines which may be imposed for a number of offences. Many of these fines were fixed years ago, and have become inadequate with the fall in the value of money. Consequential changes will be made in the tariff of terms of imprisonment to be served in default of fines.

Fingerprints and palmprints

21. At present, when a person not less than 14 who has been taken into custody is charged with an offence before a magistrates' court, the court may order him to be fingerprinted. I propose that this power should be extended to include palmprints, and to cover cases where an offender appears in answer to a summons for any offence punishable with imprisonment. I think that public opinion generally will approve this comparatively minor extension, which will be of considerable assistance to the police - and would indeed be prepared to go further if it could be shown that this would be useful.
Probation and after-care

22. The Bill will make a number of changes on points of detail related to probation and after-care. Most of these changes implement recommendations made by the Departmental Committee on the Probation Service (the Morison Committee) in 1962 and by the Advisory Council on the Treatment of Offenders.

Minor and miscellaneous provisions

23. I shall also take the opportunity to make various minor and technical improvements in the administration of the criminal law.

Conclusion

24. I seek the approval of the Cabinet to the proposals for the Criminal Justice Bill set out in this paper, subject to my reaching agreement with the First Secretary of State and the Attorney-General on the extent of the courts' powers to commit fine defaulters to prison (paragraph 9 above).

R. H. J.

Home Office, S. W. 1.

1st August, 1966
2nd August, 1966

CABINET

BROADCASTING POLICY: DRAFT WHITE PAPER

Note by the Lord President of the Council

I attach a draft White Paper on Broadcasting Policy prepared by the Postmaster General on lines approved by the Ministerial Committee on Broadcasting. The text has been circulated to the members of the Ministerial Committee and takes account of comments received from them.

I seek the agreement of the Cabinet to the text of the White Paper and to its early publication.

H. B.

Privy Council Office, S. W. 1.

2nd August, 1966
Introduction

1. The Government have had under review various major aspects of broadcasting policy. First among them was the question of the BBC's finances. Besides this, there were various proposals for the further extension of the broadcasting services; that there should be a fourth television service; that a service of local sound broadcasting should be introduced; and that there should be an extra service of sound broadcasting entirely given over to music.

2. The Government have thought it best to consider them as a comprehensive whole. For two other major questions it was however desirable for the Government to publish their views before the general review was completed. A Bill to put an end to the activities of pirate radio stations has already been introduced, and on colour television, the Postmaster General announced on 3rd March last the decision that a service using the PAL transmission system and broadcast on the 625-line standard would start towards the end of next year.

3. In reaching the conclusions announced in this review, it has of course been the Government's duty not only to consider what purposes the proposals for further extending the broadcasting services should seek to serve, and what organisation would best promote these purposes. The Government have also had to consider to what extent it would be in the national economic interest to allow these extensions. It is not enough that they should be desirable in themselves. The overriding consideration is whether the country can afford them.

THE FINANCES OF THE BBC

The BBC's request for an increase in the licence fee

4. Following the report of the Pilkington Committee in 1962, the BBC were authorised:

(a) to provide an additional television service - BBC2;

(b) to provide self-contained television services for Scotland and Wales;

(c) greatly to increase the number of hours for which its Third Programme/Network Three broadcasts. It now broadcasts throughout the day;

(d) to extend the Light Programme. It now broadcasts from 5.30 a.m. until 2 a.m.;

(e) to provide more programmes of adult education on television. Both BBC and ITA have made full use of this authority; and

(f) to start colour television on BBC2.
The decision to authorise these major developments was welcomed; and, except for colour television - which is to start next year - they either have been or are being carried into effect.

5. The understanding on which the BBC proceeded to carry out this programme was that they would be afforded sufficient income to finance adequate services. In their Annual Report for 1962-63, the Corporation record that if they had received the full proceeds of a £5 licence from 1st April 1963, for which they had asked, they could have financed their services out of income until the end of the nineteen sixties. The Corporation's request was not granted, but from October 1963, when the Government of the day relinquished the £1 annual excise duty, an amount equal to the whole of the net proceeds of a £2 licence became payable to the Corporation.

6. In October 1964, the BBC represented to the Government that the combined television and sound licence fee should be raised from £4 to £6, and the sound-only fee from £1 to £1 5s. It was, of course, the Government's duty first to satisfy themselves that increases of this order would be justified. But it was also plain that some immediate action was called for to put the BBC in funds. The Government therefore decided that there should be a close enquiry into the Corporation's finances, but, as an interim measure, also authorised increases in the combined licence fee from £4 to £5, and in the sound-only fee from £1 to £1 5s. Both increases took effect on 1st August 1965.

The Government's enquiry

7. The Government have completed their enquiry into the BBC's finances. Practically speaking, the only possible ways of providing finance for the BBC are: by direct Government subvention, by the sale of advertising time in the Corporation's services, or by the licence-fee system.

8. A Government subvention would be liable to expose the Corporation to financial control in such detail as would prove incompatible with the BBC's independence. The money would, of course, have to be found from general taxation.

9. Under their Licence and Agreement (Cmnd.2236) the BBC are not allowed to broadcast commercial advertisements without first having sought and obtained the Postmaster General's permission. Because of the probable long-term effect on the character of their services the BBC have never sought this permission. The Government recall that the Pilkington Committee found against the financing of the BBC in any measure from advertising, and that this view commanded general acceptance.

10. The Government have decided that there should be no change at present in the arrangement whereby the BBC are financed through the licence fee system. But at a time when none may be content to rest upon present standards of efficiency and financial performance, good though they may be, the Government have thought it right to expect of the BBC that they should set themselves even more exacting financial objectives. They have accordingly asked them whether, assuming the expenditure ceiling which would be implied if there were no increase in the licence fee for the present, the Corporation would be able to maintain their present services, and to proceed with extensions and developments either already authorised or proposed below. The BBC have reported that, by making special economies, they will - on certain assumptions - be able to do so until January 1968 at least when they would need an increase of £1.
11. In order to make these special economies, the BBC will restrict activities which they have hitherto considered well justified but which, against the background of continued financial stringency, can be sacrificed to the overriding national need for economy. The Corporation have conducted a searching examination of all their ancillary services and operations, with a view to making the maximum retrenchment in detail. By itself, however, this will not suffice. Some larger scale projects, desirable in themselves, for enlarging and modernising the Corporation's programme production capacity, will be forgone for the present. But the BBC will be able to maintain their present level of programme output and to proceed with extensions and developments of their services already authorised or about to be authorised.

Licence evasion

12. One assumption on which the BBC have based their undertaking to manage without an immediate increase in the licence fee is that counter measures against licence evasion will prove effective. It has been reliably estimated that, of the gross revenue amounting to some £80m. payable in a full year, some £9m. is lost through evasion. This is far too much to be tolerated. Honest viewers and listeners are, in effect, paying for the dishonesty of the evaders.

13. Steps have already been taken by the Postmaster General to tighten up counter evasion measures, but, by themselves, they will not suffice. Further measures are required. The Government are reviewing the penalties which Magistrates may impose on convicted evaders, and are discussing with the associations representing retailers and the rental companies ways in which dealers could help in the enforcement of the licence system. The Government will announce their proposals as soon as these discussions have been completed.

BBC finance: conclusion

14. The Government recognise the efforts which the Corporation are making to defer their request for an increase in the licence fee. The increase will be required in due course, but, given the combined effect of the special economies to be secured by the BBC and of the further measures to be taken to combat licence-evasion, the Government are satisfied that no increase in the fee will be required before 1968.
A FOURTH TELEVISION SERVICE

15. Ultimately, the frequencies now available for television could accommodate six services of near-national coverage on the 625-line definition standard: two in the very high frequency (VHF) bands; and four in the ultra-high frequency (UHF) bands. At present, the VHF bands are occupied by BBC.1 and independent television, both broadcast on 405-lines. Of the four 625-line networks possible in UHF, one is committed to BBC.2. There is therefore unused frequency space in the UHF bands for three more 625-line services. Space for two of them must be reserved in case it is required in order to change over the existing 405-line services to 625-lines by the duplication method. This means that the present basis on which planning must proceed is that, for the next 10 to 15 years, frequencies will certainly be available for only one additional television service of near-national coverage, in UHF and on 625-lines.

16. When the Television Act 1963 was before Parliament, the Government of the day stated their intention to allocate this service to a second programme of independent television during 1963 unless the financial or other obstacles were insurmountable. However it were allocated, a fourth television service would make large demands on resources. The three main services of television already provide a large volume of programmes of various kinds and the Government do not consider that another television service can be afforded a high place in the order of national priorities.

17. Moreover, before deploying the last frequencies certainly available for television for many years to come, the Government would need to be satisfied that the case for committing them to any new service had been fully established. Beside the claim of independent television, there is also the possibility that the frequencies would be required for a specialised service of educational television.

18. The Government have decided that no allocation of frequencies to a fourth television service will be authorised for the next three years at any rate.

COLOUR TELEVISION

19. The Government have already announced the decision that colour television, using the PAL transmission system and the 625-line definition standard should be provided. The service is to start towards the end of next year on BBC.2. In reaching this conclusion the Government saw as an important consideration the prospect of increasing exports - provided that an early start could be made.

20. In making this announcement, the Postmaster General stated that if the Oslo conference of the International Radio Consultative Committee were to show that another transmission system found general acceptance, the Government would take such a development into consideration. In the event, the conference did not reach a common view on any transmission system. In general, the countries of western Europe expressed a preference for the PAL system, and France and eastern Europe for the SECAM II system. Accordingly, in the United Kingdom the colour service will be provided on the PAL system.

21. It has always been recognised that the decision to provide colour television on the 625-line definition standard is dependent upon the intention to change over the two 405-line services of BBC.1 and independent television - to 625-lines. The Postmaster General's Television Advisory Committee has been asked to report as soon as possible on the method of changeover to be adopted.
22. It is the Government's view that the cost of colour programmes, which are likely at the outset to be available only to a small minority of viewers because of the cost of receivers, should not fall upon viewers in general. Accordingly a supplementary licence fee of £5 will be required from those equipped to receive colour programmes.

LOCAL SOUND BROADCASTING

23. No general service of local sound broadcasting can be provided on medium wavelengths allotted to the United Kingdom. The only possibility for such a service would be VHF. This would give a typical station a range of about 5 miles. In practical terms, 150-200 towns and cities could be served. Of the proposals put to the Government for the provision of a service, some advocate that it should be provided by commercial companies and financed from the sale by them of advertising time, others that it should be provided by the BBC.

24. In a worthwhile service of broadcasting a local station should, the Pilkington Committee concluded, transmit "for a sufficient part of the broadcasting day, [material] of particular interest to the locality served by that station rather than to other localities". In their White Paper of July 1962 (Cmd 1770) the previous Administration agreed "that the justification for local sound broadcasting would be the provision of a service genuinely 'local' in character". The Government share this view.

25. But there is not only the question whether such a service could be sustained, month-in, month-out; there is also the question whether there would be a continuing public demand for it. There is no clear evidence either that adequate local material is available or that the need for such a service exists. The Government therefore feel that an experiment is necessary.

26. In considering the possible form of an experiment which should last no longer and be no more extensive than is necessary to provide the information on which to found a decision whether or not to proceed to a general and permanent service, the Government have had regard to the need to avoid setting up at this stage any new broadcasting structure. They have also had to bear in mind the need to avoid an excessive diversion of resources for this purpose. This latter consideration would be equally important whether the experiment were undertaken by the BBC, a new corporation or by commercial undertakings. They have decided to authorise the BBC to conduct a nine-station experiment, on VHF. The objective is that the stations should offer a full-scale local service during the experimental period. The Corporation would expect to bring the first station into service by the Spring; and to have three stations in service by the Autumn of 1967. A two-year experiment from then would provide the information on which to found the final decision.

27. For each experimental station there will be a Local Broadcasting Council appointed by the Postmaster General in consultation with the BBC. Each Council will be widely representative of the community - including youth - and will play a fully formative part in the development of programme policy and content. The Government attach great importance to the need to ensure that the stations are local in character and not all moulded to a common pattern imposed from the centre; and the BBC have assured the Government that the Councils will have the maximum possible voice in the direction and performance of the stations. The Corporation will accommodate the cost of the experiment within the expenditure limit required by the decision that the licence fee will remain unchanged at least until 1st January 1968.
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28. The Government reserve until the conclusion of the experiment any decision on the question whether a general or permanent service should be authorised, and, if so, how it should be constituted and organised and by whom provided. The decision that the BBC should conduct the experiment implies no commitment that the Corporation should provide a permanent service, if it were decided to authorise one.
29. The demand for continuous light music is not new. What is new is that, by appropriating wavelengths allotted to other countries, the pirate radio stations have been able to exploit it. Legislation to end the activities of these stations has been introduced and the demand for a continuous service of music will be met by the BBC. Until recently, the Corporation have considered that they could best serve their various audiences by providing the Light Programme in its present form on both long and medium-wavelengths. The long-wave transmission of the Light Programme is now reinforced by the BBC's VHF transmissions, which themselves are attaining virtually complete population coverage. Moreover, portable VHF transistor sets, at reasonable cost, are now becoming available. For these reasons, the BBC now feel free to devote the medium-wave channel of 247 metres to a service of continuous light music. This means that the Corporation will provide music during those day-time hours when the long-wave and VHF transmitters of the Light Programme are broadcasting programmes other than music. The Government welcome this extension of choice offered by the BBC to the listener.

30. The Conservative Government authorised an experiment to last three years and granted a licence which will not expire before January 1969. The Government agree with this decision but they will not allow a situation to develop in which the vast majority of viewers are denied the viewing of major sporting events.

31. The first White Paper (Cmd.1770) on the report of the Pilkington Committee stated that the Postmaster General's powers to control the hours of broadcasting would continue. In the Television Act 1963, and in the BBC's Licence and Agreement, approved by Parliament in January 1964, these powers were re-enacted in a more detailed form.

32. It has been represented to the Government that, ideally, these powers should not be used, but held as a reserve power. Both the ITA and the BBC would then be free to broadcast for as many hours a day as they chose. The Government have also considered whether, instead, there might be authorised a large increase in the number of hours of broadcasting a week.

33. In a typical week BBC.1, independent television and BBC.2 broadcast for some 180 to 200 hours in total. The amount of television broadcast here compares favourably with that of any other Western European country and considerably exceeds that of most.

34. In the Government's view, the amount of broadcasting time will remain a matter of sufficient social importance to require that the Postmaster General should continue to hold and exercise his present powers of control. Nor do the Government consider that any general increase in broadcasting hours will be justifiable for the present. They do not, however, rule out the possibility of more time for educational programmes.

35. Both the BBC and ITA are public corporations, wholly responsible for the content of their programmes and for the day-to-day conduct of their affairs. The principle that the public corporations should be independent of the Government has been upheld by successive Administrations since the beginning of broadcasting in the United Kingdom. The Government adhere to this concept.
36. The Government has discussed with the broadcasting authorities, and with other parties in Parliament, the idea of establishing, subject to this governing principle, a council to consider general issues of broadcasting policy. They have concluded that additional machinery of this sort would serve little useful purpose if the independence of the two public corporations is to be maintained. Since full responsibility is required of them, they must be afforded full authority to secure that their services are conducted in the general interest.

37. Though Parliament has placed them in competition with each other, they have a common objective of public service. In the continuing task of realizing this objective matters of common concern are bound to arise. To discuss matters of this kind, the Chairman of the BBC and the Chairman of the ITA have, the Government understand, established regular and frequent meetings. The two broadcasting authorities have now decided to put these meetings on a more formal footing and to use them as the occasion for discussing matters which either Chairman might wish to raise. The meetings will continue to be private and unpublicised.

38. The Government welcome this means of consultation between the two authorities and their ready recognition that they will benefit from an understanding by each authority of the other's views.
2nd August, 1966

CABINET

REORGANISATION OF THE SHIPBUILDING INDUSTRY

Memorandum by the President of the Board of Trade

I believe it is essential that the Government should announce their decisions on the Geddes Report before the Recess.

2. The Geddes Report, which was published in March, recommended a radical reorganisation of the shipbuilding industry, the abandonment of restrictive practices, and financial and other assistance from the Government. The main proposal was that we should set up an independent Shipbuilding Industry Board with powers to make loans over a period of five years up to a maximum of £32½ million, and grants of up to £5 million, to facilitate the concentration of the existing twenty-seven major yards into four or five large groups.

3. The Report proposed that both sides in the industry should be given three months from the publication of the report to give their considered reactions to its recommendations, and that the Government should then announce their decisions in the following month. I made a statement in March, on behalf of the Government, and by agreement with my colleagues, welcoming the general Geddes approach and undertaking that we would play our part in implementing it, if both sides in the industry were prepared to play their part. On this basis both management and unions have now committed themselves to the reorganisation of the industry, although this commitment is dependent on the Government carrying out their share of the package. The unions have already accepted a number of interchangeability agreements and one major demarcation agreement.

4. At their meeting on 22nd July the Ministerial Committee on Productivity agreed that we should go ahead broadly on the lines which Geddes recommended. My colleagues had serious misgivings about making an announcement at present so soon after the Prime Minister's statement of 20th July on the ground that Government financial assistance was involved. Although we should only be committing ourselves to expenditure in due course (mainly in the financial year 1968-69 and later), it was feared by some that a decision to find £37½ million for shipbuilding might be contrasted, both at home and abroad, with our measures to restrict public and private spending.

5. I consider that there are strong practical and presentational reasons for making the statement now. The industry cannot make further progress with reorganisation until the proposed Shipbuilding Industry Board is set up on a non-statutory basis. Unless the Government show that they intend to follow up the Report with the
sense of urgency that Geddes recommended, the fresh start in
industrial relations which the industry has been trying to make will
falter. Confidence in the industry's future will be sapped and this
will weaken both its current financial position and its ability to book
further orders. The Geddes proposals were essentially a programme
with a timetable as well as a package; the proposed Government
statement was supposed to have been made in July.

6. Everything we have said about the report has led the industry
and public to expect a statement; and we have no more reason to
defer a statement on this than on other measures like the establish­
ment of the Industrial Reorganisation Corporation, which will not
involve immediate expenditure, and are necessary to the improve­
ment of productivity. We can offer no adequate reason for putting
this back in view of our claim that the transfer of responsibility for
the industry will not upset or delay the follow up of the Report. It is,
I believe, a confusion of thought to suppose that measures to promote
industrial productivity ought to be held up in order to restrict the
use of public money. We are far more likely to be criticised, and
rightly, for failing to press on with positive proposals for enhancing
productivity, of which this is one of the most promising now open to
us. In any case only small amounts of money will be involved over
the next 2 years.

7. I therefore ask my colleagues to agree that I should be
authorised to make a statement before the Recess confirming the
Government's intention to play its part in the reorganisation of the
industry on the lines agreed at the Productivity Committee.

D. P. T. J.

Board of Trade, S. W. 1.

2nd August, 1966
CABINET

REORGANISATION OF THE PORTS

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

Our Election Manifesto commits us to introducing a measure to reorganise and modernise the nation's ports on the basis of a strong National Ports Authority and publicly owned Regional Port Authorities.

2. The report of the Port Transport Study Group of the Labour Party (the Mikardo Report) has been considered by a working group of officials, who have in turn reported to the Ministerial Committee on Reorganisation of the Docks. The Ministerial Committee are agreed upon the broad lines upon which further examination should go forward, but a number of important points require further consideration before we are in a position to put detailed recommendations to the Cabinet. This memorandum is thus in the nature of an interim report for the information of the Cabinet, and I do not propose to ask for discussion at a meeting unless any of my colleagues considers that we are not going forward on the right lines.

Organisation

3. Ministers agreed with the recommendations of the Mikardo Group and of the Official Working Group that there should be a National Ports Authority with general policy control over a number of Regional Port Authorities. Our view was that there was need for a strong central authority. Officials provisionally recommended five regional authorities, one for the South East, one for the South West and Wales, one for the North West, one for the North East and one for Scotland. Ministers thought that these authorities would be too large; in particular we doubted whether it made sense to have a single authority covering not only London and the East and South East coast ports but also Southampton and other South coast ports. On the other hand we thought that a purely estuarial grouping, as proposed by the Mikardo Group, would make for too many authorities, some of whom would inevitably cover only a relatively small number of less important ports and would therefore be liable to be dominated by the major estuarial groupings. Our preference would therefore be for a structure of about ten regional authorities, based on the major estuaries, and we have invited officials to consider further the functions of the National Ports Authority and of the Regional Port Authorities, and the relationships between the two, on this general basis.
The Ports

4. The Mikardo Group proposed that all ports should be taken over by the new authorities. To nationalise at one go 700 ports of different sizes and characters and with a great variety of constitutions would present the new authorities with enormously difficult practical problems. Officials proposed that in the first instance the following classes of ports (covering nearly 100 ports) should be taken over:

(i) All the ports at present vested in the British Transport Docks Board (29 ports).
(ii) All the ports at which the National Dock Labour Scheme operates (61 ports).
(iii) All other ports where the tonnage of foreign trade exceeds 100,000 tons a year (13 ports).

These ports would be brought into national ownership on a vesting date laid down by legislation. The new authorities would be given a duty to keep under review the other ports in their regions, and would be empowered to submit schemes for acquisition of such ports. Ports owned by the British Railways Board, ports which form part of the industrial process of a single user, fishery harbours and marine works would in general be excluded from nationalisation.

5. Ministers agreed with the general principle that only the larger and more significant ports should be taken over in the first instance, and that there should be placed upon the new authorities the duty to keep other ports under review and the power to submit schemes for acquisition of such ports. But we thought that even 100 ports were likely to represent a substantial administrative problem, and officials are being instructed to study the possibility of reducing further the number of ports to be taken over in the first instance by excluding some of the smaller ports where the National Dock Labour Scheme at present operates. We have directed that this study should be based on the assumption that the National Dock Labour Scheme would not continue to operate after the vesting date.

6. We have also instructed officials to give further consideration to the procedure for acquisition of other ports by the new authorities, and in particular to the question whether legislation should confer a statutory right of objection on persons affected.

Constitution of Authorities and workers' participation

7. Ministers agreed that appointments to the new authorities should be made by the Minister of Transport on a non-representational basis. Members would be appointed from among persons who had wide experience and had shown capacity in transport, industrial, commercial or financial matters, in administration, applied science or the organisation of workers. This would follow the general lines adopted in the Iron and Steel Bill. On this basis the Minister of Transport would be free to appoint to the Authorities people in dock management or officials
of unions with representation in the docks, if they seemed suitable for appointment; but they would not be appointed in a representative capacity. Officials of unions with representation in the docks would be required to give up their existing offices if they accepted appointment to a port authority.

8. This would run counter to the Mikardo Group's recommendation that "some members of the authorities should be representatives of organised labour in the industry on similar lines to National Dock Labour Board practice." We considered that workers' participation could be achieved more satisfactorily by relying on the Mikardo Group's other suggestion for the appointment of Group Operating Committees to assist in the management of individual ports. Each port would have a manager who would have final responsibility under the Regional Port Authority, but he and his principal officers would be members of a Group Operating Committee and he would be guided by and would have to justify his decisions to the Committee. The Group Operating Committee would include representatives of workers; the arrangements by which their representatives would be chosen would be for further discussion in due course with the unions concerned.

9. Officials suggested that there should be four to six members of the National Ports Authority, of whom not less than three should be full-time, and in addition that the Chairmen of the Regional Port Authorities should be members of the National Ports Authority. They also suggested that there should be about eight members of each Regional Port Authority, of whom not less than two should be full-time. Ministers considered that a substantially higher proportion of members would need to be full-time, and invited officials to prepare revised proposals accordingly.

Timetable

10. Officials drew a distinction between existing port authorities (and licensing authorities under the new Docks and Harbours Bill) on the one hand and other port operators on the other. They thought that both categories would need to be taken over, but that it might in practice be difficult for the new authorities to take over all the bodies concerned on the same date. They therefore suggested a two-stage operation, whereby the new authorities would first take over the functions of the existing port authorities and the licensing authorities and then a year later would take over the remaining port operators. On the assumption that the necessary legislation could not be introduced before 1968-69 this would mean a vesting date in 1970 for the main authorities and a second vesting date in 1971 for the other operators. Ministers considered that it was undesirable that the takeover operation should be spread over two stages, and that the practical difficulties foreseen could be to a large extent overcome by setting up the new national and regional authorities on a "shadow" basis directly after second reading of the Nationalisation Bill, so that they could immediately start to prepare the process of takeover. We also thought it desirable that legislation should be included in the 1968-69 programme with a view to a vesting date early in 1970. We instructed officials to consider the arrangements for nationalisation further on this basis. The Minister of Transport will be discussing with the Future Legislation Committee how this Bill can be fitted into the 1968-69 programme.
Other matters

11. A number of other points remain for further consideration, including the allocation of responsibility for inland clearance depots and of responsibility for pilotage, towage and lighterage, as well as the basis of compensation.

Decasualisation

12. The knowledge that nationalisation is in the wind is liable to weaken the readiness both of employers and of unions to co-operate on decasualisation. Uncertainty about the scope and timing of nationalisation will add to the difficulties of Lord Brown's National Modernisation Committee, and is already having an effect on morale and recruitment in the National Dock Labour Board. Ministers therefore agreed that at the appropriate time - perhaps when the report of the Devlin Committee is received - the Government should make a statement on the following lines:

(i) It will be several years before the Government's proposals for nationalisation can become fully operative; if the timetable suggested in the report of the Working Group, namely legislation in the 1968-69 session, to come into effect in 1970, could be indicated, so much the better.

(ii) In the Government's view the system of decasualisation can during the interim period bring real benefit to dock workers and make an important contribution to increased efficiency.

(iii) The Government intend to co-operate to the full with the industry in bringing it into operation promptly.

(iv) The Government give assurances (in terms to be agreed by the Ministers concerned and the Treasury) about the position of existing employees upon nationalisation.

Consultation

13. Officials are being instructed to press forward with the further studies and examinations that are required, and to report to the Ministerial Committee on the Reorganisation of the Docks as soon as possible after the Recess. The Ministerial Committee will then submit detailed recommendations to the Cabinet. If the Cabinet endorses those recommendations, the way will then be clear for the necessary processes of consultation with both sides of the industry. In the meantime it is essential that the Minister of Transport should consult with the National Ports Council; they are her statutory advisers on ports matters, and they have already expressed some concern at not being consulted before the decision to nationalise the ports was announced. The Ministerial Committee agreed that the Minister of Transport should proceed immediately to confidential consultation with the National Ports Council, on the basis that at this stage she would outline the major issues which the Government were considering in connection with the question of nationalisation and should obtain the views of the National Ports Council on these issues.

G.B.

Department of Economic Affairs, S.W.1.

9th August, 1966.
As expected, we have had a very rough time at the Commonwealth Meeting. We have had good support from all the old Commonwealth and from Malaysia. Otherwise, virtually all Commonwealth Heads of Delegations have pressed us, with varying degrees of vehemence -

(a) to use military force;

(b) to declare that there would be no independence before majority rule, and

(c) to propose mandatory sanctions

Unless we can give some satisfaction, there is a risk of some Members leaving the Commonwealth – but graver than that there would be a blow to confidence in the Commonwealth association which could have serious lasting results. It is important to prevent this if we can.

2. (a) We have made it clear that force is out of the question, and the old Commonwealth, including Canada, have given us strong support. I do not think that they are likely to press this, certainly not if they can be met on other points.

(b) No independence before majority rule. We cannot concede this since it would be contrary to all our previous undertakings in Parliament and would be interpreted by the Europeans in Rhodesia as a demand for unconditional surrender. The effect could therefore only be to lengthen the struggle. But there is some misunderstanding and confusion about the fifth principle, and we could clarify this in a way which might go some distance towards satisfying our present critics.
Mandatory sanctions. There would be no difficulty about accepting mandatory sanctions on exports of selected raw materials, but by themselves they would not be enough and there is bound to be strong pressure for some action on oil. The question is, having regard to the risk of escalation leading to economic war with South Africa, whether we could agree to oil sanctions in any form, and, if so, whether they should be -

(a) in general terms
(b) limited to Mozambique
(c) introduced now or delayed until, say, the 1st December.

3. If we could get general Commonwealth agreement to our making a final effort to bring the rebellion to an end, there is a chance that we might get them to stay their hand until, say, the 1st December (when the United Nations Assembly will still be in session) provided we undertake that, if the rebellion has not ended by then, we would be prepared to agree to mandatory sanctions.

4. The outline of a possible British statement to the Conference is attached.

H. B,

Commonwealth Office, S. W. 1.

9th September, 1966
BRITISH STATEMENT TO THE CONFERENCE

1. The British Government are determined to bring the illegal regime in Rhodesia to an end at the earliest possible moment.

2. They propose that, on the ending of the rebellion, the Governor should form a broad-based Government representative of all races in Rhodesia, and that the armed forces and police would be responsible to the Governor.

3. After the return to legality and the establishment of a constitutional government, the British Government would intend to devise by negotiation a constitution which would be submitted to the Rhodesian people as a whole for their acceptance.

4. The meaning of the Fifth Principle is that independence will be granted to Rhodesia only by the clear consent of the people of Rhodesia as a whole and will not be imposed upon them without their consent. In this sense the people of Rhodesia as a whole will have the right of self-determination in relation to the timing of independence. The views of the people as a whole are to be ascertained in a fair and proper test. This is fundamental to the purpose of the Fifth Principle. The British Government are determined to ensure that this is a fair test and would only be prepared to accept the result if they themselves are fully satisfied about the fairness of the test. One question would be how Commonwealth members could be associated with the test. In any case, the British Government would wish to continue the fullest consultations with all Members of the Commonwealth on all these matters.

5. The British Government propose to acquaint the Governor of these propositions and to arrange for consultations to be held with all sections of opinion in Rhodesia. If by the 1st December, 1966, the British Government's proposals are not accepted and the illegal regime fail to indicate their willingness to hand over power to a broadly-based Government responsible to the Governor, the British Government will be prepared to agree to appropriate mandatory sanctions under Chapter VII of the United Nations Charter, seeking the approval of the Security Council for -

(a) sanctions against selected Rhodesian exports;

(b) sanctions against the import of oil into Rhodesia.

6. The British Government will insist that any new constitution acceptable to the people of Rhodesia as a whole must be in conformity with the six principles, with safeguards to ensure that they are respected.
AGRICULTURE AND IMPORT SAVINGS

Memorandum by the Minister without Portfolio

On 10th August last the Cabinet (CC(66) 43rd Conclusions, Minute 3) asked us "to consider whether greater savings of imports of agricultural commodities could be achieved without serious damage to our international trading relationships, commitments and policies". I accordingly asked the Agriculture Ministers to prepare a Report for the Committee on Agricultural Policy. The Committee considered this Report on Monday, 12th September and I now invite my colleagues to endorse the Committee's conclusions, subject to a difference of view which it has not been possible to resolve, on credit for agriculture.

2. The substance of the Report by the Agricultural Ministers was that it would not be advisable to raise production targets for domestic agriculture beyond those agreed only last year as an integral part of our present economic and agricultural policy. The danger the Ministers foresee is that unless several obstacles to rising production are urgently removed, existing objectives are themselves in some danger of not being realised.

3. On the broad proposition to achieve greater savings of imports the Ministers point out that the Government's present production objectives for agriculture were agreed only last year, after careful and thorough interdepartmental consideration, as an integral part of the National Plan. These took fully into account all relevant factors for the period to 1970 - the future level of demand for food, the capacity of the industry, and of our overseas suppliers to provide it, the resources needed in both real and financial terms for various levels of production and import, the consequences these levels would have for our international trading relationship commitments and policies.

4. The Agriculture Ministers argued that nothing has happened since the announcement of the National Plan to call in question either the correctness of its production objectives for agriculture, the capacity of the industry (given the necessary resources) to fulfil them, or the acquiescence of our overseas suppliers in the agricultural provisions of the Plan, and my Committee unanimously endorse the conclusion that the difficulties in the way of raising the production objectives for agriculture only a few months after they had been carefully formulated as part of the National Plan are too formidable to overcome in the near future.
5. But the Agriculture Ministers go on to suggest that the achievement of part of the agricultural Plan is being prejudiced by a recurrence of lack of confidence in the industry. The rate of expansion slowed down considerably in 1965-66, due in part to bad weather and in part to a tough Price Review in 1965. It was their hope that this lack of confidence would be assuaged by the more favourable Price Review of 1966. But two of the elements of the settlement of that Review, though agreed in general terms (and incorporated in the Review White Paper, Cmnd 2933), were left for more detailed discussion and interpretation after the Review. These discussions had not been concluded when the July measures to take some of the pressure out of the economy were formulated, and farmers now claim that the new restrictions on credit are operating in a way inconsistent with their import-saving role. There is also a particular problem in regard to pigs, where the 1965 measures to restrain excessive production have worked too severely.

6. The Agriculture Ministers, therefore, advanced four proposals for immediate decision and announcement, designed to restore confidence in the industry and so remove some of the risks of failure to fulfil existing production objectives. The Agricultural Policy Committee considered these four proposals, and reached agreement on three of them as recorded in the immediately following paragraphs. On the fourth point, concerning the effect of the credit squeeze on agriculture, it has not been possible to reach agreement, and this issue is now submitted to Cabinet for decision.

7. The Agriculture Ministers' first proposition on production was that the Government should announce at once that the middle band of the guaranteed price schedule for pigs would be increased at the 1967 Annual Review from 12.4 to 13.2 million to 12.8-13.6 million, which would enable farmers to achieve the desired increases in production without suffering a price penalty under the flexible guarantee arrangements. My Committee saw no difficulty in accepting this recommendation; there has been a decline in the pig breeding herd of over 10 per cent, and marketings have declined from the excessively high figure of 13.8 million in 1965-66 to a current annual rate of 12.4 million. We are not filling our quota under the Bacon Market Sharing Agreement with Denmark and other countries and there is a shortage of pigmeat in Europe generally. My Committee therefore endorse the Agriculture Ministers' recommendation to announce that the middle band of the pig price guarantee will be raised by 400,000 pigs in the next Annual Review, without prejudice to decisions on price arising from other factors examined at the Review.

8. The Agriculture Ministers' second and third propositions concerned the formulae to be used in interpreting the assurances on productivity and milk prices in the 1966 Review White Paper, which have been under discussion with the Farmers Union since March. Agreement was reached in my Committee, subject to drafting agreed since, on the terms in which the Minister of Agriculture should announce the outcome of the talks with the Farmers Unions on paragraph 64 of the Review White Paper. This paragraph reads as follows -
"This programme is based upon the maintenance of an increasing rate of productivity. The Government recognise that this rising productivity must be used not only to help meet rising costs, but also to finance further investment and improve the income, and so the standard of living, of the full-time commercial farmer. The Government's recognition of this will be a basic factor influencing their determinations at future Annual Reviews during the period of the present Plan. Further discussions on this matter will be held with the Farmers' Unions during the year."

9. The Minister will refer to an agreement which has been reached with the Farmers' Unions on additional economic data for future Annual Reviews, and will say that it is the Government's intention in interpreting this assurance to create the conditions in which full-time commercial farmers can use a reasonable part of their rising productivity to finance any necessary further investment, and to increase their net incomes and so their standard of living, although this will naturally need to be carried out within the principles of the Government's prices and incomes policy. The operative words are, of course, "a reasonable part", and these words, together with the qualification concerning compliance with prices and incomes policy, represent a fair solution which goes as far as the Government can be expected to go.

10. The other formula under discussion with the Farmers' Unions concerned the reduction of the pool price for milk, as a result of additional milk production arising from extra calves for the beef expansion programme. The White Paper (paragraph 9) said:

"The Government also recognise that if the dairy herd is expanded to meet the need for increased beef production, and the increased milk production due to this expansion of the herd has to be sold for purposes other than liquid consumption, this could result in a dilution of the pool price and they give an assurance that they will take these facts into account in the determinations on milk at future Reviews within the period of the present Plan. Further discussions on this assurance on milk will be held with the Farmers' Unions during the year."

11. Following the discussion in the Agricultural Policy Committee it is now agreed among the Departments concerned that the Minister should state that "in our talks with the Farmers' Unions we have agreed on the method to be used for calculating in terms of pence per gallon how far the pool price for milk would be diluted by a given expansion of the dairy herd to produce more beef. This figure will be included in Annual Review Statistical Data and it is the Government's intention that this measure of reduction in the pool price to dairy farmers should be given full weight along with other factors when the milk guarantee is determined". I recommend this formula to the Cabinet.
12. It has not, however, been possible to reach agreement on the Agriculture Ministers' proposal for an announcement that the Government has informed the banks that productive investment in agriculture and horticulture should receive the same priority as regards credit as productive investment in manufacturing industry. The Financial Secretary to the Treasury was not able to agree to this proposition, but the balance of opinion in my Committee was that it would be right for a statement to be made putting credit for agriculture on the same basis as credit for manufacturing industry, subject to the overriding priority of credit for manufacturing exports, and provided that this did not imply any relaxation of the total volume of credit available. The statement might also make clear that the provision of credit for purely seasonal purposes was excluded from the credit restrictions. It would, of course, be necessary for the Chancellor's agreement to be sought to these recommendations. I regret to report that in the event the Chancellor's approval for this recommendation was not forthcoming, and I am unable to report agreement on this matter, which is therefore still open. I understand that in view of the difficulties that have arisen about it, the Minister of Agriculture may now wish to put his case direct to the Cabinet in a separate paper.

D. H.,

70, Whitehall, S. W. 1.

14th September, 1966

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15th September, 1966

CABINET

AGRICULTURAL CREDIT

Memorandum by the Secretary of State for Scotland and the Minister of Agriculture, Fisheries and Food

When the question of credit for agriculture was considered by the Ministerial Committee on Agricultural Policy at their meeting earlier this week, the balance of feeling in the Committee was that a statement should be made putting credit for agriculture on the same basis as credit for manufacturing industry, subject to the over-riding priority of credit for manufacturing exports. The Committee recognised that it would be essential to make clear in the statement that this affected only the priorities within the existing credit restrictions and did not imply any relaxation of the total volume of credit available; and suggested that the statement might also make it clear that the provision of credit for purely seasonal purposes was excluded from the credit restrictions. The Committee invited the Minister of Agriculture to seek the agreement of the Chancellor of the Exchequer to action on these lines. Unfortunately it has not proved possible to reach agreement.

2. The agricultural industry will not be able to achieve our present targets for import saving unless we ensure that farmers can get the credit they require for expansion. At present the banks do not regard productive investment in agriculture as ranking with productive investment in manufacturing industry. This is their interpretation of our present credit policy. There is evidence that as a result of this the banks in practice are either not undertaking to make any finance available for productive investment in agriculture or are restricting such finance to very narrow limits. As regards seasonal loans, there is evidence that the banks are interpreting the credit restrictions in widely differing ways and in some cases with considerable stringency. Inability to obtain credit has resulted in heavy falls in the prices of store cattle and lambs and is leading some farmers to market their corn at lower prices than is desirable - which will, if it continues, lead to increased cost to the Exchequer through larger deficiency payments.

3. In our view there is urgent need to clarify the position both as regards seasonal and medium term credit. As regards seasonal credit, our request is that the Chancellor should confirm his view to the banks that adequate seasonal credit should be made available for agriculture, whether it takes the form of credit given directly to farmers or indirectly through such sources as agricultural merchants or livestock dealers, and that this type of credit can be allowed to

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exceed the ceiling in the short term while seasonal transactions are taking place. Even, if some banks understand this, it is of great importance that this should be communicated to the Bank of England and be publicly known so that the present confusion which is leading to a lack of confidence can be brought to an end and so check the fall in prices.

4. As regards medium term credit, the most urgent need is that credit should be available for productive investment in agriculture and horticulture required for the selective expansion programme. Such finance cannot be obtained from the Agricultural Mortgage Corporation which is concerned almost entirely with loans for land purchase and has not got the financial resources to lend for other purposes. Credit of this kind has customarily been secured by loans from the banks. Unless medium term credit is made available for productive investment in agriculture and horticulture, there is no realistic possibility of our securing our present objectives of saving imports through greater output of selected commodities at home. Our import bill will go up significantly if we fail in these objectives.

5. We therefore request that the Bank of England should be told that it is the Government's wish that, in view of the importance of agriculture's contribution to our economic strength, credit for productive investment in agriculture should be regarded as on the same basis as credit for productive investment in manufacturing industry. This would have to be made publicly known if it is to help to restore the confidence needed in the industry for expansion. It would of course be essential to make it clear that this affected only the priorities within the existing credit restrictions and did not imply any relaxation of the total volume of credit available.

W. R.
T. F. P.

Scottish Office, S. W. 1.

15th September, 1966
AGRICULTURAL CREDIT

Memorandum by the Chancellor of the Exchequer

I cannot agree with the Minister of Agriculture's proposals for a change in policy on credit for agriculture, nor with his statement of the facts on which these proposals are based. My information is that credit-worthy farmers are being treated by the banks with sympathy and consideration - indeed as a general rule every bit as generously as industrial borrowers of comparable standing. In particular:

(i) The banks are meeting normal seasonal requirements. This is in line with the official guidance which sets a limit on bank lending after allowance for seasonal factors; and I am convinced that there is no misunderstanding among the banks about this.

(ii) The same is true in most cases where finance is required from one to three years for stock rearing for the market.

(iii) The banks are prepared in many cases to consider reasonably short or medium-term loans for purchase of equipment.

2. All this is reflected in the fact that at the latest date for which figures are available - mid-August 1966 - loans for agriculture were, despite the general squeeze, somewhat higher than at the same date a year ago. Since farmers in common with others have had their loans for personal expenditure cut, this implies that advances to them for other, productive, purposes have actually gone up. Admittedly advances to industry have increased more. But the circumstances of the two cases are very different, and there is no reason to believe that the credit squeeze has bitten more deeply on the agricultural man than on the manufacturing sector.

3. At a time of general stringency the banks cannot be expected to lend for really long-term purposes, such as the purchase of land or major improvements to buildings, etc., or even for equipment where repayment is spread over many years. For these farmers must continue to look to the Agricultural Mortgage Corporation (which has been lending at a record rate and is on the point of increasing its capital) to hire purchase finance, or to their suppliers. Undoubtedly some will find it difficult to get what they want, but this is a common experience shared by many would-be industrial borrowers too. The fact is that though productive investment in manufacturing industry was commended in the December 1964 guidance to the banks, it was not specifically mentioned in the May 1965 letter from the Governor, which put exports right in the forefront. In present circumstances bank credit even for investment in manufacturing industry has to be restricted and borrowers forced to look to other sources of finance.
4. All in all therefore I believe it would be dangerous to make a change in our credit policy now which would be difficult to apply, lead to confusion among the banks which might impair their effectiveness in applying the credit squeeze, raise expectations that are likely to be disappointed, and be widely misunderstood, particularly abroad. The last would be especially unfortunate at a time when confidence in sterling shows the first signs of revival.

5. The claims on national resources by agriculture will have to be reviewed in the light of the expected lower growth in the economy. But I have no evidence that the restrictions on credit would prevent the fulfilment of the selective expansion programme. The position will be improved further as the investment grants come into operation.

6. All the same, I see no reason why we should not make clearer than appears now to be the case what is actually happening in the field of credit for agriculture. While strongly opposing any change in our policy I suggest that the Minister in his forthcoming speech might include an explanatory passage, which I should be happy to supply.

7. We shall be reviewing this autumn the credit facilities available for productive investment generally. This review will provide the context for further consideration of agriculture.

L. J. C.

Treasury Chambers, S.W.1.

15th September, 1966
Cabinet

United Nations Convention on the Elimination of All Forms of Racial Discrimination

Memorandum by the Secretary of State for Foreign Affairs

On 10th August the Home Affairs Committee considered the question of the implications for the United Kingdom metropolitan territory of acceptance of the United Nations Convention on the Elimination of All Forms of Racial Discrimination. The Committee agreed that, despite certain difficulties, the balance of advantage lay in signing the Convention with a reservation on Rhodesia and statements of interpretation on Articles 4, 6 (subject to further interdepartmental consultations on the form of words), 15 and 20. The question of ratification would be considered at a later date. The Committee invited the Minister of State for Foreign Affairs to arrange for the proposal that the United Kingdom should sign the Convention, subject to the reservation on Rhodesia and the statements of interpretation, to be submitted to the Cabinet.

2. I circulate to my colleagues the report by an interdepartmental group of officials which was available to the Home Affairs Committee. The first part of the report (paragraphs 2 to 10) explains the general nature of the Convention. The second part (paragraphs 11 to 30) summarises the major points of difficulty for us. The text of the Convention is at Annex A and more detailed observations are at Annex B.

3. The Convention was adopted by the United Nations General Assembly in December, 1965 and is now open for signature and ratification. 25 states, including Canada, Denmark, Greece and the Soviet Union, have signed it and the United States have announced their intention of doing so. Only one - Bulgaria - has ratified it.

4. Much of the Convention is badly drafted and obscure, partly because it represents a compromise between opposing points of view. Nevertheless adherence to the Convention is likely to be regarded internationally as the touchstone in matters of racial discrimination. Strong pressure, both international and domestic, is likely to develop on the United Kingdom to become a party to the Convention.
5. A number of difficulties arise. The Convention contains no territorial application clause and acceptance by the United Kingdom would bind our dependent territories. We should therefore have to reserve our position about the application of the Convention to Rhodesia (paragraphs 12 to 14 of the Report). Acceptance of the Convention would make it very difficult to legislate to restrict the right of entry into the United Kingdom of the large number of coloured United Kingdom citizens in Commonwealth countries, particularly East Africa, though there would be difficulties about this in any event (paragraph 23). On this point the Home Affairs Committee recognised the difficulty in which the Government might be placed by Article 5 if there were a substantial increase in the influx of United Kingdom citizens of Asiatic origin, but thought the risk insufficient to justify refusal to sign. There are also difficulties about Article 4 which deals with freedom of speech and association (paragraphs 18 to 20), Article 6 dealing with the right of the person discriminated against to seek satisfaction (paragraph 25), Article 15 dealing with petitions from dependent territories (paragraphs 26 to 29) and Article 20 which deals with reservations (paragraph 30).

6. It is proposed to mitigate these difficulties by an interpretative statement on Articles 4, 6, 15 and 20 and a formal reservation on Rhodesia.

7. While the Convention provides for reservations, Article 20 stipulates that a reservation shall not be permitted if at least two-thirds of the parties to the Convention object to it. There is a distinct risk that our reservation on Rhodesia might attract sufficient objections to fail under this procedure; there might then be controversy as to whether, in that case, the United Kingdom was party to the Convention without the protection of the reservation or whether the United Kingdom would not be regarded as a party unless the reservation was withdrawn. That we interpret the Convention in the latter sense would be made clear by our interpretative statement on Article 20.

8. It is proposed that we should take signature and ratification in two distinct steps. About the time of signature we should give a clear indication to the General Assembly of our interpretation of the Articles which cause difficulty and of our intended reservation on Rhodesia. The international reaction would be a factor in the decision whether or not to ratify which would be taken at a later date. It is possible that reactions would be so adverse that it would be inadvisable to proceed to ratification.

9. There have been two developments since the Home Affairs Committee considered this matter. First, as the Committee requested, further consideration has been given to the terms of the statement of interpretation on Article 6 and officials have agreed on the following new formulation:

"The United Kingdom of Great Britain and Northern Ireland interprets the requirement in Article 6 concerning "reparation or satisfaction" as being fulfilled if one or other of these forms of redress is made available, and they interpret "satisfaction" as including redress effective to bring the discriminatory conduct to an end".
This differs from the earlier statement (paragraph 25 of the official report) principally in that it makes no specific reference to the Race Relations Act 1965. This is felt to be an advantage particularly as the Convention would apply to Northern Ireland and dependent territories to which the Race Relations Act has not been extended.

10. The dependent territories have been informed that the United Kingdom has it in mind to sign the Convention at the time of the General Assembly subject to the agreed reservation and statements of interpretation, and their comments sought. By 15th September 13 replies had been received. These include most of the territories where attitude to the Convention is especially significant such as Fiji, Hong Kong and Bahamas. All 13 replies indicate willingness to accept the Convention subject to the proposed statements of interpretation being made and the resolution of further minor points which the Commonwealth Office do not see as presenting difficulty. Fiji, as expected, has indicated that it will require reservations to be made at the time of ratification. 12 replies are outstanding but the Commonwealth Office have sent urgent reminders about these and expect that they will be sufficiently informed of the position by 22nd September for a decision to be taken, possibly subject to confirmation in the case of any territories with replies still outstanding. As the General Assembly opens on 20th September I do not think we should delay our decision on this account.

11. I agree with the conclusion of the Home Affairs Committee that the balance of advantage lies in signing the Convention. Signature does not commit us to more than a serious intention to seek to ratify. But it has a certain psychological impact. If we can sign the Convention during the early part of the coming General Assembly (September/October), we are likely to be well placed internationally with no great pressure on us for very early ratification. But if we have not signed, our position at the Assembly will be less easy. There may also be advantage in signing at a time when it is clear to all that, Rhodesia being in a state of rebellion, we are not in a position to enforce our views on Rhodesia and must make a reservation in that respect.

12. Accordingly, I invite my colleagues to agree that the United Kingdom should sign the Convention, subject to the reservation on Rhodesia and the statements of interpretation on Articles 4, 6, 15 and 20; the precise timing of signature and the announcement of it would be for decision in consultation with the Commonwealth Secretary and our Permanent Representative to the United Nations.

G.B.

Foreign Office, S.W.1.

19th September, 1966
HUMAN RIGHTS WORKING GROUP


INTRODUCTION

The Working Group decided that it would be necessary to consider first the ability of the metropolitan territory to accept the requirements of the Convention. If Ministers decided that the metropolitan territory could accept these requirements, the overseas territories, whose attitude would be to some extent dependent on the United Kingdom's interpretation of the instrument, would then be asked for a final decision on whether they individually could accept them. The present Report therefore covers the issues relevant to a decision in respect of the United Kingdom alone.

GENERAL DESCRIPTION OF THE CONVENTION

2. The Convention on Racial Discrimination, the text of which is contained in Annex A to this Report, was adopted unanimously by the General Assembly on 21 December, 1965. It is open for signature and ratification. Twenty two states have so far signed the Convention, but none has yet ratified. The United States have announced their intention of signing. The Convention consists of three Parts.

3. Part I (Articles 1 to 7) sets out the substantive obligations to be undertaken by States Parties. Article 1(1), the cornerstone of the Convention, defines "racial discrimination" as "any distinction, exclusion, restriction or preference based on race, colour, descent, or national or ethnic origin which has the purpose or effect of nullifying or impairing the recognition, enjoyment or exercise, on an equal footing, of human ...."
of human rights and fundamental freedoms in the political, economic, social, cultural or any other field of public life". The sphere of operation of the Convention is thus restricted to the field of "public life". While there can be no certainty as to how this phrase will be interpreted it seems likely that questions relating to such matters as private industry and private accommodation are probably not covered. The rest of Article I lays down further exceptions to the sphere of operation of the Convention. Discrimination between citizens and non-citizens is not covered (paragraph 2); nor are legal provisions concerning nationality, citizenship or naturalisation affected provided they do not discriminate against any particular nationality (paragraph 3). Paragraph 4, which permits special measures for the advancements of groups or individuals requiring special protection, has little relevance to the United Kingdom as such.

4. Article 2 contains the basic obligation for States Parties, namely to condemn racial discrimination and to pursue a policy of eliminating racial discrimination in all its forms and of promoting understanding among all races. To this end each State Party assumes a series of specific obligations which include undertakings:

(a) to engage in no act or practice of racial discrimination against persons, groups of persons or institutions and to ensure that all public authorities and public institutions, national and local, shall act in conformity with this obligation;

(b) to review governmental, national and local policies and to remove laws and regulations which have the effect of creating or perpetuating racial discrimination;

(c) to prohibit and bring to an end, by all appropriate means, including legislation as required by circumstances, racial discrimination by any persons, group or organisation.
5. Article 3 requires States Parties to condemn racial segregation and apartheid and to prevent, prohibit and eradicate all practices of this nature.

6. Article 4, which concerns action against racist propaganda and organisations, is the most controversial provision in the instrument and the most difficult to interpret. By it Parties undertake the general obligation to condemn propaganda and organisations based on racist ideas or which attempt to justify racial hatred and discrimination and adopt immediate and positive measures designed to eradicate all incitement to, or acts of, such racial discrimination. There follow certain specific obligations including requirements to make illegal the dissemination of racist ideas as well as acts of violence or incitement to such acts against any race or group of persons and also the provision of any assistance, including financial assistance to racist activities. Further, States Parties are to declare illegal and prohibit racist organisations and propaganda activities, including participation in such organisations and activities. But in carrying out these obligations States Parties are to have due regard to "the principles embodied in the Universal Declaration of Human Rights and the rights expressly set forth in Article 5 of the Convention". This phrase was inserted in order to meet the fears of Western countries regarding the implications of the Article for the freedoms of speech and association.

7. Article 5 requires States Parties to prohibit and eliminate racial discrimination and to guarantee the right to equality before the law in the enjoyment of a long catalogue of rights. By Article 6 States are to assure effective protection and remedies against certain acts of racial discrimination as well as the right to seek reparation or ratification for damage suffered. Article 7 concerns general measures in the field of education.
8. Part II (Articles 8 - 16) provides for machinery to implement the Convention. It lays down a procedure for the establishment of a Committee on the Elimination of Racial Discrimination, a body of eighteen experts elected by States Parties from amongst their nationals and serving in their personal capacity (Article 8). They will receive reports from States Parties on the measures they have taken to give effect to the Convention and will make an annual report, including general recommendations and any comments by the States Parties, to the General Assembly (Article 9). They may receive inter-State complaints relating to non-fulfilment of the Convention (Article 11) and appoint ad hoc Conciliation Commissions to lend their good offices in the dispute (Article 12). These Commissions will report to the Committee on questions of fact relating to the issue and make recommendations for its solution. On receipt of the Commission's Report the States Parties concerned have three months to indicate whether or not they accept the recommendations after which time the report and the declarations of the parties to the dispute are circulated to all the other States Parties. (Article 13). No further action is provided for, apart from the possibility of reference of a dispute to the International Court under Article 22 (see paragraph 10 below).

9. Mention should also be made of Article 14 which provides for the optional acceptance by States Parties of the right of petition to the Committee by groups and individuals; and of Article 15 which establishes a procedure for consideration by the Committee of petitions received by other U.N. bodies from inhabitants of dependent territories and related to the principles and objectives of the Convention. This latter procedure is designed to operate whether or not the administering power has become a Party to the Convention.
10. Part III (Articles 17 to 25) comprises the final clauses of the Convention. The Convention enters into force when 27 states have become Party to it (Article 19). Article 20 provides for reservations which are deemed to be accepted unless two-thirds of the States Parties object to them. Disputes over the interpretation or application of the Convention may, at the request of one of the Parties, be referred to the International Court (Article 22).
PRINCIPAL ISSUES AFFECTING THE ABILITY OF THE METROPOLITAN
TERRITORY TO ACCEPT THE CONVENTION

11. Each substantive article of the Convention and the more
important of the other articles are discussed in detail in
Annex B to this Report. The present section contains a brief
description of the main issues involved in acceptance of the
Convention.

RHODESIA

12. The Convention contains no territorial application clause.
The effect of this is that conditions not only in the United
Kingdom but also in the overseas territories under United Kingdom
sovereignty must be substantially in line with the Convention
before we can accept it. While the present Report is not concerned
with the question of the acceptability of this instrument in the
overseas territories the problem of Rhodesia is central to the
main decision on signature and ratification and the Working Group,
therefore, decided to consider it at this stage.

13. It is unlikely that Rhodesia could accept many, if any, of
the provisions. Its future willingness and ability to accept the
instrument will depend to some extent on the constitutional
settlement eventually reached, but it seems unlikely that Rhodesia
will be either able or willing to comply fully with the terms of
the Convention for at least many years hence. In any event,
whatever constitutional settlement may be reached, Britain is
unlikely to have the power either to impose the acceptance of the
Convention or the implementation of its obligations against the
wishes of the constitutional Rhodesian authorities. A reservation
excluding Rhodesia from the application of the Convention would be
likely to encounter widespread objections and to fail under
Article 20 (2). The only practical way round the difficulty
might be a reservation excusing ourselves from applying the

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Convention in Rhodesia because of our inability to ensure that its terms are carried out there. The following form of words is proposed:

"The United Kingdom of Great Britain and Northern Ireland reserves the right not to apply this Convention to Rhodesia unless and until it informs the Secretary-General of the United Nations that it is in a position to ensure that the obligations imposed by the Convention in respect of that territory can be fully implemented".

This reservation contains the basic difficulty that when constitutional authority is restored in Rhodesia we shall almost inevitably come under strong pressure to implement the provisions of the Convention there immediately. The form of words proposed would of course leave us free to determine at what point the Convention should be regarded as applying to Rhodesia and contains the implication that in the event we might never apply it to Rhodesia at all, but for that very reason it may encounter sufficient objections to fail under Article 20 (2). On the other hand the fact that we are not in a position to implement our international obligations in Rhodesia in present circumstances is well-known and the Afro-Asians may prefer to have us become party to the Convention with the prospect that it will be applied to Rhodesia in the future rather than take action which might have the effect of blocking our participation entirely.

ARTICLE I

15. This Article defines the term "racial discrimination" and lays down a number of exceptions to the sphere of operation of the Convention. The definition of racial discrimination includes discrimination on grounds of national origin. There is some risk that this definition, and subsequent obligations in the Convention, may be held to strike at the present practice whereby the nationals of some countries, including Iron Curtain countries, are at present
present treated less favourably than those of other countries when consideration is being given whether to grant them permission to come or remain here for work. However, the risk of discovery of this slight discrimination is small and, even if it were discovered, there would be a reasonable chance of establishing that the practice was not contrary to the Convention. The Working Group therefore recommend that the risk be accepted.

**ARTICLE 2**

16. Article 2 sets out the basic obligations of States Parties regarding the elimination of racial discrimination. Paragraph 1 (a) requires States Parties to ensure that all public authorities and public institutions, national and local, shall not engage in discrimination. Our existing practice does already comply with what is here enjoined. In the unlikely event of a public authority engaging in racial discrimination, if the Government were not able under existing legislation to put matters right (for example, the Government have powers to issue general directions to British Railways) additional legislation might be necessary.

17. The obligation in paragraph 1 (d) to prohibit and bring to an end by all appropriate means, including legislation, as required by circumstances racial discrimination by any person, group or organisation appears to be acceptable given the definition of racial discrimination in Article 1(1), but we might find ourselves obliged to legislate if our interpretation were not accepted and there were no non-legislative means of putting the matter right.

**ARTICLE 4**

16. This concerns action with respect to racist propaganda and organisations. Our existing legislation, including the Race Relation Act, is probably adequate to enable us to accept the general obligation to adopt immediate and positive measures designed to eradicate all incitement to, or acts of, racial discrimination. But the Article goes on to impose more specific
obligations which could create difficulties. These obligations which require, \textit{inter alia}, the prohibition of "all dissemination of ideas based on race superiority" and of "organisations and propaganda activities which promote and incite racial discrimination" are qualified by the phrase "with due regard to the principles embodied in the Universal Declaration of Human Rights and the rights expressly set forth in Article 5 of this Convention." This phrase is the result of an amendment put forward to meet the difficulties of Western countries regarding freedom of speech and of associations. It is however impossible to say for certain how far this would be interpreted as modifying the specific obligations imposed by the Article. If we ratify the Convention we shall, in the last resort, have to accept the interpretation of the Committee of States Parties which will be set up to implement the Convention, or, if we dispute their interpretation, the decision of the International Court of Justice.

18. In the view of the Working Group the best way to safeguard our position so far as this is possible is to make a statement of interpretation on the following lines: "The United Kingdom of Great Britain and Northern Ireland interprets Article 4 as requiring it to adopt further legislative measures in the fields covered by sub-paragraphs (a), (b) and (c) of that Article only insofar as it may consider, with due regard to the principles embodied in the Universal Declaration of Human Rights and the rights expressly set forth in Article 5 of the Convention (in particular, the right to freedom of opinion and expression and the right to freedom of peaceful assembly and association), that some legislative addition to or variation of existing law and practice in those fields is necessary for the attainment of the end specified in the earlier part of Article 4".

20. There would still be a risk that other States Parties would object to this statement but on the other hand it is similar to statements made during the negotiation of the instrument and by the United States recently when announcing that they would sign the Convention. The Working Group recommend acceptance of the Article subject to the proposed statement being made at some point.
equality before the law, in the enjoyment of a list of rights. One of these is "the right to leave any country, including his own, and to return to his country". This raises two difficulties connected with immigration.

22. Some critics might claim that the operation of the Commonwealth Immigrants Act discriminates on grounds of race or even descent or national origin. The Act in fact distinguishes between holders of passports issued by the Government of the United Kingdom and holders of passports issued by the Governments of colonies. In the view of the Working Group this distinction is, in substance, based not on race, descent, or national origin but on connexion with some United Kingdom territory other than the United Kingdom itself. If we had to defend this view in the International Court we should be likely to win our case and the risk of criticism should therefore be accepted.

23. The second difficulty concerns the large number of coloured United Kingdom citizens in East Africa, Trinidad and Tobago, Singapore and Malaysia who at present have the right of unrestricted entry into the United Kingdom and possess United Kingdom issued passports and have no connexion with any existing United Kingdom territory other than the United Kingdom itself. If in the future it became necessary to legislate to restrict their right of entry into the United Kingdom, this legislation would probably have to distinguish between United Kingdom citizens on grounds inter alia of descent or national origin. There is little doubt that such legislation would be regarded as a breach of our obligations under Article 5(d)(i) and Article 2(1)(a). But there is a strong argument that such legislation would in any event be contrary to existing international law, at least if it required the refusal of entry to this country to a United Kingdom citizen whom a foreign government would not allow to remain in its territory. The Working Group wish to observe that ratification of the Convention would increase the difficulties
difficulties of legislating to control the entry of United Kingdom citizens in this category.

**ARTICLE 6**

24. By this Article States Parties are required to provide remedies against certain acts of racial discrimination and the right to seek reparation or ratification for damage suffered. Two difficulties arise. There may be cases where an act of racial discrimination could on a wider interpretation be said to violate the Convention and where there is, in our case, no remedy through a national tribunal or other State institution. One example might be discrimination in a shop, which is not covered by the Race Relations Act. The extent of the difficulty largely depends on future interpretation. But there are probably few types of cases where we would be likely to be in difficulty and the Working Group recommend that such risk as there is be accepted.

25. A second difficulty is that while we would argue that reparation and satisfaction are to be construed as alternatives (i.e., states parties are not obliged to make provision for material reparation in all cases of damage suffered) there is some danger that the organs which will have the task of interpreting the Convention will rule otherwise. In this case we should be in difficulty because our law contains no provision for material reparation in all such cases. We should also want the term "satisfaction" to be regarded as covering the types of redress provided by the Race Relations Act, 1965. The Working Group therefore recommend that acceptance of this Article be formally (i.e., on signature) qualified by the following statement of interpretation: "The United Kingdom of Great Britain and Northern Ireland interprets the requirement in Article 6 concerning "reparation or satisfaction" as being fulfilled in its case, so far as the matters covered by the Race Relations Act, 1965 are concerned."
concerned, by the assurance of the right to seek the redress provided for in that Act, in addition to any other form of redress which may be available under existing law. We would here be assuming that any act of racial discrimination which may arise and is not covered by the Race Relations Act is either outside the scope of the Article or is a wrongful act by some other provision of our law (and that, therefore, the wronged person will have the right to seek satisfaction.) There is some risk that acts of racial discrimination within the meaning of the Article may occur where our law provides no right to seek satisfaction but it is felt that this risk can be accepted.

Article 15.

26. This Article establishes a procedure by which the Committee on the Elimination of Racial Discrimination (the standing implementation body) may receive from other United Nations bodies (probably the Committee of 24) copies of petitions reaching them from inhabitants of colonial territories and relating to the principles of the Convention and recommendations of the relevant body on these petitions. The Committee will also receive copies of reports by other United Nations bodies concerning measures taken by the administering powers and relating to the principles of the Convention. The Committee is to include in its report to the General Assembly a summary of this material and its opinions and recommendations on it. The Committee may also make recommendations to other United Nations bodies concerned with colonial questions.

27. We opposed this Article in the General Assembly but only Portugal voted against it with us. Our objections were twofold, first that it was discriminatory in that it established a procedure for the receipt of petitions relating to colonial territories while making no comparable provision for States without such territories (which have an option under Article 14 to accept the competence of the Committee to consider communications from within their
Secondly it purported to establish a procedure applicable to the dependent territories of States, whether or not those States had become parties.

While these objections of principle remain, the practical effects of accepting the Article, as opposed to not accepting it, do not seem to be very significant. If we do not ratify the Convention, the procedure established by Article 15 will, nevertheless operate. The Committee will receive material relating to the colonial territories and will make recommendations about it to United Nations bodies. We would then be faced with the choice of declining to co-operate with the bodies concerned on the grounds that the procedure was improper or of commenting substantively on the recommendations. The former alternative would be possible but there was little support, even from our friends, for this view during the Assembly debates and we should be likely to be isolated. If we were to comment substantively on the recommendations we might as well have accepted the procedure in the first place. Ratification of the Convention would probably not add substantially to our present difficulties in defending our colonial policy in the United Nations. With the notable exception of Rhodesia, and, possibly, Fiji, we are probably not very vulnerable as regards racial discrimination in the overseas territories.

The Colonial Office had pointed out that whatever attitude the H.M. Government may take the governments of some of the dependent territories may take strong objection to Article 15. But the first step must be to reach a decision on our own attitude. On this the Departments concerned agreed to recommend acceptance of the Article qualified by an interpretative statement which would reiterate our objections in principle, make it clear that we are prepared to accept the Article only because of the importance we attach to the Convention as a whole, and reserve our position as to the inclusion of a similar article in any future Convention.
This Article concerns reservation and is of particular importance as regards Rhodesia (see paragraph 12 above). A reservation is not accepted if it is objected to by two-thirds of the States Parties to the Convention; but it is not clear whether this means that the reserving state is not regarded as a party to the Convention or whether it is bound by the Convention as if the reservation had not been made. We should wish to establish the former interpretation and it is recommended that an interpretative statement should be made for this purpose.

Recommendation

31. The arguments for signature and ratification from an international point of view are strong. The elimination of racial discrimination had become one of the major preoccupations of the United Nations and with the continuing situations in Rhodesia and South Africa will remain so for the foreseeable future. On these two issues we are, for reasons unconnected with our attitude to race relations, forced to appear negative. Ratification of the Convention would demonstrate that, however much other considerations may inhibit us from going along with the views of the majority of the United Nations members on these matters, we are sincere in our frequently stated determination to eliminate racial discrimination at home and abroad. If we do not ratify there can be little doubt that the progressive posture we have striven to adopt on human rights matters in the United Nations will be tarnished and criticism, both international and domestic, will be strong.

32. At the same time the difficulties presented by the Convention are large and the complicated pattern of reservations and statements of interpretation which would be necessary may be a source of embarrassment, particularly if the Afro-Asian and Communist countries formally object to them. The Convention which is in many places badly drafted and unclear in meaning will

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be subject to implementation and interpretation by the expert Committee on the Elimination of Racial Discrimination which may or may not turn out to be a responsible body. There can be no guarantee that it will accept the United Kingdom point of view in cases of disputed interpretation, though we should probably be able to appeal to the International Court in the last resort on such matters. If the Court found against us, we should however be under an obligation to change our law so far as might be necessary to give effect to its decision.

33. One way of mitigating some of the difficulties would be to try out the proposed statements of interpretation and reservation on international opinion before committing ourselves to formal ratification. It would be possible to make the statements of interpretation on Articles 4, 6, 15 and 20 during debate in the General Assembly. Then, on signature we could state our intention to make the potentially controversial reservation on Rhodesia. In the light of any reactions, Ministers could then consider whether to proceed to ratification. Signature alone would not commit us to anything except a serious intention to seek to ratify.

34. On balance, and particularly bearing in mind the adverse international and domestic reaction that would be likely if we were not to sign or ratify the Convention, the Working Group recommends that the United Kingdom should sign the Convention, following a procedure similar to that described in paragraph 33 above, and that the question of ratification should be further considered in the light of any reactions. Ministers might wish to await the result of the final consultations with overseas territories before authorising signature. But since signature alone involves no obligation beyond that described in paragraph 32 above it would be possible to sign before the final consultations envisaged with the overseas territories take place.
International Convention on the Elimination of all Forms of Racial Discrimination

The States Parties to this Convention,

Considering that the Charter of the United Nations is based on the principles of the dignity and equality inherent in all human beings, and that all Member States have pledged themselves to take joint and separate action in cooperation with the Organization for the achievement of one of the purposes of the United Nations which is to promote and encourage universal, respect for and observance of human rights and fundamental freedoms for all without distinction as to race, sex, language or religion,

Considering that the Universal Declaration of Human Rights proclaims that all human beings are born free and equal in dignity and rights and that everyone is entitled to all the rights and freedoms set out therein, without distinctions of any kind, in particular as to race, colour or national origin,

Considering that all human beings are equal before the law and are entitled to equal protection of the law against any discrimination and against any incitement to discrimination,

Considering that the United Nations has condemned colonialism and all practices of segregation and discrimination associated therewith, in whatever form and wherever they exist, and that the Declaration on the Granting of Independence to Colonial Countries and Peoples of 14 December 1960 (General Assembly resolution 1514 (XV)) has affirmed and solemnly proclaimed the necessity of bringing them to a speedy and unconditional end,

Considering that the United Nations Declaration on the Elimination of All Forms of Racial Discrimination of 20 November 1963 (General Assembly resolution 1904 (XVIII)) solemnly affirms the necessity of speedily eliminating racial discrimination throughout the world in all its forms and manifestations and of securing understanding of and respect for the dignity of the human person,

Convinced that any doctrine of superiority based on racial differentiation is scientifically false, morally condemnable, socially unjust and dangerous, and that there is no justification for racial discrimination, in theory or in practice, anywhere,

Reaffirming that discrimination between human beings on the grounds of race, colour or ethnic origin is an obstacle to friendly and peaceful relations among nations and is capable of disturbing peace and security among peoples and the harmony of persons living side by side even within one and the same State,

Convinced that the existence of racial barriers is repugnant to the ideal of any human society,
Alarmed by manifestations of racial discrimination still in evidence in some areas of the world and by governmental policies based on racial superiority or hatred, such as policies of apartheid, segregation or separation,

Resolved to adopt all necessary measures for speedily eliminating racial discrimination in all its forms and manifestations and to prevent and combat racist doctrines and practices in order to promote understanding between races and to build an international community free from all forms of racial segregation and racial discrimination,


Desiring to implement the principles embodied in the United Nations Declaration on the Elimination of All Forms of Racial Discrimination and to secure the earliest adoption of practical measures to that end,

Have agreed as follows:

PART I

Article 1

1. In this Convention the term "racial discrimination" shall mean any distinction, exclusion, restriction or preference based on race, colour, descent, or national or ethnic origin which has the purpose or effect of nullifying or impairing the recognition, enjoyment or exercise, on an equal footing, of human rights and fundamental freedoms in the political, economic, social, cultural or any other field of public life.

2. This Convention shall not apply to distinctions, exclusions, restrictions or preferences made by a State Party to this Convention between citizens and non-citizens.

3. Nothing in this Convention may be interpreted as affecting in any way the legal provisions of States Parties concerning nationality, citizenship or naturalization, provided that such provisions do not discriminate against any particular nationality.

4. Special measures taken for the sole purpose of securing adequate advancement of certain racial or ethnic groups or individuals requiring such protection as may be necessary in order to ensure to such groups or individuals equal enjoyment or exercise of human rights and fundamental freedoms shall not be deemed racial discrimination, provided, however, that such measures do not, as a consequence, lead to the maintenance of separate rights for different racial groups and that they shall not be continued after the objectives for which they were taken have been achieved.

Article 2

1. States Parties condemn racial discrimination and undertake to pursue by all appropriate means and without delay a policy of eliminating racial discrimination in all its forms, and promoting understanding among all races, and to this end:
(a) Each State Party undertakes to engage in no act or practice of racial discrimination against persons, groups of persons or institutions and to ensure that all public authorities and public institutions, national and local, shall act in conformity with this obligation;

(b) Each State Party undertakes not to sponsor, defend or support racial discrimination by any persons or organizations;

(c) Each State Party shall take effective measures to review governmental, national and local policies, and to amend, rescind or nullify any laws and regulations which have the effect of creating or perpetuating racial discrimination wherever it exists;

(d) Each State Party shall prohibit and bring to an end, by all appropriate means, including legislation as required by circumstances, racial discrimination by any persons, group or organization;

(e) Each State Party undertakes to encourage, where appropriate, integrationist multi-racial organizations and movements and other means of eliminating barriers between races, and to discourage anything which tends to strengthen racial division.

2. States Parties shall, when the circumstances so warrant, take, in the social, economic, cultural and other fields, special and concrete measures to ensure the adequate development and protection of certain racial groups or individuals belonging to them for the purpose of guaranteeing them the full and equal enjoyment of human rights and fundamental freedoms. These measures shall in no case entail as a consequence the maintenance of unequal or separate rights for different racial groups after the objectives for which they were taken have been achieved.

article 3

States Parties particularly condemn racial segregation and apartheid and undertake to prevent, prohibit and eradicate, in territories under their jurisdiction, all practices of this nature.

article 4

States Parties condemn all propaganda and all organizations which are based on ideas or theories of superiority of one race or group of persons of one colour or ethnic origin, or which attempt to justify or promote racial hatred and discrimination in any form, and undertake to adopt immediate and positive measures designed to eradicate all incitement to, or acts of, such discrimination, and to this end, with due regard to the principles embodied in the Universal Declaration of Human Rights and the rights expressly set forth in Article 5 of this Convention, inter alia:

(a) Shall declare an offence punishable by law all dissemination of ideas based on racial superiority or hatred, incitement to racial discrimination, as well as all acts of violence or incitement to such acts against any race or group of persons of another colour or ethnic origin, and also the provision of any assistance to racist activities, including the financing thereof;
(b) Shall declare illegal and prohibit organizations, and also organized and all other propaganda activities, which promote and incite racial discrimination, and shall recognize participation in such organizations or activities as an offence punishable by law;

(c) Shall not permit public authorities or public institutions, national or local, to promote or incite racial discrimination.

Article 5

In compliance with the fundamental obligations laid down in article 2, States Parties undertake to prohibit and to eliminate racial discrimination in all its forms and to guarantee the right of everyone, without distinction as to race, colour, or national or ethnic origin, to equality before the law, notably in the enjoyment of the following rights:

(a) The right to equal treatment before the tribunals and all other organs administering justice;

(b) The right to security of person and protection by the State against violence or bodily harm, whether inflicted by Government officials or by any individual, group or institution;

(c) Political rights, in particular the rights to participate in elections to vote and to stand for election - on the basis of universal and equal suffrage, to take part in the Government as well as in the conduct of public affairs at any level and to have equal access to public service;

(d) Other civil rights, in particular:

(i) the right to freedom of movement and residence within the border of the State;

(ii) the right to leave any country, including his own, and to return to his country;

(iii) the right to nationality;

(iv) the right to marriage and choice of spouse;

(v) the right to own property alone as well as in association with others;

(vi) the right to inherit;

(vii) the right to freedom of thought, conscience and religion;

(viii) the right to freedom of opinion and expression;

(ix) the right to freedom of peaceful assembly and association;

(e) Economic, social and cultural rights, in particular:

(i) the rights to work, free choice of employment, just and favourable conditions of work, protection against unemployment, equal pay for equal work, just and favourable remuneration;
(ii) the right to form and join trade unions;
(iii) the right to housing;
(iv) the right to public health, medical care and social security and social services;
(v) the right to education and training;
(vi) the right to equal participation in cultural activities;

(f) The right of access to any place or service intended for use by the general public such as transport, hotels, restaurants, cafés, theatres, parks.

Article 6

States Parties shall assure to everyone within their jurisdiction effective protection and remedies through the competent national tribunals and other State institutions against any acts of racial discrimination which violate his human rights and fundamental freedoms contrary to this Convention, as well as the right to seek from such tribunals just and adequate reparation or satisfaction for any damage suffered as a result of such discrimination.

Article 7

States Parties undertake to adopt immediate and effective measures, particularly in the fields of teaching, education, culture and information, with a view to combating prejudices which lead to racial discrimination and to promoting understanding, tolerance and friendship among nations and racial or ethnic groups, as well as to propagating the purposes and principles of the Charter of the United Nations, the Universal Declaration of Human Rights, the United Nations Declaration on the Elimination of All Forms of Racial Discrimination, and this Convention.

PART II

Article 8

1. There shall be established a Committee on the Elimination of Racial Discrimination (hereinafter referred to as the Committee) consisting of eighteen experts of high moral standing and acknowledged impartiality elected by States Parties from amongst their nationals who shall serve in their personal capacity, consideration being given to equitable geographical distribution and to the representation of the different forms of civilizations as well as of the principal legal systems.

2. The members of the Committee shall be elected by secret ballot from a list of persons nominated by the States Parties. Each State Party may nominate one person from among its own nationals.

3. The initial election shall be held six months after the date of the entry into force of this Convention. At least three months before the date of each election the Secretary-General of the United Nations shall address a letter to the States Parties inviting them to submit their nominations within two
months. The Secretary-General shall prepare a list in alphabetical order of all persons thus nominated indicating the States Parties which have nominated them and shall submit it to the States Parties.

4. Elections of the members of the Committee shall be held at a meeting of States Parties convened by the Secretary-General at the Headquarters of the United Nations. At that meeting, for which two-thirds of the States Parties shall constitute a quorum, the persons elected to the Committee shall be those nominees who obtain the largest number of votes and an absolute majority of the votes of the representatives of States Parties present and voting.

5. (a) The members of the Committee shall be elected for a term of four years. However, the terms of nine of the members elected at the first election shall expire at the end of two years; immediately after the first election the names of these nine members shall be chosen by lot by the Chairman of the Committee.

(b) For the filling of casual vacancies, the State Party whose expert has ceased to function as a member of the Committee shall appoint another expert from among its nationals subject to the approval of the Committee.

6. The States Parties shall be responsible for the expenses of the members of the Committee while they are in performance of Committee duties.

Article 9

1. The States Parties undertake to submit to the Secretary-General for consideration by the Committee a report on the legislative, judicial, administrative, or other measures that they have adopted and that give effect to the provisions of this Convention: (a) within one year after the entry into force of the Convention for the State concerned; and (b) thereafter every two years and whenever the Committee so requests. The Committee may request further information from the States Parties.

2. The Committee shall report annually through the Secretary-General to the General Assembly on its activities and may make suggestions and general recommendations based on the examination of the reports and information received from the States Parties. Such suggestions and general recommendations shall be reported to the General Assembly together with comments, if any, from States Parties.

Article 10

1. The Committee shall adopt its own rules of procedure.

2. The Committee shall elect its officers for a term of two years.

3. The secretariat of the Committee shall be provided by the Secretary-General of the United Nations.

4. The meetings of the Committee shall normally be held at the Headquarters of the United Nations.
Article 11

1. If a State Party considers that another State Party is not giving effect to the provisions of this Convention, it may bring the matter to the attention of the Committee. The Committee shall then transmit the communication to the State Party concerned. Within three months, the receiving State shall submit to the Committee written explanations or statements clarifying the matter and the remedy, if any, that may have been taken by that State.

2. If the matter is not adjusted to the satisfaction of both parties, either by bilateral negotiations or by any other procedure open to them, within six months after the receipt by the receiving State of the initial communication, either State shall have the right to refer the matter again to the Committee by notice given to the Committee and also to the other State.

3. The Committee shall deal with a matter referred to it in accordance with paragraph 2 of this article after it has ascertained that all available domestic remedies have been invoked and exhausted in the case, in conformity with the generally recognized principles of international law. This shall not be the rule where the application of the remedies is unreasonably prolonged.

4. In any matter referred to it, the Committee may call upon the States Parties concerned to supply any other relevant information.

5. When any matter arising out of this article is being considered by the Committee, the States Parties concerned shall be entitled to send a representative to take part in the proceedings of the Committee, without voting rights, while the matter is under consideration.

Article 12

1. (a) After the Committee has obtained and collated all the information it thinks necessary, the Chairman shall appoint an ad hoc Conciliation Commission (hereinafter referred to as "the Commission") comprising five persons who may or may not be members of the Committee. The members of the Commission shall be appointed with the unanimous consent of the parties to the dispute, and its good offices shall be made available to the States concerned with a view to an amicable solution to the matter on the basis of respect for this Convention.

(b) If the States parties to the dispute fail to reach agreement on all or part of the composition of the Commission within three months, the members of the Commission not agreed upon by the States parties to the dispute shall be elected by two-thirds majority vote by secret ballot of the Committee from among its own members.

2. The members of the Commission shall serve in their personal capacity. They shall not be nationals of the States parties to the dispute or of a State not Party to this Convention.

3. The Commission shall elect its own Chairman and adopt its own rules of procedure.
4. The meetings of the Commission shall normally be held at the Headquarters of the United Nations, or at any other convenient place as determined by the Commission.

5. The secretariat provided in accordance with article 10, paragraph 3, shall also service the Commission whenever a dispute among States Parties brings the Commission into being.

6. The States parties to the dispute shall share equally all the expenses of the members of the Commission in accordance with estimates to be provided by the Secretary-General.

7. The Secretary-General shall be empowered to pay the expenses of the members of the Commission, if necessary, before reimbursement by the States parties to the dispute in accordance with paragraph 6 of this article.

8. The information obtained and collated by the Committee shall be made available to the Commission and the Commission may call upon the States concerned to supply any other relevant information.

Article 13

1. When the Commission has fully considered the matter, it shall prepare and submit to the Chairman of the Committee a report embodying its findings on all questions of fact relevant to the issue between the parties and containing such recommendations as it may think proper for the amicable solution of the dispute.

2. The Chairman of the Committee shall communicate the report of the Commission to each of the States parties to the dispute. These States shall within three months inform the Chairman of the Committee whether or not they accept the recommendations contained in the report of the Commission.

3. After the period provided for in paragraph 2 of this article, the Chairman of the Committee shall communicate the report of the Commission and the declarations of States Parties concerned to the other States Parties to this Convention.

Article 14

1. A State Party may at any time declare that it recognizes the competence of the Committee to receive and consider communications from individuals or groups of individuals within its jurisdiction claiming to be victims of a violation by that State Party of any of the rights set forth in this Convention. No communication shall be received by the Committee if it concerns a State Party which has not made such a declaration.

2. Any State Party which makes a declaration as provided for in paragraph 1 of this article may establish or indicate a body within its national legal order which shall be competent to receive and consider petitions from individuals and groups of individuals within its jurisdiction who claim to be victims of a violation of any of the rights set forth in this Convention and who have exhausted other available local remedies.
3. A declaration made in accordance with paragraph 1 of this article and the name of any body established or indicated in accordance with paragraph 2 of this article, shall be deposited by the State Party concerned with the Secretary-General of the United Nations, who shall transmit copies thereof to the other States Parties. A declaration may be withdrawn at any time by notification to the Secretary-General, but such a withdrawal shall not affect communications pending before the Committee.

4. A register of petitions shall be kept by the body established or indicated in accordance with paragraph 2 of this article, and certified copies of the register shall be filed annually through appropriate channels with the Secretary-General on the understanding that the contents shall not be publicly disclosed.

5. In the event of failure to obtain satisfaction from the body established or indicated in accordance with paragraph 2 of this article, the petitioner shall have the right to communicate the matter to the Committee within six months.

6. (a) The Committee shall confidentially bring any communication referred to it to the attention of the State Party alleged to be violating any provision of this Convention, but the identity of the individual or groups of individuals concerned shall not be revealed without his or their express consent. The Committee shall not receive anonymous communications.

(b) Within three months, the receiving State shall submit to the Committee written explanations or statements clarifying the matter and the remedy, if any, that may have been taken by that State.

7. (a) The Committee shall consider communications in the light of all information made available to it by the State Party concerned and by the petitioner. The Committee shall not consider any communication from a petitioner unless it has ascertained that the petitioner has exhausted all available domestic remedies. However, this shall not be the rule where the application of the remedies is unreasonably prolonged.

(b) The Committee shall forward its suggestions and recommendations, if any, to the State Party concerned and to the petitioner.

8. The Committee shall include in its annual report a summary of such communications and, where appropriate, a summary of the explanations and statements of the States Parties concerned and of its own suggestions and recommendations.

9. The Committee shall be competent to exercise the functions provided for in this article only when at least ten States Parties to this Convention are bound by declarations in accordance with paragraph 1 of this article.

Article 15

1. Pending the achievement of the objectives of General Assembly resolution 1514 (XV) of 14 December 1960 concerning the Declaration on the Granting of Independence to Colonial Countries and Peoples, the provisions of this Convention shall in no way limit the right of petition granted to these peoples.
peoples by other international instruments or by the United Nations and its specialized agencies.

2. (a) The Committee established under article 8, paragraph 1, shall receive copies of the petitions from, and submit expressions of opinion and recommendations on these petitions to, the bodies of the United Nations which deal with matters directly related to the principles and objectives of this Convention in their consideration of petitions from the inhabitants of Trust and Non-Self-Governing Territories, and all other territories to which General Assembly resolution 1514 (XV) applies, relating to matters covered by this Convention which are before these bodies.

(b) The Committee shall receive from the competent bodies of the United Nations copies of the reports concerning the legislative, judicial, administrative or other measures directly related to the principles and objectives of this Convention applied by the administering powers within the territories mentioned in sub-paragraph (a) of this paragraph and shall express opinions and make recommendations to these bodies.

3. The Committee shall include in its report to the General Assembly a summary of the petitions and reports it has received from United Nations bodies, and the expressions of opinion and recommendations of the Committee related to the said petitions and reports.

4. The Committee shall request from the Secretary-General of the United Nations all information relevant to the objectives of this Convention and available to him regarding the territories mentioned in paragraph 2(a) of this article.

Article 16

The provisions of this Convention concerning the settlement of disputes or complaints shall be applied without prejudice to other procedures for settling disputes or complaints in the field of discrimination laid down in the constituent instruments of, or in conventions adopted by, the United Nations and its specialized agencies, and shall not prevent the States Parties from having recourse to other procedures for settling a dispute in accordance with general or special international agreements in force between them.

PART III

Article 17

1. This Convention is open for signature by any State Member of the United Nations or member of any of its specialized agencies, by any State Party to the Statute of the International Court of Justice, and by any other State which has been invited by the General Assembly of the United Nations to become a party to this Convention.

2. This Convention is subject to ratification. Instruments of ratification shall be deposited with the Secretary-General of the United Nations.

Article 18

1. This Convention shall be open to accession by any State
referred to in article 17, paragraph 1.

2. Accession shall be effected by the deposit of an instrument of accession with the Secretary-General of the United Nations.

Article 19

1. This Convention shall enter into force on the thirtieth day after the date of the deposit with the Secretary-General of the United Nations of the twenty-seventh instrument of ratification or instrument of accession.

2. For each State ratifying this Convention or acceding to it after the deposit of the twenty-seventh instrument of ratification or instrument of accession, the Convention shall enter into force on the thirtieth day after the date of the deposit of its own instrument of ratification or instrument of accession.

Article 20

1. The Secretary-General of the United Nations shall receive and circulate to all States which are or may become parties to this Convention reservations made by States at the time of ratification or accession. Any State which objects to the reservation shall, within a period of ninety days from the date of the said communication, notify the Secretary-General that it does not accept it.

2. A reservation incompatible with the object and purpose of this Convention shall not be permitted, nor shall a reservation the effect of which would inhibit the operation of any of the bodies established by the Convention be allowed. A reservation shall be considered incompatible or inhibitive if at least two-thirds of the States Parties to the Convention object to it.

3. Reservations may be withdrawn at any time by notification to this effect addressed to the Secretary-General. Such notification shall take effect on the date on which it is received.

Article 21

A State Party may denounce this Convention by written notification to the Secretary-General of the United Nations. Denunciation shall take effect one year after the date of receipt of the notification by the Secretary-General.

Article 22

Any dispute between two or more States Parties over the interpretation or application of this Convention, which is not settled by negotiation or by the procedures expressly provided for in this Convention, shall at the request of any of the parties to the dispute be referred to the International Court of Justice for decision, unless the disputants agree to another mode of settlement.
Article 23

1. A request for the revision of this Convention may be made at any time by any State Party by means of a notification in writing addressed to the Secretary-General.

2. The General Assembly shall decide upon the steps, if any, to be taken in respect of such a request.

Article 24

The Secretary-General of the United Nations shall inform all States referred to in article 17, paragraph 1, of the following particulars:

(a) Signatures, ratifications and accessions under articles 17 and 18;
(b) The date of entry into force of this Convention under article 19;
(c) Communications and declarations received under articles 14 and 22;
(d) Denunciations under Article 20.

Article 25

1. This Convention, of which the Chinese, English, French, Russian and Spanish texts are equally authentic, shall be deposited in the archives of the United Nations.

2. The Secretary-General of the United Nations shall transmit certified copies of this Convention to all States belonging to any of the categories mentioned in article 17, paragraph 1.
Detailed Observation on the Convention

ARTICLE 1.

1. This Article defines racial discrimination and states certain exceptions to the sphere of operation of the Convention. The scope of the Convention is to be construed with regard to the definition of racial discrimination in paragraph 1 which makes it clear that the Convention is concerned only with the field of "public life". The difficulty is to estimate how this phrase will be interpreted by organs whose task it will be to interpret the Convention. The Working Group took the view throughout its discussions that whereas actions by the central and local governmental authorities, as well as other bodies such as the boards of nationalised industries, and public services such as hotels, restaurants and transport are certainly covered, the field of private industry and such matters as private accommodation are probably not. In between there were some borderline cases, e.g. shops, where it was difficult to be at all certain which way future interpretation would point.

2. The definition of racial discrimination in paragraph 1 includes discrimination on grounds of national origin. Although it is clear from paragraph 2 that discrimination by a State between its citizens and non-citizens is not covered by the Convention, it might appear on the face of the Article that discrimination between non-citizens is covered. The nationals of Iron Curtain countries are at present treated less favourably than those of other countries when consideration is being given whether to grant them permission to come or remain here for work (and this, in turn, makes it less likely that they will be able to obtain United Kingdom nationality by naturalisation). Our action in this respect might accordingly be construed as discrimination on grounds of national origin. However, the records of debate on the Convention show that the reference to national origin was directed at the case of multi-national States. There was no suggestion that the Article extended to cases of discrimination between foreigners on grounds of national origin. Moreover, when considering a similar reference to the I.L.O. Convention on Discrimination in Employment and Occupation, the I.L.O. Committee concerned agreed that the reference in that Convention to distinctions made on the basis of national extraction meant distinctions between nationals of the ratifying country. The risk of discovery of the slight discrimination practiced against Iron Curtain nationals is very small, and, even if it were discovered, there would be reasonable chance of establishing that the practice was not contrary to the Convention. It would be possible to make a statement of interpretation covering the point but this would only spotlight the difficulty and court the danger of rejection by the organs which will be charged with supervising the implementation of the Convention. Moreover, it will probably be necessary to make interpretative statements on more important articles of the Convention and it is desirable to keep such statements to a minimum.

3. The Working Group therefore recommend that the risk be accepted.

4. No other aspects of the Article appear to give rise to difficulty.

/ ARTICLE 2.
ARTICLE 2

5. This article constitutes the basic obligation for States Parties with regard to the elimination of racial discrimination in all its forms. By it each Party undertakes not to practice racial discrimination itself and to ensure that all public authorities and public institutions act similarly. It further undertakes not to support racial discrimination by persons or organisations, to review its policies and amend its laws and regulations where they contain any element of racial discrimination, to prohibit and bring to an end racial discrimination by any persons, group or organisations and to promote good inter-racial relations. Paragraph 2 which allows special measures to secure the adequate development and protection of certain racial groups or individuals has little relevance to the metropolitan territory.

6. A number of minor problems arise on Article 2(1)(a). In the main our existing practice complies with the requirement that we should ensure that all public authorities and public institutions, national and local, shall act in conformity with the obligation to engage in no act or practice of racial discrimination. In the unlikely event of a public authority engaging in racial discrimination, to the extent that the government could not put matters right, legislation might conceivably be necessary.

7. Since the definition in Article 1 also includes discrimination on grounds of descent a possible difficulty in connection with Article 2(1)(a) (and perhaps also with Article 5(e)(1)) arises from the fact that under the Regulations on admission to the Civil Service eligibility for certain appointments, is, on security grounds, made dependent not only on possession of British nationality by the applicant but also, in the first instance, on possession of such nationality by one or both of his parents. It is considered, however, that we could rely on establishing that these conditions (which are likely to be reflected in the corresponding regulations of many other countries) have no element of racial discrimination in any normal sense and are reasonably related to the security, representational and other requirements of the appointments concerned; and that, consequently, they do not constitute discrimination on grounds of descent in a racial sense as that word is to be interpreted in Article 1 and involve no impairment of human rights and fundamental freedoms within the meaning of that Article or contrary to Article 5. The Working Group therefore recommends that, here also, such risk as there is should be accepted.

8. Another possible difficulty arises with Article 2(1)(a) in respect of our policy on immigration but this problem arises more substantially with Article 5 and is discussed there.

9. Article 2(1)(b), (c) and (e) create no difficulty.

10. As regards Article 2(1)(d) the Working Group consider that, given the overall limitation of discrimination, as defined in Article 1(1) of the Convention, to the field of public life, private activities such as the conduct of private clubs and questions of private accommodation or employment in private business concerns should not be regarded as affected. This is however a matter of interpretation of the Convention and there is of course a risk that our interpretation may not be accepted by the organs established by the Convention or by the International Court in the event of the reference of a dispute to it.
ARTICLE 3

12. In this provision States Parties particularly condemn racial segregation and apartheid and undertake to prevent, prohibit and eradicate, in territories under their jurisdiction, all practices of this nature. Such practices do not exist in the metropolitan territory and the Article causes no difficulty there.

ARTICLE 4

13. The Article is concerned with action against racist propaganda and organisations. States Parties have the general obligation to condemn all propaganda and organisations "which are based on ideas or theories of superiority of one race or group of persons of one colour or ethnic origin, or which attempt to justify or promote racial hatred and discrimination in any form "and to adopt immediate and positive measures designed to eradicate all incitement to, or acts of, such discrimination. To this general end they undertake certain specific obligations - (a) to declare as an offence punishable by law the discrimination of ideas based on racial superiority or hatred, incitement to racial discrimination, violence or incitement to violence against a race or group and the provision of assistance to racist activities, (b) to declare illegal and prohibit racist organisations and propaganda activities and recognise participation in such organisations and activities as a punishable offence, and (c) not to permit public authorities or public institutions to promote or incite racial discrimination. It is, however, specified that these obligations are to be carried out "with due regard to the principles embodied in the Universal Declaration of Human Rights and the rights expressly set forth in Article 5 of this Convention."

14. The Working Group considered this to be one of the most difficult articles in the Convention. Clearly sections 6 and 7 of the Race Relations Act 1965 go at the very least a long way towards meeting its requirements. Nevertheless, the specific obligations in paragraphs (a) and (b) present problems. Paragraph (a) would seem to trespass too far into the accepted sphere of public or private discussion. Paragraph (b) would also not be acceptable tout court. Opinion in this country is opposed; even in war, to declaring any organisation illegal and the preference has always been to make certain activities illegal. The principal question is how far the saving clause quoted at the end of paragraph 13 above can be regarded as qualifying the specific obligations to an extent which would enable one to rely on our existing law, including the Race Relations Act, as sufficient to comply with the Article. On this there can be no certainty and in the last analysis it will be for the organs whose task it is to interpret the Convention to decide the point. But there are some encouraging factors. First, the clause was specifically inserted to meet the fears of Western countries regarding freedom of speech and association (these freedoms are spelt out both in the Universal Declaration of Human Rights and Article 5 of the Convention). Secondly, a number of delegations made explanations of vote in the General Assembly to the effect that their governments would interpret the Article as meaning that they were not required to take measures inconsistent with the freedom of speech and association. The United Kingdom delegation said "it believed that the use in the introductory paragraph of the wording originally proposed by the five Nordic countries ... sufficiently safeguarded freedom of speech and freedom of association, and it was in that spirit that the United Kingdom would interpret the article as a whole" (A/C.3/SR.1318). Lastly, the
the United States Government in announcing recently that they
would sign the Convention stated that their constitutional provisions
for the protection of individual rights, such as the right of
free speech, would be governing insofar as implementation of the
Convention in the United States is concerned.

15. The Working Group considered three alternative courses of
action:

(a) to say nothing and trust that future interpretation
will protect our position;

(b) to make a formal statement of interpretation on
signature and/or ratification;

(c) to make a similar statement not on signature or
ratification but during debate in the General Assembly.

It was considered that (a) was too risky and that it would be
necessary to have some further statement to point to in order to
safeguard our position later as far as this is possible. They
therefore favoured the statement of interpretation, the text of
which is contained in paragraph 19 in the main body of the Report.
This statement would not be without its dangers. Although we
would not regard it as a formal reservation of the sort provided
for in Article 20 and would not, therefore, consider it to be
open to the objections procedure, there is no guarantee that
other parties would take the same view. They might (although in
the light of the drafting history and the eventual wording this
would not be easy to maintain) dispute that the Article could
properly be interpreted in this sense. A dispute on this initial
point could in the last resort be taken to the International Court
of Justice. The risks involved in making the statement were not
so great as to contribute an obstacle to ratification and the
Working Group therefore recommend that the Article be accepted
subject to the statement being made. The timing of the statement
was a matter for the Foreign Office.

16. Northern Ireland is in a rather different position from
Great Britain in that it has no legislation comparable to the
Race Relations Act. This would make their position under the
proposed statement more vulnerable. But their defence would be
that they have no problem of racial discrimination and that, while
this remains the case, no further legislative measures in the
fields covered by the Article are necessary there. If such a
problem developed, Northern Ireland might have to adopt legislation
to supplement existing common law prohibitions on such matters as
incitement to violence. So long as no problem exists it is
unlikely that there would be criticism of Northern Ireland on the
grounds that it has no legislation comparable to the Race Relations
Act.

17. Article 4(c) creates no difficulties.

ARTICLE 5

18. This Article also raises problems of interpretation. By it
States Parties appear to incur two main obligations viz. (a) to
prohibit and eliminate racial discrimination, and (b) to guarantee
the right of everyone to equality before the law, both with
respect to the enjoyment of the catalogue of rights tabulated in
the remainder of the Article. It could not have been the object
of the Article to confer the full enjoyment of the rights set out
in paragraphs (a) to (f). This would have been out of place in a

/ Convention
Convention designed to eliminate racial discrimination and would have duplicated, at least in part, the purpose of the draft Covenants on Human Rights. It would therefore be necessary for a State Party to be able to show, with respect to each right listed, that insofar as it was guaranteed in its law and practice, there was no element of racial discrimination and no inequality based on race, colour, or national or ethnic origins before the law.

19. One of the rights listed, in paragraph (d)(ii), is "the right to leave any country, including his own, and to return to his country." Here, two possible difficulties arise, both connected with the question of immigration.

20. First, some critics might claim that the operation of the Commonwealth Immigrant Act, distinguishing as it does between different categories of citizens of the United Kingdom and Colonies, in fact discriminates on grounds of race or even descent or national origin. The distinction is in fact made between holders of passports issued by the Government of the United Kingdom and holders of passports issued by the Governments of dependent territories. This is certainly not discrimination on grounds of race. Nor is it really discrimination relating to descent or national origin, if those terms are, as seems appropriate, construed jussi p;eneris with the rest of the list in Article 1(1). It is a distinction based in substance on connection with some United Kingdom territory other than the United Kingdom itself. The Working Group took the view that though the position may not be readily understood, it is in fact defensible. If we ever had to defend it in the International Court of Justice we ought to win our case. A statement of interpretation would invite criticism and suggest a weakness in our position.

21. The second difficulty concerns the large number (perhaps up to 2 million) of United Kingdom citizens in East Africa, Trinidad and Tobago, Singapore and Malaysia who at present have the right of unrestricted entry into the United Kingdom and possess United Kingdom-issued passports even though they owe their United Kingdom citizenship to connection with former dependencies rather than with the United Kingdom itself. In their case there is, however, no connection with any existing United Kingdom territory other than the United Kingdom itself. On instructions from Ministers the Commonwealth Immigration (Official) Committee have been considering possible statutory ways of controlling their entry if there were any significant change in the present rate of immigration. It appears that, if legislation becomes desirable, it would be likely to distinguish between United Kingdom citizens on grounds inter alia of descent and/or national origin which in this case could not be defended as in substance representing connexion with some other United Kingdom territory and which would because of the identity of the persons against whom it would obviously be directed have the strong appearance of being based on racial grounds.

22. There is a strong argument that such legislation would in any event be contrary to existing international law, at least if it required the refusal of entry to this country to a United Kingdom citizen when a foreign government would not allow to remain in its territory. There is little doubt that if the United Kingdom ratified the present Convention legislation of the type envisaged would be regarded as involving a breach of our obligations under Article 5, and also under Article 2 (1) (a).
The Working Group, therefore, wish to observe that ratification would not only increase already existing difficulties in the way of introducing legislation but probably make it impossible to control the admission into the United Kingdom of this category of United Kingdom citizens.

**ARTICLE 6**

23. This Article has two limbs. First, States Parties are required to assure to everyone within their jurisdiction effective protection and remedies through the competent national tribunals and other State institutions against any acts of racial discrimination which violate a person's human rights and fundamental freedoms contrary to this Convention. Secondly, they are required to assure to everyone the right to seek from such tribunals just and adequate reparation or satisfaction for any damage suffered as a result of such discrimination.

24. One question of interpretation arises on the second limb of the Article. Does it require that both reparation (i.e., some form of material compensation) and satisfaction shall be available or are these to be regarded as alternatives? We would argue (this is partly borne out by the records of debate), that they are properly to be regarded as alternatives between which a State Party is entitled to choose; that is, it must make one or the other available in every case, but is not bound to give victims the opportunity of seeking material reparation in all cases. Thus the possibility of seeking satisfaction through the machinery established by the Race Relations Act or through the courts would suffice, at least in the fields covered by that Act or other existing legal provisions, even though those methods (and particularly that of the Act) may involve no material reparation for the victim. There is, however, some danger that the organs which will have the task of interpreting the Convention would rule that there must in all cases be provision for material reparation. The Working Group therefore recommends that United Kingdom acceptance of this Article be formally qualified by the statement proposed in paragraph 25 of the main part of this Report.

25. A second difficulty arises on the first limb of the Article which concerns the provision of remedies. There may be cases where an act of racial discrimination could on a wide interpretation be said to violate the Convention and where there is under our law no remedy through a national tribunal or other State institution, e.g., discrimination in a shop or hairdresser's, which is not covered by the Race Relations Act. The extent of the difficulty again largely depends on future interpretation. There are several arguments which are available to us - for example, that a shop is not covered by Article 5(f) and that discrimination in a shop is not to be regarded as discrimination in the field of public life within the meaning of Article 1(1); that discrimination in a shop does not impair any generally recognised human rights and fundamental freedoms; and that the phrase "human rights and fundamental freedoms contrary to this Convention" has in any event to be considered with Article 5 and thus to be given a restrictive meaning so that a remedy, has to be available only where an act of racial discrimination violates human rights and fundamental freedoms in the manner forbidden by Article 5 - that is, by producing inequality in the enjoyment of one of the rights described in that Article which is conferred by law.

26. There is some possibility of occurrence of acts of discrimination which could be held to be covered by this Article and for which existing remedies would not be adequate. The risk depends on the likelihood of a breach of other provisions of the Convention occurring. It is unlikely that the United Kingdom would
would often be in breach. In some cases there would be a remedy; in other cases the State could probably take some action. The Working Group therefore recommends that such risk as there is on this point be accepted.

ARTICLE 7

27. This constitutes a general obligation to adopt immediate and effective measures, mainly in the educational field, to combat racial prejudice and to promote inter-racial understanding. It raises no difficulties.

IMPLEMENTATION ARTICLES (PART II of the Convention)

GENERAL

28. Articles 8 to 14 and Article 16 of the Convention, which establish the implementation machinery described in detail in paragraphs 8 and 9 of the main body of the Report are generally acceptable. We have always supported moves to insert provisions for effective implementation machinery in international instruments and we strongly supported these particular provisions during debate. Attention is drawn to Article 14 which provides for the optional acceptance by a State Party of the competence of the Committee on the Elimination of Racial Discrimination to receive and consider communications from individuals or groups claiming to be victims of a violation by that State Party of any of the rights in the Convention. A State Party may declare its acceptance of the Committee's competence in this respect at any time. The Working Group consider that this provision raises issues separate from those raised by the general question of acceptance of the Convention and recommend that it be considered separately at a later date.

ARTICLE 20

31. This Article permits States to make reservations when satisfying or acceding to the Convention, provided that the reservations are not incompatible with the object and purpose of the Convention and do not inhibit the operation of any of the bodies established by the Convention. Other States then have a period of ninety days in which to object to a reservation.

/ A reservation
A reservation is deemed incompatible or inhibitive if two thirds of the Parties object to it, but the Article does not say whether the effect of this provision is that the reserving State is regarded as not being a Party to the Convention or whether it is regarded as bound by the Convention as if the reservation had not been made. We should wish to make it clear that we interpret the Article in the former sense. Unfortunately we have taken the other view in objecting to reservations made by other States to other Conventions.

ARTICLE 22

32. This provides that any dispute between two or more Parties concerning the interpretation or application of the Convention may, if not resolved by other means, be referred by any of them to the International Court. It is important to note that the parties concerned would be bound by the judgment of the Court and obliged to take such measures, by legislation or otherwise, necessary to give effect to it.

RHODESIA

33. The question of the application of the Convention to Rhodesia has been dealt with in the body of the Report paragraphs 12 to 14).
CABINET

IRON AND STEEL NATIONALISATION: SALARIES OF MEMBERS OF THE CORPORATION

Memorandum by the Minister of Power

I propose shortly to appoint an Organising Committee to prepare the ground for the National Steel Corporation. The Chairman of the Committee, Lord Melchett, will be the Chairman Designate of the Corporation. Other members of the Committee, including the Deputy Chairman (Mr. Macdiarmid of Stewarts and Lloyds) will be serving part-time, usually without payment and without commitment on either side for them to join the Corporation once it is formed. I shall, however, be appointing one or more members of the Committee who, like the Chairman, will be full-time members-designate of the Corporation - Mr. Ron Smith of the Union of Post Office Workers has already agreed to serve and will be remunerated for his services from next January.

2. The only immediate question on remuneration is that of the Chairman, Lord Melchett. Lord Melchett, who is a Managing Director of Hill, Samuel, now gets about £20,000 a year in all, but has volunteered to take a cut of £4,000 a year, on the understanding that his pension position is preserved. We have had great difficulty in getting the right man for this job and after discussion with the First Secretary and the Chancellor of the Exchequer, I recommend acceptance on this basis.

3. Lord Melchett however feels strongly that, in order not to be widely out of line with the salary levels within the steel industry, members of the Corporation should not be restricted to the salary bands which at present apply in the nationalised field. He has told me that he will continue to press the importance of fixing the remuneration of the Corporation on a basis which will be conducive to a strong and efficient steel industry, and will not cause an exodus of good staff. I recognise of course that there are also strong considerations of incomes policy; but we do not have to make final decisions until we reach the stage of completing the appointments of the Corporation and we know who the people are and what they will come for. Meanwhile, I would hold out no hopes to Lord Melchett, telling him we shall keep in mind the considerations which he urges but that there are other factors, including incomes policy, which must bear on decisions in this field.
4. I invite my colleagues to agree that:

(i) I should offer Lord Melchett, as Chairman of the Organising Committee and later of the National Steel Corporation, £16,000 a year.

(ii) Any other immediate cases of remuneration should be dealt with ad hoc through the usual machinery of interdepartmental consultation, subject as necessary to clearance with the First Secretary and the Chancellor of the Exchequer.

(iii) We should settle the salary scales for the Corporation later when we have a clearer idea of the appointments to be made.

R. W. I/a.

Ministry of Power, S. W. 1.

23rd September, 1966
CABINET

SOCIAL WORK SERVICES IN SCOTLAND: DRAFT WHITE PAPER

Memorandum by the Secretary of State for Scotland

On 21st July the Committee on Social Services approved the draft of a White Paper setting out proposals for the reorganisation of the local authority social work services in Scotland and recommended its early publication. The Chief Secretary, Treasury, proposed, however, that publication of the White Paper should for political reasons be postponed for a time. I consulted the Prime Minister, who suggested that the White Paper should be published early in October and that it should be circulated to Cabinet for information during the last part of September. I am therefore circulating the paper herewith and am making arrangements to publish it.

2. The White Paper follows my announcement last year accepting the main recommendations of the Kilbrandon Committee on Children and Young Persons (Scotland). It provides some information about the children’s panels which will be set up on the lines suggested in the Kilbrandon Report, but its main purpose is to set out as a basis for discussion with local authority and professional bodies proposals for reorganising the social work services. These proposals have been drawn up after some discussion with representatives of the local authority associations, but the associations are in no way committed to them. I have also had the valuable advice of Professor R.M. Titmuss and of two leading professional social workers in Scotland, and these advisers are in broad agreement with the proposals.

3. The main proposal is that all the local authority social work services should be brought together in a single department of the local authority. These are the services whose organisation in England and Wales is being considered by the Seebohm Committee, but I do not think we should be deterred by the possibility that the future organisation of these services might differ in some respects on the two sides of the Border. As the Longford Committee pointed out, there is a good case for separate schemes in Scotland and England.

4. The White Paper is in three parts. The first explains the case for reorganising the social work services, and stresses the need for a more positive approach to community problems by all local authority departments and by the public generally. The second examines the main services provided by local authorities to assist with social and personal difficulties, and discusses which of them should become part of the new social work department. The third part of the paper describes how the new department would work with children in difficulties, and how the children’s panels would come into the picture when some form of compulsion seemed necessary. The cost of the proposals is modest in relation to the benefits which they would bring.
5. A place has been provisionally reserved in the 1967-68 programme for the legislation required to implement these proposals.

W.R.

Scottish Office, S.W.1.

23rd September, 1966
SCOTTISH EDUCATION DEPARTMENT
SCOTTISH HOME AND HEALTH DEPARTMENT

Social Work and the Community

PROPOSALS FOR REORGANISING LOCAL AUTHORITY SERVICES IN SCOTLAND

Presented to Parliament by the Secretary of State for Scotland by Command of Her Majesty
1966

EDINBURGH
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**Conclusion**
Foreword

This paper puts forward proposals framed by the Government following the Report of the Committee on Children and Young Persons (Scotland) under the chairmanship of Lord Kilbrandon, which was published in April 1964 (Cmnd. 2306). The proposals are presented as a basis for discussion with interested persons and organisations, with a view to comprehensive legislation when opportunity offers.

Part I sets out the main lines of the proposals and envisages a new local authority Social Work Department. Part II deals with the services for which that Department should be responsible. Part III describes how the new Department would work with children and their parents, and how that work would relate to the work of the children’s panels which are to be set up on the lines recommended by the Kilbrandon Committee.
I. The Government's Proposals

The background of the review

1. The Kilbrandon Committee recommended the setting up of two new organisations to deal with children who, because of delinquency or for some other reason, are in need of special measures of education and training. One was a system of panels of lay persons, with certain powers of compulsion and with continuing responsibility for the children brought before them, which would replace existing juvenile courts. The other was a "social education department" of the education authority, formed by the merger of existing organisations concerned with children's special needs which would provide all the facilities necessary for the care, treatment and training of these children.

2. Following publication of the Committee's Report, the Secretary of State invited a large number of bodies, including local authority associations and professional associations, to submit observations on its recommendations. The many observations received showed that a majority of interested bodies favoured setting up a system of panels on the lines recommended, and the consequent abolition of juvenile courts. The majority favoured also the reorganisation of the services concerned with the care and special training of children, but thought that the resulting new organisation should be more widely based, catering for families as well as children, and that therefore it could not appropriately be part of the education authority. After considering these observations the Secretary of State announced during the summer of 1965 that the Government proposed to bring forward legislation for the establishment in Scotland of children's panels on the lines recommended by the Kilbrandon Committee. He said also that he had invited the local authority associations to form with his Departments a working group to draw up reorganisation proposals for the local authority social work services, and that his Departments would, in working out these proposals, have the benefit of the advice of Professor R. M. Titmuss, Professor of Social Administration, London School of Economics, Miss M. Browne, Department of Social Study, University of Edinburgh and Mrs. C. M. Carmichael, School of Social Study, University of Glasgow. The recommendations of the Kilbrandon Committee have now been considered further in the light of the valuable advice given by the working group and by the independent advisers, and in the context of the Government's policy for the social services as a whole.

3. The merger of the Ministry of Pensions and National Insurance and the National Assistance Board is now proceeding, and the new Ministry of Social Security will be concerned with the provision of financial support to those families and individuals who need it. The review of social work services has not therefore touched on these services but has dealt almost entirely with local
authority services which, whether or not they have powers to give assistance in cash and in kind in certain circumstances, are concerned principally with the provision of advice and support in resolving personal and social difficulties. To the extent that help of this kind forms part of the medical care provided by the general practitioner and hospital services, however, it has not been included in the scope of this review.

4. Valuable work is done also by a variety of voluntary social work agencies, and the Government hope that these agencies will wish to continue to develop their work in co-operation with local authorities whenever appropriate. The powers of the Secretary of State and of local authorities to give financial assistance to voluntary bodies will be continued.

5. Before this review had been completed the appointment of a Royal Commission on the reorganisation of local government had been announced. It would have been possible to await the recommendations of the Royal Commission before considering how the local authority social work services should be organised in future. But early decisions on this matter are essential both to the setting up of children's panels and to the development of the social services in general, and in order to avoid unnecessary delay the Government decided to proceed at once with the review of the local authority social work services. Action which results from the review must clearly be compatible with the present organisation of local government and must also be capable of adjustment to fit into the future pattern.

6. One further important factor had to be borne in mind continuously in this review. The services with which it is concerned are all under-manned, and are particularly short of fully trained staff. A major effort to attract, recruit and, when necessary, train staff is essential. But however great the effort and however successful it may be in improving recruitment, there is unlikely to be a dramatic improvement in staffing in the next few years. One of the main reasons for reorganising the services is to enable them to make a more rational and more effective deployment of staff. If this more effective deployment is achieved, it follows that the present staff will be able to provide a better service than now. Further improvements in the services can be expected to follow as additional staff are recruited and trained.

**The powers of local authorities**

7. The existing powers of local authorities to provide advice and assistance, and to promote welfare, are set out mainly in the National Health Service (Scotland) Act 1947, the National Assistance Act 1948, the Children Act 1948, the Mental Health (Scotland) Act 1960, the Education (Scotland) Act 1962 and the Children and Young Persons Act 1963. These powers will be continued, with the adjustments necessary to fit the new organisation. They are already very wide, and only two substantial groups of people appear not to be fully covered. Services for old people under the National Assistance Act are limited to the provision of accommodation, meals and recreation. For adults who are not aged, handicapped, ill or parents of young children, there is at present no express power by which a local authority may at its own hand provide personal advice and guidance. It is proposed that the local authority should in future have power to provide all citizens, of whatever age or circumstances, with advice and guidance in the solution of personal and social difficulties and problems.
The need for reorganisation

8. The main defects in the present organisation of the local authority social work and welfare services derive essentially from the fact that these services have been developed piecemeal and in response to the identification at different times of certain groups of people who needed social help, e.g. deprived children, handicapped persons, old people. When it was established, each service was naturally seen as aiming at the alleviation of a social problem different in kind from that dealt with by any other service. Experience, growing knowledge of human needs, and development of techniques have brought to light a number of factors which now seem much more important than before.

(1) Whatever their immediate disability or difficulty, people can seldom overcome it by personal efforts alone. The majority of people tackle it in co-operation with, and with the support of, their family and community. But there is a minority who need help of the kind that the social work services can give to establish and strengthen the personal and social relationships which can provide this co-operation and support.

(2) Troubles seldom come singly. Many situations in which social work help is needed are complicated, and the families concerned are liable to be involved with and visited by a number of services each trying to help with one aspect of the difficulty and often overlapping each other.

(3) Social workers in all the services agree that they require to use basically the same skills. Specialised knowledge and experience are often necessary, but the body of expertise necessary to all social workers is substantially the same.

(4) The various services employing social workers have to compete among themselves for the limited numbers of trained staff available, and entrants to social work training are obliged to decide, often prematurely, in which service or specialisation they wish to work.

(5) Because the trained and experienced social workers available are employed in separate services with different statutory responsibilities, it is difficult to ensure that their efforts are deployed in the most effective and economical way.

(6) Because there are so many separate services and agencies, many families in need of help do not know which one to ask for help. Often they do not ask at all, or they are bewildered by being referred from one service to another.

A new social work department

9. The social work professions are working towards a situation in which their professional organisation and training will take more account of these factors. Local authorities for their part have tried to take account of them by establishing arrangements for co-ordination, not only of their own services but also of certain voluntary organisations. These arrangements are often not entirely satisfactory, and even when they work well they are costly in working time.

10. In order to provide better services and to develop them economically it seems necessary that the local authority services designed to provide community care and support, whether for children, the handicapped, the mentally and physically ill or the aged, should be brought within a single organisation.
it would be undesirable to separate the administration of support in the community from that of residential care, this organisation should be responsible also for residential establishments which are intended to provide personal care, support and rehabilitation. The responsibilities of this organisation would therefore be wide, but would be homogeneous in that they would all be based on the insights and skills of the profession of social work and be concerned with meeting personal need. These responsibilities should not be subordinated to any other function of local authorities. It is therefore proposed that they should be carried by a new Social Work Department of the local authority.

11. The setting up of a social work department would not necessarily mean that all social workers in the department would have to undertake all kinds of work that its duties cover. As most present social workers have acquired their training and experience in one specialty or another, the use of their specialist skills would continue. Their employment in one department would, however, permit much greater flexibility of deployment than is now practicable and would make continuity of care easier to arrange; it would make consultation and co-operation much easier; it would facilitate a desirable increase in movement of staff between social work in the community and social work based on institutions; and it would facilitate also the recruitment of certain social workers (e.g. psychiatric and medical social workers) who do not now enter local authority employment in appreciable numbers but who would be very valuable in the development of the services.

Co-operation between local authority departments

12. The formation of a social work department of the local authority on the lines proposed would greatly reduce the present difficulties of co-ordination and co-operation between the separate social work services. It would provide a single door on which anyone might knock to ask for help with confidence of getting it, and it would simplify the local authorities' communication with the Ministry of Social Security and with the many voluntary organisations which do so much of the exploratory work in social service. But the new department could not hope to provide from its own resources the means of solving all the social and personal problems of those who seek its aid, and the success of much of its work will depend on the degree to which it can gain the support and influence of the work of many other public and voluntary services. For example, it will have to co-operate closely with education authorities in assessment of children, and in the development of school welfare work. In supporting the ill, the handicapped and the aged the new department must clearly work closely with the health services. In trying to prevent family separations due to eviction the new department will need the co-operation and help of housing authorities and private landlords. Hardship due to cutting off of cooking and heating supplies can be prevented or reduced only if the help of the suppliers of gas and electricity is enlisted.

13. All these points of contact will continue to require co-operation between the new department and other agencies, mainly in the day-to-day work of tackling the immediate crises and problems of individuals and families. Beyond this, however, is a less obvious but equally important need for co-operation at policy-making and management levels, in the improvement and promotion of measures which would help both to prevent the occurrence of these problems
and to enable communities and individuals more readily to surmount problems and resolve tensions by their own efforts. Such measures are practicable, but they cannot in practice be planned and put into effect by the unaided efforts of one department of the local authority.

14. To take the community first, it seems clear that physical environment affects social development and behaviour. Large housing schemes built to provide much-needed houses but offering little in the way of social, recreational or entertainment facilities have thrown up many social problems. The transformation of town centres into business areas which have no resident populations has created others. Again, many families have to live in houses so small or so designed that their children have great difficulty in doing school homework, in developing personal interests, in obtaining the privacy which is essential to their healthy development—and even in escaping from the family television. Physical planning and change involve social factors, which in the past have not always been taken fully into account. This is not surprising because, although the local authorities responsible for these changes have often employed social workers for specific purposes, they have had no officer with general responsibility in that field to advise them in a positive and constructive way and at an early stage. The creation of a new social work department in touch with all the social problems and needs of the area will change this situation. Its chief officer and the knowledge and experience of his department should clearly be consulted on the social aspects of environmental changes. So also should his medical and educational colleagues, to a greater extent than has always been the case in the past. The social work, health and education departments should be enabled to contribute to the planning of community projects from the earliest stages, so that changes in environment may be designed with greater appreciation of the influence which these changes are likely to have on the people and communities affected by them.

The need for a positive approach

15. A wider approach of this kind to community development would help to avoid the creation of social difficulties. Difficulties will nevertheless continue to occur. The social services will always be needed to help to deal with them, but it would clearly be better for the individual people concerned, and would reduce the demands for help, if the individual's own capacity to deal with his difficulties, supported by his friends and neighbours, could be increased. Essentially this is a matter of promoting the full personal development of the individual, emotionally as well as physically and mentally, and is largely concerned with the ways in which children are brought up and educated. A great deal of effort is already being applied to this purpose. The health services are active in promoting the healthy development of children, by a variety of means and particularly through the work of health visitors in advising and guiding mothers in bringing up their children. Schools are increasingly aware of the importance of ensuring the balanced development of every child. Social workers who are called upon to help a family in any kind of difficulty are concerned to ensure that the development of the family's children is not endangered by the difficulty.

16. If positive work of this kind could be extended and developed, the benefits would be great. Individual people would be likely to become more effective, at work as well as in personal life, and community life could be richer
and healthier. It is not necessary to devise new public functions for the extension of this kind of work, but there is scope for the public services mentioned above to work together in ways which so far have been too little explored. For example, general practitioners, health visitors and social workers know the families in which children's development is unsatisfactory or inadequate and whose children would benefit from attendance at nursery schools, play groups and other facilities designed to promote the development of young children, but this knowledge can be really fruitful only if it is brought purposefully to bear on community planning.

17. There are many similar ways in which valuable preventive work could be extended if the interests of the education, health and social work services were seen in this way not only as complementary but also as interdependent, in policy as well as in practice, and if they can combine their knowledge and efforts for the purpose.
II. The Local Authority Social Work Department

18. The conclusion that there should be a social work department of the local authority to provide a range of social services, including those which the Kilbrandon Committee recommended for children, requires a series of decisions about the existing services which should be merged in it. This part of the paper considers each of the main services concerned, the related responsibilities which the new department should have and the local authority area on which it should be based.

Child care

19. The Kilbrandon Committee recommended that the child care service should be amalgamated with other services for children. They thought that the resulting new service could be the “centre and core” of a wider service in the future which might cater “for the needs of adults of all ages as well as those of the children in the family”. It is just such a wider service which is now proposed, and child care seems to be an appropriate function for it to have. The present duties and powers of the local authority in regard to deprived children, including the duties of providing advice, guidance and assistance to children and parents who seek it, will therefore become the responsibility of the social work department. This department will undertake also the supervision and care of children who are subject to decisions of the children’s panel which is to be set up; these functions are discussed in more detail later in this paper.

School attendance and welfare

20. Attendance officers are employed by education authorities in pursuing their duty to ensure that children attend school regularly, and some authorities employ welfare officers to help ensure the welfare of school children. These officers are in varying degrees involved in social work with the children’s families. They provide an invaluable source of early warning of children’s and family problems, partly because bad attendance at school often indicates such problems. Education authorities have a statutory responsibility to see that children attend school, and any staff employed to investigate absences from school would require to be on their books. The Government think, however, that responsibility for providing school welfare services should be assigned to the new department and that existing education authority staff employed specifically on welfare duties should be brought into it. By continuing to work in the closest association with teachers they could form an effective link between the schools and the social services generally.

The assessment of children’s needs

21. The care or treatment offered to any child, and the decisions of the children’s panel must be based on professional assessment of the needs of the child. This assessment involves careful investigation and consideration of the
problems of each child and his family, and recommendation of the measures likely to be most successful in resolving these problems. For some children this task may need only the attention of a social worker who can discuss the situation with the family, and consult the child's teacher, school doctor and others as may be appropriate. It will often be necessary, however, to bring in one or more of a wide range of other professional people such as educational psychologists, general practitioners, health visitors, child psychiatrists and paediatricians, and there must be effective arrangements for ready access to all these different skills.

22. Assessment will usually be done by means of visits by social workers and others to the child in his own home and, when necessary, by visits by the child and his parents to an appropriate assessment centre or clinic. For some children, however, this will not be practicable or desirable, for example because of their home conditions or their unruly behaviour. In such circumstances the child will, if his parents agree, be removed from home for assessment. A young child might be cared for in a suitable children's home or hospital while attending a clinic as necessary. For older and very disturbed children residential assessment centres or clinics will be provided for the purpose. All the facilities for assessment should be available for any child who might derive benefit from them.

23. Arrangements for assessment of the special needs of children in regard to education are already made by education authorities as part of the child guidance service. This work often involves children's families, and it needs access to the same range of medical, educational and social workers as is mentioned above. Assessment for the purposes of the education authority and of the social work department will, therefore, have a good deal of common ground, and in principle there is a case for combining the work into a single assessment service. In practice, the child guidance service is concerned with other educational duties, for example remedial teaching, in addition to assessment, and the social work department will similarly have a range of other duties. The creation of a single assessment service seems for this reason to be impracticable in the near future. It would, however, be possible to secure most of the practical benefits of a single service if the educational psychologists responsible for assessment for educational purposes and the social workers responsible for assessment for the new department could work in the same clinics or centres. They could then consult each other easily and quickly and could have shared arrangements for consulting all the other specialists.

24. It is therefore proposed that the two services should co-operate by basing their assessment work in the same premises. It is envisaged that assessment clinics for children living in their own homes or children's homes will, where appropriate, be formed in child guidance clinics, in which the staff of the social work department will join those of the child guidance service, and that residential assessment centres will be formed from the present remand homes, where educational psychologists will work alongside social workers. Clinics and residential centres will need to be extended and improved in those areas where provision of one kind or the other is still inadequate.

25. Arrangements along these lines would promote the continuing development of assessment work to the benefit both of the child guidance services, who sometimes find difficulty at present in securing the social work help they need, and of the social work departments, who will need to draw upon the skills of educational psychologists and the information about individual children which is available in the schools.
School health

26. The Kilbrandon Committee recommended that the school health service, which is a function of the education authority, should be incorporated in the new department which they envisaged. It is clear that this service as one of the health services has an important role in promoting the healthy development of children, including the work of assessment and of prevention and early treatment of disturbance, and that it should work in close conjunction not only with the education authority child guidance service but also with the new social work department. But as its staff consists almost entirely of doctors, dentists and nurses, and as its work is not primarily social work, it could not appropriately be part of a social work department. It is therefore proposed that the school health service should continue on its present basis.

Probation

27. It is an essential element of the recommendations of the Kilbrandon Report that the future equivalent of probation supervision of children should be provided within the new local authority department. This, as the Committee realized, necessitates change for the probation service and for its administration as they exist at present. Such change immediately raises the question of the future responsibility for the probation service’s present functions in relation to persons of sixteen years of age and over. The possible choices are to place the responsibility for these functions also on the local authority, thus avoiding any division of the present service into two, or to set up a new service to carry out the more limited functions.

28. The Morison Committee on the Probation Service* described the probation service as “essentially a social service of the courts” and as a “court service”; and criticised its system of administration in Scotland as inadequately reflecting this. This would point to the establishment for those over sixteen of a new service separate from the local authority social work department. (One fresh consideration since the Committee reported has been the assumption by the probation service of a function not closely related to the courts, the after-care of offenders released from penal institutions. The Government’s intention that all after-care supervision should be provided by the local service which is also responsible for probation supervision has already been announced, and after-care would therefore grow to form a substantial part of the duties of a new service concerned with those over sixteen.) On the other hand, the main duty of the probation officer—personal social work with the offender and his family in the community—is basically similar to that of other social workers. His function of assessment, though for the assistance of the court, is part of the social worker’s essential skills. The arguments for the carrying out of the functions of the present probation service by the social work department are, therefore, the same as those in respect of other services which it is proposed to bring into the department—the avoidance of a multiplicity of services carrying out essentially similar work in the same community or even in the same family.

29. The Government’s conclusion is that, on balance, it would be better if all the functions of the probation service in Scotland were undertaken by the local authority social work department. In reaching this view, they have had particular regard to the consideration that a separate service for the adult offender would

be a small service somewhat apart from the mainstream of social work, and this might well have adverse effects on career prospects, on the recruitment of staff of the calibre required and in the development of new social work skills by the service. In view, however, of the importance to the courts of the services provided to them by the present probation service, it would be necessary to establish machinery to enable the courts to be associated with the arrangements for the provision of these services by the social work department.

Community care and after-care of the ill and welfare of the handicapped

30. Local authorities are empowered by the National Health Service (Scotland) Act 1947 and the Mental Health (Scotland) Act 1960 to provide care and after-care for people suffering from illness or mental deficiency. The National Assistance Act 1948 empowers local authorities to promote the welfare of people suffering from any of a wide range of handicaps. The services provided under these powers include the provision by welfare departments of advice, guidance and support to patients and their families. The work involved in this is closely akin to that expected of the new social work department, and in practice many of the families who will need the help of that department include among their difficulties an illness or handicap of some kind or degree. It is therefore proposed that these services of social support in the care and after-care of the ill, mentally disordered and handicapped should be undertaken by the new department.

31. Clinical responsibility for all patients, whatever their illness, would of course, continue to rest with the general medical practitioner who would be able—and encouraged—to call upon the help of the social work department. Liaison would need to be maintained also between the new department and the health services administered by the medical officer of health and, where they have been involved, services based on hospitals, health centres, etc.

Welfare of old people

32. Supporting services for old people are already of great importance, and their importance will grow with the increasing proportion of old people in the population. It is desirable that whenever possible old people should remain in the community rather than go into residential care, and if they are to do so a wide range of help from public and voluntary services is needed. Suitable houses, opportunities for occupation and recreation, meals on wheels, home help and other facilities are all necessary in addition to the health services. Those concerned have not only to recognise the need of an old person for help but also to identify, arrange and keep under review the kinds of help he needs.

33. The health services as a whole will continue to be in contact with many old people. In particular, the general practitioner and the health visitor are well placed to observe their needs for help and in many circumstances to meet them. There are, however, forms of help and support which another agency could more readily arrange if asked to do so. The new social work department would be able to provide a service of this kind which would be entirely consistent with its support of other groups of people and would also be available to be called in by old people themselves, by neighbours and relatives. It is therefore proposed that the new department should be responsible for the provision of support and
assistance to old people, including the provision of old people's homes and day centres. The responsibilities of medical practitioners would not be affected in any way.

**Domestic help**

34. The powers of the local authority to provide domestic or home help in terms of the National Health Service (Scotland) Act 1947 are already wide. The service is increasing in scope, but its potential for assistance in teaching elementary home management has not been adequately explored. It should increasingly be brought into play in the rehabilitation of families with multiple problems. The residential training in mothercraft and home management which is given to mothers could be more effective if it were followed up by suitable home helps on the mother's return to her own home. Again, when a mother has to go into hospital for treatment it is often better for her children, as well as cheaper, if the local authority provides a home help to look after them, rather than receives them into care, and this practice should be extended.

35. At present, the home help service is often administered by welfare departments, or by welfare officers in health and welfare departments. More positive use of home helps in the ways suggested will show more clearly the general supporting nature of the work, and the training of home helps for a supportive role lies within the field of social work. It is proposed, therefore, that in future the provision and management of home helps should be undertaken by the social work department.

36. The provision of home helps when a medical practitioner thought it necessary in case of illness would be the responsibility of the social work department. Home help would be only one of the range of supporting services which the department would make available to doctors in this way.

**Homeless families**

37. Temporary accommodation has to be provided for families rendered homeless by unforeseen circumstances such as fire and flood. For families who become homeless for other reasons—for example, following eviction for non-payment of rent or from a tied house on loss of employment—temporary accommodation by itself is inadequate; it has to be allied to a social rehabilitation service. It is therefore proposed that the provision and management of temporary accommodation should rest with the social work department, which could provide the necessary support and mobilise other social services as appropriate.

**Staffing of the new department**

38. It is proposed that the social work department will be headed by a Director of Social Work. The importance of this post, the variety of professional skills and experience that may be suitable, and the range of new duties make a new procedure for selection desirable. It is proposed that applications for appointment to the post will be considered in the first instance by an advisory committee composed partly of members of the local authority and partly of persons drawn from a list of independent referees appointed by the Secretary of State, and the committee will advise the local authority on which of
the applicants have the qualifications and experience necessary for the post. The local authority will make their selection from the candidates regarded as qualified.

39. The Director will be generally responsible for all the work of his department. He will have specific responsibility for children in the care of the local authority, for advising the children's panel and for ensuring, on behalf of the local authority, that children under the jurisdiction of the panel are dealt with according to the panel's decisions.

40. The number of other staff required by the new department will be a matter for the local authority to decide. There is increasing scope for the use of part-time staff and of the services of voluntary workers under the supervision of professional staff, and it is hoped that local authorities will arrange to take advantage of these opportunities.

41. The statutory posts of children's officer and probation officer will be abolished.

Staff training

42. This paper referred earlier to the shortage of staff, particularly of trained staff, in the local authority social services in Scotland. The Government believe that the form of reorganisation envisaged will help local authorities to provide with the staff who are available a better service than they are at present able to give, and to plan more accurately their staffing requirements for the future. To meet future requirements the supply of trained staff needs to be increased. Suitable in-service training schemes are needed for staff in post who have no professional qualifications, and refresher courses for all staff.

43. Already in the last few years there has been a worthwhile expansion of social work training facilities in Scotland. Before 1960 the only courses leading to professional qualifications in social work provided for small numbers of medical and psychiatric social workers, although three of the four universities provided basic courses in social science. In 1966 three universities are providing basic and professional courses for a wider range and for greater numbers of social work students. Elsewhere, three two-year courses leading to professional qualifications in social work are available, a separate qualifying course is available for probation officers, and the training capacity for residential child care workers has been increased. Additional courses will be started later in 1966 and refresher courses have been expanded. A great deal remains to be done, and further expansion along these lines is already planned.

44. Changes will be needed, too, in the range and content of training courses. With the formation of social work departments which will be bigger and have a greater variety of responsibilities than existing departments, many social workers will be more directly concerned in administration than they are at present, and courses should prepare them for this. Social workers are increasingly taking the view—and this is being reflected in training arrangements—that social work is a single profession within which specialties should be subordinate to the profession as a whole, in much the same way as medical specialties are subordinate to the profession of medicine. The knowledge and expertise of the new department will be increasingly invoked in an advisory role in relation to the work of other departments of the local authority, and social workers will have to be trained to play this role. Greater use could be made of the services of
voluntary workers, and training courses should prepare social workers to use voluntary effort more effectively. Again, it will be necessary to provide training courses at a variety of different levels, whether at the initial stage of training or at the in-service and refresher course stages.

45. Training cannot of course be separated from recruitment. In recent years a large proportion of the students undertaking Scottish courses in social work have come from outside Scotland, and after qualifying have left Scotland to work elsewhere. The reasons for this are complex and owe at least something to the lack of a well-established tradition of social work as a professional career in local authorities in Scotland. The Government intend to do everything they can to ensure that young people in Scotland are made aware of the opportunities which exist in this field, but the principal inducement to young Scots to take up a career in social work may well prove to be the creation and development of comprehensive departments with their greater scope for the talents of each member of staff. The attractiveness of the career which such departments will offer should also stimulate recruitment.

Residential accommodation

46. It is increasingly recognised that for most people in social or emotional difficulty the best form of help, whatever their age and particular problem, is support in their own homes if that is practicable. For some, however, residential care on a short-term or long-term basis will continue to be necessary, and suitable establishments must be provided. There is scope for much improvement in this provision. More accommodation is needed over the whole range of establishments, from homes for old people to facilities for the care of babies and young children. More variety of types of establishment is also needed; for example, a child is sometimes placed in a home or school because nothing better is available, although all concerned recognise that the régime may not be entirely fitted to his particular needs. There is too little flexibility of use between the various categories of establishment. There is considerable difficulty in recruiting and retaining sufficient staff of the necessary quality, and this will remain a problem. An enquiry into the staffing of residential homes and institutions is now being made on behalf of the National Council of Social Service by a committee under the chairmanship of Lady Williams, and is likely to show some of the ways in which it could be solved. It would not be practicable to deal here in detail with the amount and kinds of residential provision which are required. Improvements are being made, and with growing experience and increasing research and experiment new kinds of home, hostel, school and rehabilitation centre will be evolved. The different forms of provision should be fitted to the needs of the users and not the other way round and, within the limits of administrative possibility, unnecessary or out-dated barriers between one form of provision and another should be taken down.

47. So far as accommodation for adults is concerned the barriers are mainly those of tradition, and they can be reduced by developing practice. Certain formal changes affecting residential establishments for children will be necessary. It is proposed to abolish existing statutory distinctions between certain types of such establishment and to have a continuous and varied range of establishments available for children who need residential care or training. Approved schools which will no longer be known by this generic name, will form part of this range.
Those remand homes which are suitable will become assessment centres, and their principal function will be to make available a full range of assessment facilities for all children sent to them. They will provide residential accommodation for the minority of children who cannot be assessed while living in their own homes and who cannot satisfactorily be accommodated for this purpose in a children's home or hospital.

**Administrative areas**

48. Most of the social work and welfare services which it is proposed to combine into a new department are functions of counties and large burghs, as are the local authority health services. This review has not, of course, been concerned with any change in local authority areas, but it has been necessary to consider whether the new department should be formed in counties and large burghs or, like education authorities, in counties (including counties of cities). Several factors have to be taken into account.

49. Experience has shown that many of the existing social work units of local government are too small to employ more than a few social workers. Even if departments which are now separate were amalgamated to form a social work department in each area, that department would, in a great many areas, consist of only a handful of social workers. It is true that some small units have been able to do very good work, but they suffer from some serious disadvantages. Small units do not provide satisfactory career opportunities for keen and progressive staff. They can offer few opportunities for the professional consultation which is valued highly by social workers. With so few staff, they find it very difficult to release staff for training and to offer supervised practical training to students. In a small staff, the range of experience is usually limited, and there can be little flexibility in dealing with particular types of problem. Partly for these reasons, very small departments do not easily attract well-qualified staff. This weakness and their limited financial resources aggravate their difficulties.

50. It could be argued that large departments tend to be cumbersome and might become too bureaucratic and impersonal to be appropriate for social work. These faults can, however, be avoided by suitable organisation of the department's staff and work. It is proposed, for example, that in large areas the new department should work through area offices easily accessible to the community and staffed by trained workers able and empowered to provide an effective social service at local level.

51. A further factor is that, as explained earlier in this paper, the new department will have to co-operate closely with education authorities, particularly in the assessment of children. It will have to work also with the health services and other bodies. The local authority health services are based on large burghs as well as counties, but hospital authorities, like education authorities and certain other relevant bodies, are based on larger areas, and it would be easier for the new department to work with these if it were also based on larger rather than smaller areas.

52. The immediate practical problem in this review is how best to fit the new department into the existing local authority structure. The Government think that on balance it would be best to place responsibility for the new department on counties (including counties of cities), and to empower and encourage the
counties with the smallest populations to join with other authorities to form joint departments serving their combined populations.

Costs and grant arrangements

53. The existing departments and services which will be amalgamated to form the new social work department of the local authority would require to be expanded in the next few years whether they were reorganised or not. Within the limits of national resources, the rate of their expansion will depend mainly upon the availability of suitable staff. In the short term, reorganisation will not of itself lead to appreciably increased costs. The main increases in cost will be due to the appointment of Directors of Social Work and any consequential re-grading of other posts. These increases will be balanced by the greater economy which will follow the avoidance of overlapping services and more rational deployment of staff.

54. Most of the existing services which will be undertaken by the new department are at present provided under general grant arrangements. It is proposed that the costs of the new social work department will be met by the local authority under the new arrangements for rate support grant.

Central advisory service

55. The fact that the developing social services have no long tradition of professional work in local authorities makes it very important that there should be available to local authorities, in setting up the new social work departments, the help and guidance of a professional advisory service. The Government intend to provide this service. It will supersede and absorb the present inspectorates for approved schools, child care and probation and the Scottish Home and Health Department's welfare officers. It will be composed of well-qualified people with collective experience in several branches of social work and headed by an officer of senior status. To ensure that local authorities may have the help and advice of this service in designing their new departments it will be set up well in advance of the date when new legislation will come into operation.
III. Social Work with Children

56. This part of the paper describes the roles in relation to children of the new social work department and of the new children's panel. Briefly, the social work department will provide a range of services which children and their families can be offered, or may ask for, on an entirely voluntary basis. Where voluntary co-operation is not forthcoming or cannot be expected, compulsory powers will be necessary. These will be in the hands of the children's panel, which will work on the lines recommended by the Kilbrandon Committee. Paragraphs 63-81 of this paper describe in a general way how the panel will conduct its business. The paper does not deal with the many important details of the panel's powers and procedures, but in preparing legislation the Government will consider the many observations already submitted to them on these matters and any others received at later stages.

The role of the social work department

57. The proposal to merge the children's department into a new local authority department with much wider responsibilities will be a departure from the recommendations of the Committee on Homeless Children (the Clyde Committee) in 1946 that deprived children should be the responsibility of a separate local authority department. But there have been many developments in social work since then, and some of the most important of these have stemmed from the work done and experience gained by the children's departments set up then. At that time, the care of deprived children was seen as mainly concerned with the provision of substitute homes. In the last fifteen years increasing emphasis has been placed on efforts to prevent deprivation by securing adequate care for the child in his own home whenever that is practicable. This change of emphasis has involved child care workers to an increasing extent in work with the parents, relatives and communities to which the children belong, and the nature of this work has developed into the provision of guidance and support for a wide range of people who are in emotional or social difficulty. Largely from this experience has grown the recognition that this kind of support and guidance is of the essence of social work, for deprived children as for other members of the community. Social workers increasingly appreciate that in any situation in which the welfare of children is at risk the children's welfare must be safeguarded in the event of any clash of interests, and that policy decisions must take account of this.

58. For these reasons, there should be no difficulty in ensuring that the care of deprived children does not suffer from the widening of the scope of the organisation which will be responsible for it. The following paragraphs discuss the ways in which the social work department will develop the support and guidance available to children and their families.

59. The existing duties and powers of the local authority in relation to children who are deprived of an ordinary upbringing will be continued, the only change in practice being that the functions of the local authority will be discharged through the social work department instead of through the children's department.
60. For children who have got, or are likely to get, into social difficulty of any kind the really important thing is that parents and guardians should be able to get help locally, quickly and easily. In future, families and their children will be able to look to the new social work department for rapid and effective assistance in time of trouble. The existing powers of local authorities to advise, guide and assist children and their families are very wide, and in future all these powers will be discharged by the local authority through the new department, whose work for children will be both preventive and remedial, informal and formal.

61. How will the needs of a child in difficulty be met under the new arrangements? There will be many ways, and the one chosen will depend on the circumstances. Perhaps an eleven-year-old boy regularly stays away from home until midnight and his anxious parents turn to the new department for help; or a health visitor finds evidence that a child is being neglected in circumstances with which she herself cannot deal; or a school is concerned about a child’s non-attendance or obvious lack of proper parental care. In all these circumstances, as well as in cases where one of the department’s own staff finds the first evidence of trouble, the new department will have a responsibility to help. A social worker from its staff will call on the parents and child. It may be that all that is needed in some cases is a simple piece of advice; in other cases the parents may welcome continuing help and advice, or even supervision of the child, on a voluntary basis. In some cases, as at present, it may be helpful for some or all of the children in the family to be received into the local authority’s care for a time. Sometimes it will be necessary to arrange for specialist assessment, and the new department will be able to arrange this. All these actions will of course depend upon entirely voluntary co-operation and acceptance by the parents or guardian of the local authority’s help.

62. Thus in many cases in which shortcomings in a child’s upbringing become apparent, the matter will be dealt with by the new department on a voluntary basis with the families concerned. Sometimes, however, informal work of this kind will turn out to be unsuccessful, or it will be evident from the first investigation that voluntary help would not be enough—because, for example, the child and his family are not willing to co-operate, or deny the need for any intervention, or because, despite their intention to co-operate, the family are too infirm of purpose to do so effectively. It is to deal with children in circumstances such as these that children’s panels are to be set up.

The role of the children’s panel

63. A children’s panel will be set up in the area of each county and city on the lines recommended by the Kilbrandon Committee, that is, as a body of lay people which will be empowered to order such measures of treatment and training as seem to it to be required by a child brought before it. Subject to the Crown’s right to prosecute (which will be invoked only in exceptional cases) a child may be brought before the panel if he has not reached 16 years of age and if there is a prima facie case that the child needs some form of care or control because he has committed an offence, or has behaved in other specified ways which are seriously anti-social, or is unduly exposed to danger to his physical, mental or moral development.

64. As the Kilbrandon Committee recommended, the panel will need an official to decide whether or not the circumstances of each child found to be in
trouble or difficulty should be brought before the panel, and also to organise its work, to present cases to it, to arrange hearings and to ensure that the panel's decisions are carried out and reviewed at specified intervals. This official will be known as the Reporter.

65. The Reporter will receive notices from the police and other sources about children who may need to be brought before the panel. On receiving such a notice, the Reporter will require the Director of Social Work to give him full information about the family and social background of the child concerned. In many cases the Director is likely to recommend that the most appropriate action would be voluntary supervision by one of the Director's staff and, unless there is a compelling reason for bringing the child before the panel, the Reporter will agree to this. In such cases the child will not be brought before the panel.

66. When, having considered the information given to him by the Director of Social Work and any other advisers who have been consulted, the Reporter decides to bring a child before the panel, he will write to the child and his parents requiring them to attend a hearing of the panel, setting out the reasons for this requirement and informing them of their right to dispute these reasons before the court. At the hearing, the Reporter will state the reasons for which the child has been brought before the panel, and the child and his parents will be asked if they accept his statement as true. If they do, the fact will be recorded and the panel will go on to consider the background reports on the child, the advice of the social work department and of any specialists consulted. They will discuss the whole circumstances with the child and his parents, and in the light of that discussion will reach a decision on the treatment or training which the child should have. The chairman will inform the child and his parents of the panel's decision. In most cases the child and his family will have been able to discuss possibilities of treatment with a social worker before the hearing, and are likely to accept the panel's decision. If they accept the decision, the chairman will record the fact and the decision will become binding on the child and his parents until it is changed or rescinded by the panel. The panel will be required to review the decision at intervals of not more than twelve months, but may alter it at any time if the child's circumstances require a change. The panel will have power to discharge a child from its jurisdiction at any time when that seems to the panel to be in the child's best interest, and in any event the child may not remain under the panel's jurisdiction after his 18th birthday.

67. When the child or his parents dispute the reasons for which the child has been brought before the panel, the hearing will be immediately adjourned. Unless it decides to proceed no further, the panel will refer the matter to the court for a determination of the facts. If the court determines that the case for bringing the child before the panel has not been substantiated, the matter will end there. If the court finds the case substantiated, the panel will proceed with it at a fresh hearing.

68. It will be open to the child or his parents to appeal to the court against any decision which the panel may take about the child at the first or any subsequent hearing, and it will be for the court to decide on appeal whether the decision is in the interests of the child or whether it amounts to unjustified interference between parent and child or unwarranted infringement of individual liberty.

69. Whenever the panel decides to assume jurisdiction over a child it will be the responsibility of the local authority, through the Director of the social work
department, to ensure that the decision of the panel is effectively implemented. In most cases, supervision of the child in his own home will be carried out by an officer of the department, but suitable people who are not members of the department’s staff may be asked to undertake this task. Similarly, if a child is removed from his home to a children's home or some other residential establishment, it will be the Director’s responsibility to ensure that the child and his family are visited regularly, prepared as well as possible for the return of the child to his family, and visited and advised after the child returns home.

70. An essential feature of the new system is that parents should be encouraged, and if necessary obliged, to involve themselves personally in consultation with the panel and in the training of their children following the panel's decision. In arranging for initial hearings and reviews the Reporter will try to ensure as far as possible that it is practicable for both parents to attend. If they then fail to do so without an excuse which seems to the panel reasonable the panel will be able to ask the court to make an order citing them to appear with their child before the panel. The panel will be able to seek the backing of an order by the court in other circumstances also; for example where parents refuse to cooperate by providing background information about a child without which the panel cannot proceed. It is envisaged that in most areas it will be practicable to adopt the Kilbrandon Committee's suggestion that hearings should be held in the evenings and on Saturdays, in order to make it easier for parents to attend.

71. The range of residential establishments to which the panel will have power to send children will include children’s homes and hostels and the present approved schools, which will no longer be a separate category of establishment but will become an integral part of a range of establishments providing a variety of régimes and special treatments. The panel will be able to decide the particular establishment or kind of establishment to which a child should be sent. It will be the duty of the local authority, through the Director, to ensure that the child is adequately and suitably cared for in accordance with that decision.

72. The panel will not have power to require that a child should attend a special school. This will continue to rest upon the child’s ascertainment by the education authority as in need of special education. Because of the very close association which is proposed between the assessment arrangements for the purposes of the panel and of the education authority, it is expected that a child brought to notice through the panel's machinery but found on assessment to need special education will be so ascertained by the education authority.

73. After reaching an initial decision on the treatment or training of any child, the panel will be able to review that decision at any time. Such formal reviews by the panel will be made for each child at intervals of not more than twelve months. The parent of any child under the jurisdiction of the panel will be entitled to require the panel at any time to review the child's case, provided that more than three months have elapsed since the last review. Where a child is placed, following a decision of the panel, in a residential establishment the person in charge of the establishment will at intervals of not more than three months report to the Director of Social Work on the child's progress.

74. The panel will not have authority to make orders under the Mental Health (Scotland) Act 1960. This power will remain with the sheriff.

75. Detention of children as a punishment will be abolished.
Members of the panel

76. The new system of children’s panels will work successfully only if suitable members of the community are willing and able to serve on the panels in adequate numbers. They must have knowledge and experience in dealing with children and should be drawn from a wide variety of occupation, neighbourhood, age group and income group. It is expected that many teachers, ministers, leaders of youth organisations, etc. will wish to take part, as well as members of local authorities and their staffs, but it is hoped also that the new system will attract suitable people whose occupations or circumstances have hitherto prevented them from taking a formal part in helping and advising young people. For example, many housewives have considerable experience, knowledge and understanding of young people, and others such as those engaged in the branches of entertainment and commerce which cater specially for young people could give valuable assistance in this work although they might not previously have thought of themselves as candidates for public service. There will be as few restrictions as possible on eligibility for panel membership. It is inappropriate, however, that people who might be professionally concerned in advising panels or in helping to implement their decisions should be members.

77. Suitable members can be attracted by a number of means. Bodies such as professional associations, trades unions, churches, voluntary organisations, etc., will be asked to invite their members to offer to help in this important work. In addition, individual applications will be invited through the press and other media. The Kilbrandon Committee suggested that the selection and appointment of panel members should be carried out by the Sheriff. This is one possible arrangement, but the Government wish to give further consideration to the method of appointment.

78. On the assumption that the panels’ volume of business will in the first few years be comparable with that handled by juvenile courts at present, that each member would be available for about three hours per week throughout the year, and that each hearing would occupy an average time of forty minutes, and taking account of reviews, it is estimated that Glasgow may need about 300 members, Edinburgh about 60 and Dundee about 25. These estimates give a guide to probable numbers required in other areas. The Government are confident that on this basis sufficient people interested in the problems of children in difficulties can be found to staff the panels with suitable members.

79. From the list of panel members an adequate number of chairmen will be appointed to preside at hearings. Chairmen will require a good deal of experience and after the first few years it will be usual for chairmen to have already served at least one full term as an ordinary member. Each hearing will be conducted by a chairman and two members, at least one member of each sex being present.

80. It is unnecessary for members of panels to be expert social workers. The expertise necessary in their work will be supplied by the local authority’s social work department. Members will, however, need a good knowledge of treatment methods and of the facilities available for applying them, and they will have to become practised in the best methods of bringing the child and his parent into the process by which a decision is reached and into active participation in that treatment. Many suitable people will lack some of this knowledge and experience. Panel members will therefore require a certain amount of training, and it is proposed that at the outset this training will be arranged for them by the local authority.
81. Hearings will be held in locations selected to ensure that children and parents will not have to travel unreasonable distances. The area to be served by any one location will depend upon the volume of work, the type of area and the availability of members. The aim will be that decisions on how to deal with a particular child should be taken by members who have personal knowledge of the community to which the child belongs. There may be objections to local people who are panel members having access to intimate information about families in their neighbourhood, but the proceedings at hearings will be strictly confidential and the objections will be balanced both by the understanding which knowledge of the neighbourhood makes possible and by the building up by this means of a sense of local responsibility for the more unfortunate or anti-social members of the local community. Hearings will be held in premises entirely dissociated from criminal courts and police stations. In most areas it will be possible to find suitable premises in public halls, schools and other existing buildings.

Costs of the children’s panel

82. The costs of the new system of children’s panels cannot be accurately estimated at this stage. They will consist mainly of the salaries of Reporters and their staffs, accommodation, and travelling, etc., expenses of panel members, and the total seems unlikely to exceed about £500,000 a year. Against this, there will be savings due to the abolition of the existing juvenile courts, and the reduction of demand on the time of sheriff courts will enable them to reduce delays in hearing cases.

83. It is proposed that the costs of the children’s panel will be met by the local authority under the new arrangements for rate support grant.
Conclusion

84. The proposals presented in this paper for the formation of a social work department of the local authority and the setting up of children’s panels will, in the Government’s view, set the stage for a radical improvement in the scope and quality of the help which these services are able to give to the community, even with the staff now available. This initial improvement is in itself likely to attract additional professional staff to man the social work service, and further improvement will follow. As the new organisation develops, planned experiment with new forms of service and systematic evaluation of the results can be expected to show the directions in which further progress should lie.

85. It is important to recognise, however, that the new organisation, however well it may be conceived and designed, can do no more than set the stage. Its success will depend on the extent to which all the professional workers concerned can co-operate with each other and can enlist the whole resources of the community. The new organisation will realise its potential only as that co-operation and community action extend and become fully effective.
CABINET

DOCKS: EMPLOYMENT AND PAY

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

On Friday, 23rd September the Ministerial Committee on the Reorganisation of the Docks considered a memorandum by the Minister of Labour on employment and pay in the docks. As the Cabinet know, the Government's aim is to introduce full decasualisation of dock labour, as recommended in the Devlin Report of 1965, in advance of nationalisation of the ports, which cannot come into effect for some years. If reasonable progress cannot be made, we shall strengthen the hands of those in the docks who are arguing that there is no point in making any further changes in dock labour arrangements until nationalisation. Moreover, tension is building up in the docks, and the risks of industrial action will be increased if some signs of progress do not soon become apparent.

2. The Minister of Labour has now received reports by Sir George Honeyman on the objections to the draft revised Dock Labour Scheme (DLS) and by a committee under Lord Devlin on the changes of pay needed as the corollary to the introduction of permanent employment.

3. No special problems arise on the Honeyman Report, and the Ministerial Committee agreed that the Government should accept it in principle and declare their willingness to act on its recommendations.

4. The main recommendations of the Devlin Report are:

(a) Abolition of attendance money and the payment instead of a regular wage with a minimum daily rate; improvements in the pension scheme; and introduction of a sick pay scheme. These are accepted as the inescapable basic costs of decasualisation. They would add 6 per cent to the wage bill, but the improved productivity resulting from a system of regular employment is expected to achieve a broadly equivalent saving.

(b) The introduction of a weekly modernisation payment of 40/-, which would add a further 10 per cent to the wage bill. This cannot be immediately justified by an increase in productivity, but is required to give a "send-off" to the new scheme.
The provision of a weekly guarantee of £15, the cost of which, given effective working practices, is expected to be negligible.

5. Looking at this from the point of view of the docks, a satisfactory pay settlement is an essential condition of introducing decasualisation and efficient working. The Devlin recommendations will not be easy for the Unions to accept; they approximate closely to the employers' proposals, and fall far short of the Unions' claim (which admittedly they can never have expected to achieve). But the proposals present substantial difficulties against the background of prices and incomes policy.

6. Immediate implementation would in any case be excluded by the standstill. The Government are proposing that during the succeeding period of severe restraint pay increases related to improvements in productivity should be permitted, but only on the understanding that the increases in pay are directly related to genuine and current improvements in productivity; payments in exchange for unspecified promises will not qualify. Similarly it must be expected that after the period of severe restraint we shall need to continue to insist that increases in pay for improvements in productivity are genuinely related to actual improvements. It can reasonably be argued that the 6 per cent increase to the docks wage bill arising as the inescapable basic costs of decasualisation qualify under this sort of criterion. But the introduction of the proposed modernisation payment without any direct relationship to definite changes in working practice would be difficult to justify and present in relation to incomes policy.

7. The Ministerial Committee on the Reorganisation of the Docks concluded that the Government could only accept the modernisation payment on the basis that actual payment, possibly by instalments, was directly related to specific changes in working practices, apart from changes directly associated with decasualisation. The Chairman of the National Modernisation Committee (Lord Brown) gave us to understand that it would be possible to attach a schedule of such practices, the elimination of which could be made a condition of the modernisation payment. The Minister of Labour is circulating, under cover of a separate note, examples of what might be included in such a schedule. The Ministerial Committee thought that, if the references to the incomes policy background were made sufficiently strong and the modernisation payment were made conditional upon the elimination of specific practices, over and above changes directly associated with decasualisation, the Government could reasonably accept the Devlin pay proposals and encourage the employers and the unions to do likewise. We must, however, realise that, if we attach specific conditions to the modernisation payment in this way, we shall be proposing something less favourable to the men than Devlin, who envisaged the modernisation payment as a cash "send-off" for decasualisation without further conditions, to be followed in individual docks by further productivity bargains which would further increase earnings. We may thus be adding to the difficulty of reaching agreement between the employers and the unions.
8. There remains the problem of timing. These changes could not in any case be made during the standstill. The revisions to the Dock Labour Scheme will have to be discussed with both sides of the industry and incorporated in an Order, and the new licensing arrangements will have to be brought into operation. On this basis the Minister of Labour envisaged that the revised Dock Labour Scheme and the pay changes could be brought into effect in March 1967, though the date would not be announced at this stage. Some other members of the Committee recognised the importance of making progress in the docks, but saw great difficulty about implementing these changes during the period of severe restraint, and thought that implementation should be deferred until July 1967. The Minister of Labour is anxious to make an early announcement about the Honeyman and Devlin Reports, and the Ministerial Committee concluded that it was not necessary for the Government to commit themselves at this stage on the timing of implementation; they thought that at this stage the timing could be left open in any announcement made by the Minister of Labour, and a decision taken later on, when the criteria for the period of severe restraint had been established and the prospect for the period was clearer.

9. The Minister of Labour considers that there would be advantage in publishing the Devlin and Honeyman Reports and announcing the Government's acceptance of them in principle on 3rd October. The announcement would include, at the request of the Minister of Transport, a statement of the Government's intention to proceed with estuarial reorganisation schemes along the lines of paragraph 112 of the White Paper on Transport Policy.

Conclusion

10. The Cabinet are asked to agree that the Devlin and Honeyman Reports should be published on 3rd October and should be accompanied by a Government statement:

(a) making it clear that it will be several years before nationalisation can become operative and that during the interim period it is important that a system of regular employment should be introduced in the docks (this will entail assurances on the position of existing employees upon nationalisation);

(b) stating the Government's acceptance of the Honeyman recommendations and their willingness, subject to consultation with both sides of the industry, to incorporate the amendments recommended in a revised Dock Labour Scheme;

(c) commending the Devlin recommendations in principle to both sides of industry, recognising that their implementation is directly relevant to the introduction of a system of regular employment, but stressing the incomes policy background against which they have to be considered and implemented and emphasising that the modernisation payment proposed must be conditional upon definite and specific improvements in productivity and the elimination of restrictive practices, over and above the changes directly associated with decasualisation.
(d) announcing the Government's intention to proceed with estuarial reorganisation schemes as proposed in the White Paper on Transport Policy.

11. I have asked the Minister of Labour to circulate for consideration by the Cabinet the draft of an announcement which he would propose to make if these proposals are endorsed by the Cabinet.

M. S.

Department of Economic Affairs, S. W. 1.

26th September, 1966.
CABINET

DOCKS: RESTRICTIVE PRACTICES AND
DRAFT OF GOVERNMENT STATEMENT

Memorandum by the Minister of Labour

Annexed are the two documents referred to in the First Secretary of State's memorandum (C(66)135 paragraphs 7 and 11):

(a) a note about Restrictive Practices in the Docks, prepared in collaboration with Lord Brown, the Chairman of the National Modernisation Committee (Annex I).

(b) a draft of the statement I propose to issue on the lines agreed by the Reorganisation of the Docks Committee (Annex II). I have, on consideration, not included any assurances on the position of existing employees upon nationalisation; I think these can more conveniently be given separately, for example to the Chairman of the National Dock Labour Board (who has raised the matter with me).

2. There is one particular matter to which I wish to draw my colleagues' attention. As Annex I shows, restrictive practices in the docks fall into two categories. The first consists of those associated with casual employment. The second consists of other restrictive practices, for example, refusal to accept reductions in manning scales even when these are made possible by the introduction of new mechanised methods of working.

3. This classification into two categories was first made in the original 1965 Devlin Report, which also recommended that negotiations for a new deal in the docks should be undertaken in two stages. The first of these stages would include devising a new wage structure appropriate to the permanent system of employment they proposed and, as part of the settlement, abolition of the restrictive practices associated with casual employment. Negotiations leading to the elimination of other restrictive practices would be included in the second stage.

4. So far only the first stage of negotiations has gone ahead. The unions' claim for higher pay and the employers' counter-offer has been linked with the elimination only of the restrictive practices associated with casual employment; and the recent Devlin Report on Pay, which in effect endorses the employers' counter-offer, is similarly linked with the abolition of those particular practices. We publicly accepted, of course, the principles of the 1965 Devlin Report, and it would seem to follow that whatever settlement is now reached would in our view also be so linked.

5. We must, however, all recognise that the other restrictive practices can be very damaging to efficiency. (For example, they might include opposition to the extension of roll on roll off loading). I would, therefore, think it desirable to avoid specifying in the public statement that a settlement

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of the present stage is to be linked with the elimination of a particular category of restrictive practices only. Hence the neutral form of words used in paragraph 5 of Annex II.

6. In my subsequent discussions with both sides of industry and the National Modernisation Committee, I have it in mind that I will in fact see how far I can secure general agreement on the abolition in the context of the new pay settlement of all forms of working practices that are inimical to efficient working of the docks. We may find very strong opposition, particularly among the unions who will in any event be disappointed both by the Devlin findings and with the delay in implementation imposed by the Government. It will be argued, not without justification, that it has all along been envisaged that dockers will, in addition to the benefits to be derived from the recent Devlin Report, share the benefit of greater productivity achieved by more efficient working practices outside the context of the introduction of permanent employment. The strong unofficial movement in the docks might be able to cause a good deal of harm and disruption against this background of dissatisfaction. We will need to consider our next steps when we have seen the reaction of the various interests and have the benefit also of any views expressed by the National Modernisation Committee.

7. I seek my colleagues' agreement to my putting out a statement on the lines of Annex II. I propose to do so on 3rd October.

R.J.G.

Ministry of Labour, S.W.1.

27th September, 1966
"RESTRICTIVE PRACTICES" IN THE DOCKS

Discussion at the Ministerial Committee on Re-organisation of the Docks on 23rd September agreed on the necessity of emphasising the need for extracting from the industry assurances on the elimination of specific restrictive practices as a condition for implementation of the Devlin wage recommendations and the decasualisation which they will introduce.

2. It is not possible to make a specific statement which covers the whole industry because the nature of restrictive practices varies from port to port. However, it is possible to specify a range of restrictive practices one or more of which apply to all ports. Broadly they fall into two categories. The first consists of those which are essentially a feature of the casual method of employment.

(1) Removal of restrictions on the transfer, during the loading and unloading of a ship, of labour from hatch to hatch, from ship to dock side or from ship to ship. These "continuity rules" have been necessary with casual labour but decasualisation will make possible extensive modification.

(2) Removal of restrictions or unreasonable conditions attached to overtime working which is required to speed the turnround of ships, including

(a) Refusal to work overtime on subsequent days unless overtime is worked on a ship's first day.

(b) Refusal, when a week-end intervenes, to work overtime on succeeding week days unless overtime is also called for on Saturday and Sunday.

(c) Requirement that no overtime shall be worked by any gang unless all gangs are ordered out.

(d) Refusal to work overtime unless penal payments are made, e.g. the requirement that any work done after 5 p.m. must carry with it the payment of a minimum of four hours' overtime pay.

(3) Elimination of practices in Liverpool and Glasgow whereby a rotating percentage of the men are absent from work throughout the day.

(4) Removal of restriction on mobility of labour from job to job on quayside and warehouse work.

The employers' offer and the Devlin recommendation which in effect endorse that offer is linked with the establishment of permanent employment and therefore with the abolition of these practices listed at (1) to (4) above. The National Modernisation Committee has asked the local Modernisation Committees in the ports to identify the practices concerned so that agreements for eliminating them may be negotiated to come into force concurrently with the new pay structures. The National Committee will keep a close watch on the progress made by the local Committees, and be guided by this in making arrangements for the introduction nationally of the new pay structure.
3. In addition there are other restrictive practices. These include restrictions on the introduction of reduced manning scales made possible by the introduction of new methods. For example, packaged in place of loose timber cargoes, roll on roll off loading, and other forms of increased mechanisation. The elimination of these was not specifically envisaged in Lord Devlin's report on pay as part of the present settlement.
ANNEX II

DRAFT GOVERNMENT STATEMENT ON PUBLICATION OF
DEVLIN AND HONEYMAN REPORTS

Introduction

Much preparatory work has to be done before the Government can draw up legislation for nationalisation of the docks, which on their present plans would be introduced in the 1968/69 session and come into operation in 1970.

Decasualisation

2. Meantime it is essential in the Government's view to press ahead as a matter of urgency with the plans based on the 1965 Devlin report for bringing a fully decasualised system of working into operation in the docks. This will make an important contribution to the modernisation and efficiency of the industry and will bring substantial benefits to dock workers. Much of the preparatory work for this has already been done by the industry's National Modernisation Committee under Lord Brown's chairmanship and by the Docks and Harbours Act, which received the Royal Assent in August.

3. The report of Lord Devlin's Committee on Docks Pay and Sir George Honeyman's report on objections to the draft revised Dock Labour Scheme which are being published today, are two further essential steps in preparing for the introduction of full decasualisation.

Honeyman report

4. The Government accept the recommendations in Sir George Honeyman's report. The report endorses, subject to certain changes, the main provisions of the draft revised Dock Labour Scheme which, while preserving the main principles of the present Scheme, will incorporate changes consequential upon the introduction of a system of permanent instead of largely casual employment. The report raises some detailed points which require further examination in consultation with the industry. Subject to this, it is proposed to include provisions giving effect to the recommendations of the report in an Order, which will be made at the appropriate time, to bring the new Dock Labour Scheme into effect.

Devlin report

5. The Government endorse in principle the pay changes recommended in Lord Devlin's report and recognise that their implementation is directly relevant to the successful introduction of a fully decasualised system of working. They are anxious to co-operate as fully as possible with the industry in achieving this. It is no less essential that steps should be taken to ensure that restrictive practices which have hitherto impeded the efficient working of the docks are eliminated. In the Government's view the implementation of the pay changes recommended in the Devlin report must be conditional upon specific agreement for the elimination of restrictive working practices. The timetable for implementation of these changes must of course also be governed by the provisions of the prices and incomes standstill and by the criteria which still have to be settled for pay increases during the period.
of severe restraint. The Minister of Labour is inviting the chairman and independent members of the industry's National Modernisation Committee and representatives of managements and workers on the Committee to discuss these matters with him.

Estuarial reorganisation schemes

6. The Government also reaffirm their intention to proceed during the period before nationalisation with schemes for the unification of ports in the main estuaries as outlined in the White Paper on Transport Policy (Cmnd. 3057, paragraph 112).
CABINET

PRICES AND INCOMES POLICY:
PART IV OF THE PRICES AND INCOMES ACT

Note by the First Secretary of State and Secretary of State for Economic Affairs

I think my colleagues may find it helpful to have the attached background note for tomorrow's discussion on the various courses open to the Government if the Association of Supervisory Staffs, Executives and Technicians (ASSET) are successful in the first court case due for hearing tomorrow.

M.S.

Department of Economic Affairs, S.W.1.,

28th September, 1966
Legal Actions against Employers for Breach of Contract

The Association of Supervisory Staffs, Executives and Technicians (ASSET) are suing a number of employers who have deferred the implementation of pay increases for breach of contract. A list of the employers concerned and the likely date for the hearings is annexed. In each case the employer has been acting in accordance with the Government's request that the operative date of pay increases due under commitments entered into on or before 20th July, 1966 but not yet implemented should be deferred by six months and that in no case should payment be made before the end of 1966 (paragraphs 19-23 of the White Paper on the Prices and Incomes Standstill, Cmnd. 3073).

2. The Government have made it clear that they expect the parties concerned to observe the request for a standstill on a voluntary basis, and that they will not resort to the temporary powers which they have taken in Part IV of the Prices and Incomes Act to support the standstill unless this is necessary to ensure that the standstill is not undermined by the actions of a selfish minority who are not prepared to co-operate. The Minister of Labour made it clear in a letter sent on 24th August that the Government expected the deferral of increases due under existing commitments to be achieved by agreement whenever possible but that where this did not prove possible the right course was to withhold increases which would constitute a breach of the standstill provisions. Thus, in cases where there was a conflict between the requirements of the standstill and an employer's obligations under the law of contract, the requirements of the standstill were to be regarded as overriding. This was essential in the national interest if the standstill was to be maintained.

3. In these circumstances, ASSET's actions represent a direct challenge to the Government's policy. The first action to be heard will be at Edmonton County Court on Thursday, 29th September. This involves Thorn Electrical Industries who admit to a contractual liability to pay a wage increase backdated to 1st April, and whose sole defence will be that, since the increase had not been paid by 20th July it had been deferred in accordance with the Government's request. Since, however, there is at present no legal backing for the policy of deferring existing pay commitments, the case is likely to be judged solely on the basis of contractual law and it seems highly probable that the employers will lose and have costs awarded against them. There is no reason why the court's decision should be delayed, and no grounds for an appeal against an adverse decision are known at present. The company have, in fact, already arranged to see the Ministry of Labour the following day, 30th September, to ask advice on the action which they should now take.

4. The Government will therefore need to consider urgently whether a decision against the employers in the Thorn case on 29th September would justify bringing Part IV of the Prices and Incomes Act into force, and, if not, what other action should be taken to maintain the standstill.
Provisions of Part IV

5. Part IV of the Prices and Incomes Act contains four main sets of provisions:

Sections 26 and 28 empower the Government to make orders (subject to negative resolution) directing that specified prices or charges (section 26) or specified rates of remuneration (section 28) shall not be increased from the date of the order without Ministerial consent.

Sections 27 and 29 empower the Government to give directions (in the case of prices) or make orders (in the case of pay) reversing prices or pay increases implemented since the Prime Minister's request for a standstill on 20th July, 1966. A period of at least fourteen days for interested parties to make representations is needed. Thus an order could be made under section 29 (again subject to negative resolution) providing that such remuneration as might be described in the order should not, without permission, be higher than that paid by the employer for the same kind of work before 20th July, 1966.

Section 30 gives a general protection, effective from the date upon which Part IV comes into operation, to employers who, in response to the Government's request for a standstill, and after giving the employees concerned not less than one week's notice, voluntarily withhold pay increases to which they may be entitled under their contracts of employment.

Sections 31 and 32 empower the Ministers concerned to defer the effective dates of Wages Regulations Orders made under the Wages Council Act and the Agricultural Wages Acts, respectively.

6. The powers in Part IV can be brought into operation by Order in Council at any time during the twelve months following the date on which the Act received Royal Assent (12th August, 1966). The powers are effective immediately upon the making of the Order in Council but cease to have effect unless the Order in Council is confirmed by affirmative resolution of both Houses of Parliament within twenty-eight calendar days. (It is now less than twenty-eight days to the reassembly of Parliament on 18th October). The powers in Part IV lapse automatically and without provision for renewal on 11th August, 1967.

7. There is no statutory requirement to consult both sides of industry before bringing Part IV into force (as in the case of Part II of the Prices and Incomes Act). However, given the importance of securing the co-operation of the CBI and TUC in the development of the policy during the period of severe restraint in the first half of 1967 and in the longer term, it is clearly desirable for the Government to have talks with both bodies before an Order in Council is made. The First Secretary has recently given them assurances to this effect.
Possible courses of action in relation to the Thorn case

8. Whilst ASSET are suing Thorn’s for breach of their contract of employment with an individual worker, this is of course regarded as a test case. If ASSET win, Thorn will be expected to pay the increase not only to the particular individual concerned but to all their workers who are in the same position (numbering up to 200). If they refuse to do this, the remaining workers could be expected to bring similar actions and in addition ASSET might well threaten strike action. It would seem unwise for the Government to seek to persuade the firm to withhold the pay increase from these other workers.

9. An alternative possibility would be for Thorn’s to pay the increase in the test case and to give their other workers notice to terminate and renew their existing contracts of employment in a way which enables them to observe the standstill requirements. The employer would then only be liable until the expiry of such notices. Although this course has been suggested by the CBI, it would seem likely to be generally regarded as provocative, particularly in present circumstances and the Government would be open to widespread criticism if they pressed this course on employers.

10. A third course would be to enter into immediate consultations with the CBI and TUC with a view to bringing Part IV of the Prices and Incomes Act into force at a very early date. The only direct result of bringing Part IV into force would be to activate section 30. This would automatically indemnify employers who disregard pay increases in existing contracts which fall due to be paid after Part IV comes into force, subject to the giving of at least a week’s notice. It would not, however, protect employers against actions which might at any time be brought based on contractual obligations to increase pay incurred before the date when Part IV was brought into force. Pay increases arising from such actions would be a continuing liability. Thus section 30 by itself would not give any direct assistance to Thorns or to other employers in the same circumstances, but would reassure other employers with contractual liabilities taking effect at a future date.

11. To restore rates of pay to those prevailing before 20th July it would be necessary to have recourse to an Order under section 29 of the Act. This would have the effect of overriding any contractual liability from the date of the Order. The sanction for disregarding such an order is prosecution, subject to the Attorney General’s consent. The Attorney General will need to be consulted about the precise scope of the Secretary of State’s powers under this section in relation to this type of case.

12. Whilst section 30 indemnifies employers who break their contracts in accordance with the Government’s request for deferment it imposes no sanction on unions or workers who strike against employers for breaking such contracts. In the case of orders under section 29, however, unions and employees would be liable (with the consent of the Attorney General) to prosecution if they were to strike or threaten to strike to induce an employer to contravene the order. Whilst the maximum penalty which may be imposed on a non-corporate body (including trade unions) is £100 in proceedings in a magistrates’
court or £500 in a higher court offenders could, under the existing law, be committed to prison if they failed to pay their fines. Whilst the Home Secretary is proposing to modify this provision in the forthcoming Criminal Justice Bill, this is unlikely to be enacted until some time in 1967. There is, therefore, a potential risk of "martyrdom" in relation to offences under Part IV of the Act.

13. The fourth possibility would be for the Government to seek to restrict any repercussions of the Thorn case beyond the 200 workers covered by the same agreement without resorting at this stage to Part IV powers. The chances of successfully maintaining the standstill on this basis would depend largely on the attitude of other employers and unions to a decision which spotlights the conflict between the requirements of contract law and the voluntary standstill policy. It is not easy to predict precisely how the situation is likely to develop, but an early test will come in relation to pay increases due on 3rd October under an existing 3-year agreement to some 5,000 of Thorn's employees who are members of the Transport and General Workers' Union and the Amalgamated Engineering Union. If these are prepared to agree to deferment in accordance with the standstill policy, even after ASSET have obtained a decision in their favour, this should help in maintaining the line elsewhere. On the other hand, if an award in favour of ASSET in the Thorn's case is followed up by further victories in the courts, this will increase the tensions substantially.

Views of CBI and TUC

14. The CBI's view so far has been that a successful action by ASSET (or even several successful actions) could by no means be held to justify the major steps of activating Part IV. The TUC have not yet expressed a view, but the acting General Secretary has reacted against the CBI's suggestion that employers should instead be asked to terminate contracts of employment. The overriding aim should be to secure and retain the co-operation of the CBI and TUC in working out the criteria for prices and incomes in the period of severe restraint and subsequently, and above all in operating machinery for making it effective.

15. Arguments in favour of bringing Part IV into force at an early date are that it would demonstrate the importance which the Government attached to the standstill and bear witness to the Government's desire not to let the co-operation of the majority be undermined by the actions of a selfish minority. It should also be helpful in limiting the repercussions of the Thorn case (and other similar cases) and deterring others from seeking to breach the standstill through legal or industrial action. The Thorn case probably presents as favourable an opportunity for taking action as is likely to occur.

16. Against bringing Part IV into force as a result of the Thorn case, it can be argued that this would attribute much too much influence to the actions of Mr. Clive Jenkins and ASSET. More important, however, it is necessary to estimate the extent to which resort to compulsory powers might jeopardise, rather than reinforce, the present voluntary standstill. There might be a tendency, once Part IV had been brought into force, for the CBI and TUC (and indeed individual employers and trade unions) to think that the onus of applying
the standstill had been transferred from them to the Government. The Government in turn would be faced with some embarrassment in relation to individual breaches of the standstill, of greater or less importance, since it would be necessary to decide whether or not to make use of the available powers in each case and to be prepared to defend the decision publicly. These difficulties would continue and might become worse in the period of severe restraint.

Conclusions

17. This seems to point to:

(a) entering into early discussion with the CBI and TUC when the court's decision in the Thorn case is known, but deferring a firm decision on the activation of Part IV until those consultations have taken place;

(b) making it clear that:

(i) the only direct effect of activating Part IV will be the limited one of making the indemnification in section 30 effective;

(ii) it would be the Government's intention to confine any use of the other powers in Part IV to deal with particular cases only in so far as this seemed essential in support of the voluntary policy.
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<table>
<thead>
<tr>
<th>Company</th>
<th>Date</th>
<th>Details</th>
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<tbody>
<tr>
<td>Thorn Electrical Industries</td>
<td>29th September</td>
<td>29th September (Edmonton County Court)</td>
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<tr>
<td>Birmingham Corporation</td>
<td>3rd October but now deferred for a week or more</td>
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<tr>
<td>Bristol Siddeley</td>
<td>27th October</td>
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<tr>
<td>British Railways</td>
<td>Writ awaited</td>
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<tr>
<td>Jaguar Cars</td>
<td>Writ awaited</td>
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<tr>
<td>Alexander Finlay</td>
<td>Writ awaited</td>
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CABINET

PRICES AND INCOMES POLICY: PART IV OF THE
PRICES AND INCOMES ACT

Note by the Secretary of the Cabinet

The attached minutes of a meeting held under the Prime Minister's chairmanship on 1st October, 1966, to consider the consequences for prices and incomes policy of the decision of the Newspaper Proprietors' Association to pay their 25,000 printing workers a cost of living bonus due from 1st September last, are circulated for consideration by the Cabinet.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.
3rd October, 1966
CABINET
PRICES AND INCOMES POLICY: PART IV OF THE PRICES AND INCOMES ACT

NOTE of a Meeting held in the Prime Minister's room, at the Grand Hotel, Brighton, on SATURDAY, 1st OCTOBER, 1966 at 3.30 p.m.

PRESENT:
The Rt. Hon. Harold Wilson, MP
Prime Minister

The Rt. Hon. Michael Stewart, MP
First Secretary of State and Secretary of State for Economic Affairs

The Rt. Hon. R. J. Gunter, MP
Minister of Labour

Mr. E. W. Maude,
Department of Economic Affairs

Mr. D. C. Barnes,
Ministry of Labour

The Rt. Hon. Richard Crossman, MP
Lord President of the Council

The Rt. Hon. Sir Elwyn Jones, QC, MP
Attorney General

Mr. J. C. Burgh,
Department of Economic Affairs

Mr. C. W. Birdsall,
Ministry of Labour

Mr. A. N. Halls,
10 Downing Street,

SECRETARY:
Mr. R. T. Armstrong

SUBJECT
PRICES AND INCOMES POLICY: PART IV OF THE PRICES AND INCOMES ACT
PRICES AND INCOMES POLICY: PART IV OF THE PRICES AND INCOMES ACT

The Prime Minister said that he had called the meeting to consider the consequences of the decision by the Newspaper Proprietors' Association (NPA) to pay a 2s. a week cost of living bonus to 25,000 printing workers, which was due for payment from 1st September, 1966, under an agreement negotiated in April, 1964 but had hitherto been withheld in compliance with the prices and incomes standstill. A statement issued by the NPA late on 30th September stated that the Association had no alternative but to agree to the increase "in view of its acknowledge legal commitments and without the protection of statutory measures", and continued:

"The Government has made no attempt to invoke Part IV of the Prices and Incomes Act of 1966 and therefore continues to impose upon employers a burden the Government is unwilling itself to shoulder. In view of the county court decision in the Allen case [Allen v. Thorn Electrical Industries Ltd] the NPA feels it can no longer refuse to honour its agreement of April, 1964."

Mr. Barnes said that he had met representatives of the NPA's Labour Committee at the Ministry of Labour earlier in the day. They had informed him that at a meeting in the morning of 30th September officials of the Society of Graphical and Allied Trades (SOGAT) claimed that their members would not continue to tolerate non-payment of the bonus due from 1st September and said that they were advised that failure to pay the bonus rendered the whole of the April, 1964 agreement void. If the employers persisted in withholding the bonus, SOGAT would seek to negotiate new agreements chapel by chapel. They would not agree that the bonuses should for six months be paid to a recognised charity. After a meeting with officials of the Printing and Kindred Trades Federation later in the day the NPA had conceded payment of the bonuses, which would start to be paid on 3rd October. It was clear that the NPA was motivated partly by reluctance to continue in breach of a contractual obligation and partly by fears of industrial action.

Morganite, a subsidiary of the Morgan Crucible Company, would likewise be paying increases of between 10s. and 15s. a week to 2,000 workers from 3rd October. There might well be other cases of failure to comply with the prices and incomes standstill.

Thorn Electrical Industries Ltd. had been given 21 days in which to lodge an appeal against the judgment in Allen v. Thorn Electrical Industries Ltd. The company would not wish to appeal on their own account, though they recognised the wider interests at stake. They would, however, be prepared to delay their decision for a time, while the Government considered what course to follow.

In discussion the meeting were reminded that the Cabinet had agreed on 29th September (CC(66) 48th Meeting) that, if the decision in the case of Allen v. Thorn went against the company, the First Secretary of State should enter into consultations with the Trades Union Congress (TUC) and the Confederation of British Industries (CBI) on the question of bringing Part IV of the Prices and Incomes Act into operation, and should refer back to the Cabinet if following those
consultations he considered that this should be done. Though the case was still technically sub judice unless and until the company formally decided not to appeal, there was general agreement that the NPA's decision had created circumstances which called for the initiation of consultations with the TUC and the CBI, and that the terms of the NPA's statement made it difficult for the Government to do otherwise than bring Part IV of the Act into operation without delay. This action would indemnify employers who were prepared to comply with the standstill against suits for breach of contract if they withheld pay increases; it would not, however, prevent employers from paying increases if they were minded to do so; nor would it enable employers who were paying increases before Part IV was brought into operation to withdraw them thereafter. Employers could be prevented from paying increases, or required to withdraw increases already in payment, only by orders made under section 29 of the Act, and such orders could not have retrospective effect.

In further discussion the following points were made -

(a) THE ATTORNEY GENERAL said that some doubt had now been raised on the interpretation of section 29 of the Prices and Incomes Act. As this section was drafted, an order made under it would require an employer to revert to the "rate of remuneration paid before 20th July". He had thought that this phrase meant money actually paid before 20th July and that the section would thus require an employer not to pay more than was actually being paid immediately before 20th July. It was now suggested, however, that this phrase might be construed as meaning the rate of remuneration payable in respect of the period immediately before 20th July, whether or not any payments had actually passed before that date. If the order was so interpreted, an order under section 29 purporting to require an employer to withdraw an increase due from a date before 20th July but not paid until after that date would be ultra vires. So, while an order requiring the newspaper proprietors to withdraw the cost of living bonus (due from 1st September) which they were now about to pay would unquestionably be valid, an order requiring Thorn to withdraw the increase due to Mr. Allen and others (which was from an effective date before 20th July) might, if challenged in the courts, be held to be invalid.

(b) An Order in Council bringing Part IV of the Prices and Incomes Act into operation and not immediately followed by action to restrain prices or incomes under sections 27 or 29 could be justified as protecting voluntary compliance with the standstill by the great majority of employers and unions who were prepared to co-operate with the Government, in face of the selfish and destructive actions of the few who went out of their way to defy the Government's policy. Once, however, the Government had made use of the direction and order making powers under sections 27 and 29 of the Act, employers and unions might become increasingly unwilling to hold prices and incomes voluntarily, and it might become increasingly necessary to use statutory powers to maintain the standstill. On the other hand, the NPA's action and their statement amounted to a direct challenger to the Government. If the Government did not make an order under section 29 as soon as they had power to do so requiring the NPA to cease payment of the new bonus, other breaches of the standstill were bound to occur, and (amongst other things) the British Medical Association would resume their pressure for immediate implementation of the doctors' increases.
(c) If an Order in Council bringing Part IV of the Act into operation was made during the course of the following week, there would be a case for not taking any direct action on particular cases of increases of prices or incomes under section 27 or section 29 of the Act until after the House of Commons had passed a resolution affirming the Order in Council. On the other hand, since the NPA bonuses would already have been paid with effect from 1st September, the longer the making of an order reversing those increases was delayed the more difficult it would become. Some of the consequences of such delay might be avoided if it was made clear from the outset that the order, once made, would not be rescinded until it had been effective for a full six months. Moreover, the First Secretary of State was required to give fourteen day's notice in writing of his intention to issue a direction under section 27 or to make an order under that section or under section 29; so, even if the Order in Council bringing Part IV into operation was made as early as 5th October and notice of intention to issue a direction or make an order was given immediately thereafter, the direction could not in any case be issued nor the order made until after the House of Commons had resumed.

(d) It would be desirable that, if Part IV of the Act was brought into operation and notice was given before the House resumed of intention to make an order or orders on incomes under section 29, notice should also be given before the House resumed of intention to issue a direction or make an order on prices under section 27.

THE PRIME MINISTER, summing up the discussion, said that there was general agreement that the First Secretary of State should now embark upon the consultations with the TUC and the CBI into which the Cabinet at their last meeting had authorised him to enter. The Foreign Secretary and the Chancellor of the Exchequer were unable to be present at this meeting, but he had ascertained that they shared this view. In these consultations the First Secretary of State should say that in view of the NPA's action the Government were seriously contemplating the early activation of Part IV of the Prices and Incomes Act, without suggesting that a final decision had been taken, and should invite the representatives of the TUC and the CBI to express their views. Time should be left for a second round of consultations, so that any representations by the TUC and the CBI could be heard, considered and if necessary answered.

The Cabinet should then be summoned on the evening of Tuesday, 4th October to consider what action the Government should take. Subject to anything that might emerge from consultations with the TUC and the CBI, the recommendations from this meeting to the Cabinet would be that The Queen should be advised that an Order in Council bringing Part IV of the Prices and Incomes Act into operation should be made forthwith, and that as soon as the Order in Council was made notice should be given of intention to make an order (or orders) under section 29 requiring the newspaper proprietors to cease payment of the cost of living bonus due to their printing workers from 1st September. If action was thus taken under section 29, it would be desirable also to take action in a suitable price case under section 27 before the House of Commons resumed, so as to demonstrate that the Government intended to apply Part IV of the Act no less to prices than to incomes. Arrangements should be made so that a Privy Council could be held, if necessary, as soon as possible after the Cabinet's decision.
It would be necessary to consider, in the light of the doubt expressed about the interpretation of section 29:

(i) whether notice should also be given of intention to make an order requiring Thorn to cease payment of the increase due to Mr. Allen and others, which the recent county court judgment would oblige them to pay, and

(ii) if it was decided not to make an order upon Thorn, how such a decision could be defended when an order was being made upon the NPA, without disclosing the doubt about the interpretation of section 29. It would also be necessary to consider whether notice should be given of intention to make any other orders under section 29, and what case or cases would provide a suitable occasion for action to be taken on prices under section 27 before the House of Commons resumed.

As soon as the invitations had been conveyed to the TUC and the CBI, a statement should be issued to the Press to the effect that, in view of the NPA's action, the Government had decided to enter into consultations with the TUC and the CBI about the question of bringing Part IV of the Prices and Incomes Act into operation.

Ministers -

(1) Agreed that the First Secretary of State should enter into consultations with the TUC and the CBI on Monday, 3rd October about the question of bringing Part IV of the Prices and Incomes Act into operation, in accordance with the decision of the Cabinet on 29th September (CC(66) 48th Conclusions, Minute 3).

(2) Instructed the Secretary to make arrangements for the minutes of this meeting to be circulated for consideration by the Cabinet and for a meeting of the Cabinet to be held at Brighton on the evening of Tuesday, 4th October, 1966.

(3) Agreed, subject to anything that might emerge from the First Secretary of State's consultations with the TUC and the CBI, to recommend to the Cabinet -

(i) that The Queen should be advised that an Order in Council bringing Part IV of the Prices and Incomes Act into operation should be made forthwith;

(ii) that the First Secretary of State should, as soon as the Order in Council was made, give notice of his intention to make an order (or orders) under section 29 of the Act requiring the newspaper proprietors to cease payment of the cost of living bonus due to their printing workers from 1st September, 1966.

-5-
(iii) that the First Secretary of State should be invited to take action on a suitable price case under section 27 of the Act before the House of Commons resumed.

(4) Invited the Lord President of the Council to make arrangements for the holding of a Privy Council, if necessary, as soon as possible after the Cabinet's decision on these recommendations.

(5) Invited the First Secretary of State, in consultation with the Attorney General and with other Ministers as appropriate, to consider, in the light of the points made in discussion and in the Prime Minister's summing up, and assuming that the Cabinet accepted these recommendations -

(i) whether notice should be given of intention to make an order reversing the Thorn increases, and how to defend, if necessary, a decision not to do so;

(ii) whether notice should be given of the intention to make any other orders under section 29 of the Act;

(iii) what case or cases would provide a suitable occasion for action to be taken on prices under section 27 of the Act before the House of Commons resumed.

(6) Took note that the Prime Minister would arrange for a statement, a copy of which is annexed to these minutes, to be issued to the Press as soon as invitations to consultations had been conveyed to the TUC and the CBI.

Cabinet Office, S. W. 1.

1st October, 1966
PRESS STATEMENT

The Prime Minister, the First Secretary of State and the Minister of Labour discussed this afternoon with other Ministers principally concerned the situation arising from the statement issued by the NPA last night and other recent developments in the field of prices and incomes. It was decided that the First Secretary of State would enter into immediate consultations with the TUC and the CBI about the question of bringing Part IV of the Prices and Incomes Act into operation. The TUC and the CBI have been invited to meet the First Secretary of State on Monday.

10 Downing Street, S. W. 1.

1st October, 1966.
C(66) 139

12th October, 1966

CABINET

RHODESIA

Memorandum by the Secretary of State for Commonwealth Affairs

I attach an outline of the final statement of our terms for a settlement in Rhodesia which I would now propose to communicate immediately to Mr. Smith.

In addition, I would propose to let Mr. Smith have a separate communication in writing regarding the arrangements for a broadly based interim government dealt with in paragraphs 13 - 16 of the attached statement. This would be to the effect that it would be compatible with the arrangements which we have in mind that the interim administration should contain a fair number of representatives of the Rhodesian Front Party. The British Government would be prepared to enter in advance into informal discussions through the Governor on the composition of this administration; and, if agreement were reached, would be prepared to see the new government brought into being by the Governor summoning Mr. Smith and inviting him to form an administration as so agreed.

H. B.

Commonwealth Office, S.W.I.

12th October, 1966
OUTLINE OF FINAL STATEMENT OF BRITISH GOVERNMENT'S TERMS FOR A SETTLEMENT IN RHODESIA

(Note: This document is intended for communication, in writing, to the regime. The presentation of our terms to the Rhodesian public will call for separate consideration.)

The British Government have now undertaken a final review of the Rhodesian problem, in the light of the recent visit of the Commonwealth Secretary and Attorney General to Salisbury during which a statement of positions on either side was drawn up.

2. The British Government's attitude remains based on the principles which successive British Governments have insisted must govern any constitutional settlement for an independent Rhodesia. The major areas of disagreement turn on the application of these principles, and are not matters to be resolved merely by detailed constitutional modifications.

The Constitutional Settlement

3. The British Government have throughout shown their readiness to explore every possibility of reaching a settlement within these principles. They have proposed, if it would facilitate the task of working out an independence settlement within the stated principles, that there might be an entirely new constitutional approach. They further suggested that the assistance of constitutional experts from the Commonwealth might be brought in to assist in working out such a new basis for a settlement. As a further possibility, they also proposed that a mission of Commonwealth Prime Ministers might be invited to visit Rhodesia and to lend their good offices in devising a solution between Rhodesia and Britain. They also declared themselves ready to enter into discussions about the possibility of an "Act of Union" between Britain and Rhodesia. Even the discussion of any of these possibilities has been rejected. The British Government's final consideration of the problem has therefore been confined to the possibility of a settlement based on the 1961 Constitution with the changes necessary to give full effect to the principles.

4. It is the British Government's purpose that the political advancement of the Africans in Rhodesia should be brought about in a way that will preserve good government and stability in the country, and safeguard its social and economic development within the concept of a society pledged to afford equal opportunity to all, regardless of race. They accept that the pace of African advancement should continue to be governed by achievement and merit, i.e., through the acquisition of the economic and educational qualifications prescribed under the 1961 Constitution. They are not prepared to agree that this advancement might after independence be arbitrarily held back through the operation of powers left in the hands of the European minority, if the latter judged at any time that the advent of African majority rule would be "premature". Such a provision would be incompatible with the principle of unimpeded progress to majority rule.

5. The British Government must therefore continue to insist that the provisions of Chapter III of the 1961 Constitution must be specially entrenched in any independence constitution.
6. As regards safeguards for the specially entrenched clauses of the constitution, the British Government would accept, as part of the necessary machinery, a Senate consisting of 12 Europeans and 12 Africans, which would vote together with the Lower House. They consider however that the elected element among the Africans should be increased, to constitute an effective blocking quarter. They would be prepared to see up to three Chiefs included in the Senate.

7. The British Government have throughout insisted that any independence constitution must contain safeguards for specially entrenched clauses as effective as those provided in Section 108 of the 1961 Constitution; and it is for this reason that their proposal for an external authority which would finally decide on such amendments has been put forward.

8. The British Government would be prepared to see the external authority brought into operation not by automatic reference to it of every Constitutional Bill concerned with amendment of a specially entrenched clause (as envisaged in their original proposals), but by a system of appeal against such an amendment. Such appeal might lie in the first instance to a "Constitutional Commission" in Rhodesia, consisting of the Chief Justice and other Judges; with further appeal as of right to the Judicial Committee of the Privy Council. The grounds of appeal should be whether the amendment was in the interests of the people of Rhodesia as a whole, or whether it discriminated or had the effect of discriminating unjustly between the races or was incompatible with the Declaration of Rights contained in the Constitution.

9. The British Government cannot accept the abolition of cross-voting or the fade-out of 'B' roll seats, since these would be incompatible with the first and third principles. They would agree to extension of the 'B' roll franchise to Africans over 30.

The Fifth Principle

10. It remains the position of the British Government that any constitutional settlement for an independent Rhodesia must be demonstrated to their satisfaction by a fair and free test to be acceptable to the people of Rhodesia as a whole. Until this test has been carried out, there can be no question of inviting the British Parliament to legislate for independence.

11. If informal agreement can be reached on the form of a constitutional settlement, which meets their requirements, the British Government will be ready to stand by that as the basis for negotiation with a legal government and for the eventual testing of Rhodesian opinion. But they cannot accept that the testing of opinion should take place before there has been a return to constitutional government in Rhodesia, the censorship has been lifted and individuals detained on political grounds released provided they conduct their political activities peacefully and democratically.

12. They remain of the view that a Royal Commission should be appointed to test opinion in Rhodesia. They would accept that the composition of the commission and the methods by which opinion should be tested should be agreed with the legal interim administration when it is established.
13. The British Government adhere to the view that, before there can be any formal negotiation of an independence settlement, a constitutional government must be established in Rhodesia. A settlement negotiated on any other basis could not expect to secure the acceptance of the people of Rhodesia as a whole, or of the British Parliament, or of the general world community.

14. The British Government therefore require as the first step the appointment by the Governor of a broadly-based representative government ad interim. This must be and be seen to be a fresh start - a government of national unity representing the widest possible spectrum of public opinion of all races in the country.

15. The Rhodesian Parliament would inevitably be in abeyance during the interim period, since it would not be possible for the interim government to be responsible to the present Assembly. Rhodesian Ministers would be appointed by and responsible to the Governor who would act on their advice in all internal matters of administration, subject to his control of the armed forces and police as described in the following paragraph.

16. The armed forces and police will come under the direct responsibility of the Governor during this period. While the Governor might in practice act on the advice of members of the interim government in matters concerning the armed forces and police and law and order, the British Government would need to be satisfied that he retained powers in his discretion not only to deal with domestic disturbance and illegality but also to prevent a repetition of unconstitutional action and to protect human rights. The British Government would reserve the right to provide military assistance for these purposes if this is required by the Governor in this period; and similarly to provide such assistance after independence by agreement if it is necessary as a further guarantee of the constitution.

Racial Discrimination and Land Apportionment

17. The British Government cannot accept that there is no case for any further action to give effect to the fourth principle. They repeat their minimum requirement that, as a contribution towards this, a Royal Commission should be set up to study the problems of racial discrimination and in particular land apportionment in Rhodesia.

Conclusion

18. This statement by the British Government spells out in practical form the action necessary to give effect to the principles which the British Government has clearly and consistently stated. It is now a question whether such a settlement can be worked out or whether Mr. Smith will persist on his present course with incalculable consequences for Rhodesia and indeed for the whole of Central and Southern Africa. The British Government for their part stand firmly by the undertakings to which they are publicly committed by the Commonwealth Prime Ministers' communique in September. Decisions must be reached at the latest by the end of November; and, if a settlement is not forthcoming by then, the consequential steps set out in the communique and other inevitable measures must follow.
CABINET

PRICE OF INDUSTRIAL COAL

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

I have to submit for decision by the Cabinet an issue arising on the price of industrial coal, about which the Ministerial Committee on Prices and Incomes were unable to reach agreement at their meeting on Tuesday, 11th October.

2. Last year the National Coal Board put forward proposals for increases in coal prices, including the price of industrial coal. The operation of these increases was deferred while they were investigated by the National Board for Prices and Incomes. The National Board for Prices and Incomes approved the proposals of the National Coal Board, and last March the Cabinet approved increases in the price of industrial coal to come into effect from 1st April, 1966 (CC(66) 16th Conclusions, Minute 5). The majority of the National Coal Board's industrial customers have been paying the higher price since last April; but a number of customers are supplied under contracts which require six months' notification of price increases. In these cases notification was duly given last April, and the increased prices were due to come into effect from 1st October, 1966. It was not clear at our meeting whether any of these customers had in fact begun to pay at the new rates; it was thought that some might have done. The question now is whether we should ask the National Coal Board to defer the introduction of the higher prices on these contracts until 1st January, 1967, after the initial standstill period.

3. The Chancellor of the Exchequer and the Minister of Power, and other Ministers, consider that we should not seek to defer the introduction of higher prices on these remaining industrial contracts any further. They support this view with the following arguments:

(a) The Government have advised the Confederation of British Industry that the standstill does not mean that there should be interference with existing contracts. It is argued that these particular price increases clearly fall within this category.
(b) The majority of the National Coal Board's industrial customers, whose contracts did not contain a requirement for six months' notification of increases, have been paying the new rates since 1st April. It is argued that this case is analogous to that of a group of workers, covered by an agreement for a wage increase to come into effect before 20th July, some of whom were already receiving the increase before the standstill was announced while others had not begun to receive the increase by that date. In that case we decided that the rest of the group should receive their increases notwithstanding the standstill; it is suggested that we should follow that analogy in this case.

(c) As a result of the delay in approving the National Coal Board's original proposals, the Coal Board had a deficit last year of £25 million, which the Exchequer had to meet. Further deferment of the increase in price of industrial coal under these contracts for a period of three months would cost a further £2 million to £3 million, which the Exchequer would have to meet. Apart from the immediate cost, it is argued that this would reduce the incentive to the National Coal Board to get their finances straight following last year's financial reorganisation.

(d) If the increase of price under the remaining contracts is not deferred, it comes into effect, without any new decision or action or announcement being required, in accordance with the notifications given six months ago. It might well thus rouse no public attention. A decision to defer the increases, on the other hand, would require positive action by the Government, in the form of a request to the National Coal Board. The National Coal Board are known to consider that they are under no obligation to consult the Government on this matter, and they might well require a statutory direction under the Prices and Incomes Act, since it would be difficult to justify the further deferment to those customers who have already been paying the higher prices for six months.

4. The Minister of Labour and I, and other Ministers, see the force of these arguments. The fact remains, however, that we are trying to maintain a prices and incomes standstill, against a background of suspicions, particularly in the trade union movement, that we are enforcing the standstill more rigorously upon wages than upon prices and that the nationalised industries are in some way being exempted from the standstill in respect of their prices. We think that failure to require the National Coal Board to defer these increases would feed these suspicions. The Cabinet's decision on groups (paragraph 3(b) above) was related only to incomes; the Cabinet did not consider the application of a similar doctrine to prices. We believe that failure to act in this case could not escape notice, and would be bound to make it more difficult to maintain the standstill on incomes. We consider that the need to protect the standstill is so strong as to over-ride the arguments for going ahead with the price increases, even at a cost of £2 million to £3 million to the Exchequer.
Conclusion

5. The Cabinet are asked to decide whether the Minister of Power should be invited to request the National Coal Board to defer until 1st January, 1967, the industrial coal price changes notified under privately negotiated contracts to come into operation on 1st October, 1966.

M.S.

Department of Economic Affairs, S.W.1,

12th October, 1966
18th October, 1966

CABINET

BROADCASTING POLICY

Memorandum by the Postmaster General

At the meeting of the Cabinet on 4th August (CC(66) 42nd Conclusions, Minute 6), I was invited to make a technical appraisal of the possibility and implications of setting up stations to transmit, soon after the end of the year, programmes similar to those provided by the pirate stations. My report which envisages the establishment, by statute, of a new broadcasting corporation, financed from advertising, to provide a national popular music programme and also a service of local sound broadcasting was considered at a meeting of Ministers under the Prime Minister's chairmanship on 12th October.

2. Established by Act of Parliament, the new corporation would - unlike the Independent Television Authority (ITA) - itself sell the advertising time, and itself produce the programmes. Like the ITA, it would be obliged to maintain suitable standards in programmes and advertisements; to seek to pay its own way and repay an initial Exchequer loan; and to surrender any surplus revenue to the Exchequer. The Act would give the Government broadly the same powers in relation to the new corporation as those they have in relation to the BBC and ITA.

3. The music programme would be broadcast on one of the medium wave-lengths allocated to the United Kingdom. Since all the available wave-lengths are used by the BBC some curtailment of one of the existing services of sound broadcasting is inevitable. Of the possibilities outlined in my report, the meeting of Ministers favoured a scheme in which the music programme would be put out on a wave-length of 247 metres. This is the wave-length used for the BBC's Light Programme to supplement the coverage of the long-wave transmitter on 1500 metres. Used for a music programme it could cover about 60 per cent of the population by day and about 40 per cent by night. About 10 per cent of the population would lose the Light Programme at night, and for another 20 per cent the quality of reception of the Light Programme would be impaired. The listeners affected would, however, be able to receive the new music programme which would be generally similar in character to the Light Programme.

4. For local sound broadcasting my report envisages that the new corporation would establish 60 stations initially. They would operate on very high frequencies (VHF) and each station would have a range of a few miles. For each town and city served the corporation would appoint a Local Broadcasting Council which would play a fully formative part in the development of programme policy and content.
5. Both the music programme and the local sound stations would carry advertising. A new corporation would need capital over the first few years of £5 million which would have to be provided by an Exchequer loan. The prospects for repaying this loan would be uncertain. On the best estimates available, the music programme would, by the fourth year, perhaps be breaking even or at most achieving a surplus on running costs of slightly over £1 million a year; but even by the fourth year the local broadcasting stations might be losing £1 million a year. During the first three years neither service would earn as much revenue.

6. There are possible variants of this scheme. The local sound broadcasting element might be on an experimental scale (no more than a dozen stations initially) to test public response before large resources are committed to a general and permanent service; and the experimental service might be provided either by the BBC or by local 'community' stations each under the control of a separate broadcasting authority.

7. However, the meeting of Ministers considered that the effective choice lay between the scheme described in paragraphs 3-5 above and the proposal contained in the draft White Paper (annex to C(66) 125) which I presented to the Cabinet at its meeting on 4th August. This proposal was that the BBC should provide the music programme on 247 metres and undertake a nine-station experiment in local sound broadcasting.

8. Apart from the general considerations which apply to any service financed by advertising, the main advantages and disadvantages of these two alternative schemes are these:-

(i) A music programme provided by the BBC could start quickly. A new corporation (which would need time to acquire sites and to build and equip the transmitting stations) would probably not be ready before the early part of 1969. Legislation would be needed to establish a new corporation.

(ii) A music programme provided by the BBC would not differ much from the present Light Programme. The new corporation would give the listener an alternative to the BBC.

(iii) The BBC could provide the music programme much more cheaply, both in capital and running costs. On the other hand the cost of local sound broadcasting provided by the BBC would have to be met from the licence fee revenues. (The BBC estimate that a general service of local sound would add 5 shillings to the licence fee). The new corporation would earn substantial income from advertising, although it is uncertain whether it would be financially self-supporting.

(iv) A limited experiment in local sound broadcasting would enable public response to be tested before large resources were committed. On the other hand, a 60-station scheme would enable the sound broadcasting element of the Open University to start more quickly.
9. The meeting of Ministers was divided in opinion but the view of the majority was that the overall balance of advantage lay with the creation of a new corporation to provide the services described in paragraphs 1-5 above. It was recognised, however, that this course had the serious disadvantage that the music programme could not be brought into operation for some considerable time after the enactment of the Marine, etc., Broadcasting (Offences) Bill. It was the unanimous view, therefore, that the BBC should be asked to bridge this hiatus by providing a music programme on 247 metres until the new corporation was ready for service.

10. I have revised the draft White Paper annexed to C(66) 125 to reflect these conclusions. The revised draft is annexed.

11. I accordingly invite my colleagues:

(i) to agree that a new broadcasting corporation, financed by advertising, should be established to provide a national popular music programme and a service of local sound broadcasting on the basis outlined in this paper;

(ii) to agree that I should discuss with the Chairman of the BBC the provision of BBC music programme on 247 metres as an interim arrangement, and report again to the Cabinet if there is any obstacle to this proposal;

(iii) to approve, subject to the consultation at (ii), the annexed draft White Paper.

E. S.

General Post Office, E, C, 1.

17th October, 1966
Draft White Paper

BROADCASTING

Introduction

1. The Government have had under review various major aspects of broadcasting policy. First among them was the question of the BBC's finances. Besides this, there were various proposals for the further extension of the broadcasting services: that there should be a fourth television service; that a service of local sound broadcasting should be introduced; and that there should be an extra service of sound broadcasting entirely given over to music.

2. The Government have thought it best to consider them as a comprehensive whole. For two other major questions it was however desirable for the Government to publish their views before the general review was completed. A Bill to put an end to the activities of pirate radio stations has already been introduced. And on colour television, the Postmaster General announced on 3rd March last the decision that a service using the PAL transmission system and broadcast on the 625-line standard would start towards the end of next year.

3. In reaching the conclusions announced in this review, it has of course been the Government's duty to consider both what purposes the proposals for further extending the broadcasting services should seek to serve, and what organisation would best promote these purposes. The Government have also had to consider to what extent it would be in the national economic interest to allow these extensions. It is not enough that they should be desirable in themselves. The overriding consideration is whether the country can afford them.

THE FINANCES OF THE BBC

The BBC's request for an increase in the licence fee

4. Following the report of the Pilkington Committee in 1962, the BBC were authorised:

(a) to provide an additional television service - BBC2;
(b) to provide self-contained television services for Scotland and Wales;
(c) greatly to increase the number of hours for which its Third Programme/Network Three broadcasts. It now broadcasts throughout the day;
(d) to extend the Light Programme. It now broadcasts from 5.30 a.m. until 2 a.m.;
(e) to provide more programmes of adult education on television. Both BBC and ITA have made full use of this authority; and
(f) to start colour television on BBC2.
The decision to authorise these major developments was welcomed; and, except for colour television - which is to start next year - they either have been or are being carried into effect.

5. The understanding on which the BBC proceeded to carry out this programme was that they would be afforded sufficient income to finance adequate services. In their Annual Report for 1962-63, the Corporation record that if they had received the full proceeds of a £5 licence from 1st April 1963, for which they had asked, they could have financed their services out of income until the end of the nineteen sixties. The Corporation's request was not granted, but from October 1963, when the Government of the day relinquished the £1 annual excise duty, an amount equal to the whole of the net proceeds of a £4 licence became payable to the Corporation.

6. In October 1964, the BBC represented to the Government that the combined television and sound licence fee should be raised from £4 to £6, and the sound-only fee from £1 to £1 5s. It was, of course, the Government's duty first to satisfy themselves that increases of this order would be justified. But it was also plain that some immediate action was called for to put the BBC in funds. The Government therefore decided that there should be a close enquiry into the Corporation's finances, but, as an interim measure, also authorised increases in the combined licence fee from £4 to £5, and in the sound-only fee from £1 to £1 5s. Both increases took effect on 1st August 1965.

The Government's enquiry

7. The Government have completed their enquiry into the BBC's finances. Practically speaking, the only possible ways of providing finance for the BBC are: by direct Government subvention, by the sale of advertising time in the Corporation's services, or by the licence-fee system.

8. A Government subvention would be liable to expose the Corporation to financial control in such detail as would prove incompatible with the BBC's independence. The money would, of course, have to be found from general taxation.

9. Under their Licence and Agreement (Cmd.2236) the BBC are not allowed to broadcast commercial advertisements without first having sought and obtained the Postmaster General's permission. Because of the probable long-term effect on the character of their services the BBC have never sought this permission. The Government recall that the Pilkington Committee found against the financing of the BBC in any measure from advertising, and that this view commanded general acceptance.

10. The Government have decided that there should be no change at present in the arrangement whereby the BBC are financed through the licence fee system. But at a time when none may be content to rest upon present standards of efficiency and financial performance, good though they may be, the Government have thought it right to expect of the BBC that they should set themselves even more exacting financial objectives. They have accordingly asked them whether, assuming the expenditure ceiling which would be implied if there were no increase in the licence fee for the present, the Corporation would be able to maintain their present services, and to proceed with extensions and developments either already authorised or proposed below. The BBC have reported that, by making special economies, they will - on certain assumptions - be able to do so until January 1968 at least when they would need an increase of £1.
11. In order to make these special economies, the BBC will restrict activities which they have hitherto considered well justified but which, against the background of continued financial stringency, can be sacrificed to the overriding national need for economy. The Corporation have conducted a searching examination of all their ancillary services and operations, with a view to making the maximum retrenchment in detail. By itself, however, this will not suffice. Some larger scale projects, desirable in themselves, for enlarging and modernising the Corporation's programme production capacity, will be forgone for the present. But the BBC will be able to maintain their present level of programme output and to proceed with extensions and developments of their services already authorised or about to be authorised.

Licence evasion

12. One assumption on which the BBC have based their undertaking to manage without an immediate increase in the licence fee is that counter measures against licence evasion will prove effective. It has been reliably estimated that, of the gross revenue amounting to some £80m. payable in a full year, some £9m. is lost through evasion. This is far too much to be tolerated. Honest viewers and listeners are, in effect, paying for the dishonesty of the evaders.

13. Steps have already been taken by the Postmaster General to tighten up counter evasion measures, but, by themselves, they will not suffice. Further measures are required. The Government are reviewing the penalties which Magistrates may impose on convicted evaders, and are discussing with the associations representing retailers and the rental companies ways in which dealers could help in the enforcement of the licence system. The Government will announce their proposals as soon as these discussions have been completed.

BBC finance: conclusion

14. The Government recognise the efforts which the Corporation are making to defer their request for an increase in the licence fee. The increase will be required in due course, but, given the combined effect of the special economies to be secured by the BBC and of the further measures to be taken to combat licence-evasion, the Government are satisfied that no increase in the fee will be required before 1968.

A FOURTH TELEVISION SERVICE

15. Ultimately, the frequencies now available for television could accommodate six services of near-national coverage on the 625-line definition standard: two in the very high frequency (VHF) bands; and four in the ultra-high frequency (UHF) bands. At present, the VHF bands are occupied by BBC1 and independent television, both broadcast on 405-lines. Of the four 625-line networks possible in UHF, one is committed to BBC2. There is therefore unused frequency space in the UHF bands for three more 625-line services. Space for two of them must be reserved in case it is required in order to change over the existing 405-line services to 625-lines by the duplication method. This means that the present basis on which planning must proceed is that, for the next 10 to 15 years, frequencies will certainly be available for only one additional television service of near-national coverage, in UHF and on 625-lines.
16. When the Television Act 1963 was before Parliament, the Government of the day stated their intention to allocate this service to a second programme of independent television during 1965 unless the financial or other obstacles were insurmountable. However it were allocated, a fourth television service would make large demands on resources. The three main services of television already provide a large volume of programmes of various kinds and the Government do not consider that another television service can be afforded a high place in the order of national priorities.

17. Moreover, before deploying the last frequencies certainly available for television for many years to come, the Government would need to be satisfied that the case for committing them to any new service had been fully established. Besides the claim of independent television, there is also the possibility that the frequencies would be required for a specialised service of educational television.

18. The Government have decided that no allocation of frequencies to a fourth television service will be authorised for the next three years at any rate.

**COLOUR TELEVISION**

19. The Government have already announced the decision that colour television, using the PAL transmission system and the 625-line definition standard should be provided. The service is to start towards the end of next year on BBC2. In reaching this conclusion the Government saw as an important consideration the prospect of increasing exports – provided that an early start could be made.

20. In making this announcement, the Postmaster General stated that if the Oslo conference of the International Radio Consultative Committee were to show that another transmission system found general acceptance, the Government would take such a development into consideration. In the event, the conference did not reach a common view on any transmission system. In general, the countries of western Europe expressed a preference for the PAL system, and France and eastern Europe for the SECAM III system. Accordingly, in the United Kingdom the colour service will be provided on the PAL system.

21. It has always been recognised that the decision to provide colour television on the 625-line definition standard is dependent upon the intention to change over the two 405-line services of BBC1 and independent television – to 625-lines. The Postmaster General's Television Advisory Committee has been asked to report as soon as possible on the method of changeover to be adopted.

22. It is the Government's view that the cost of colour programmes, which are likely at the outset to be available only to a small minority of viewers because of the cost of receivers, should not fall upon viewers in general. Accordingly a supplementary licence fee of £5 will be required from those equipped to receive colour programmes.
SOUND RADIO

23. The BBC broadcast three programmes - the Home Service, the Light Programme and the Third Network. Complementary planning broadly ensures that, at any given time, listeners have an effective choice between programmes of different kinds; and, between them, the three programmes cater for a wide span of tastes and interests ranging from those which attract very large audiences to those which, being highly specialised, serve small audiences. The three programmes are widely regarded as very well suited to their function of providing a comprehensive service of sound-radio on a national basis.

A popular music programme

24. The Government recognise that there is, however, a need for a new service, devoted solely to the provision of a continuous popular music programme. They do not consider that such a specialised service, additional to the service of sound radio provided by the BBC, should be financed by the licence fee system, the proceeds of which are required for the Corporation's present services. Accordingly, the Government propose that there should be a new programme of continuous popular music, but that it should be financed by the sale of advertising time.

25. It will be provided by a new public corporation, which will itself produce the programmes and sell the advertising time; and will be transmitted on a medium wavelength by a small number of high-powered stations.

26. Because the medium wavelengths available to this country are already intensively used, it will be necessary to rearrange their deployment so as to release a wavelength for allocation to the new Corporation. The Government will discuss with the BBC how this rearrangement should be made so as to cause the least disturbance to their services. Some disturbance will be inevitable. But the Government are satisfied that the basic three programme pattern need not be materially affected. Some time must elapse before the new popular music programme can start. In the interim period, the BBC have undertaken to broadcast music in popular styles on their medium wavelength (2k7 metres) transmission of the Light Programme at those periods during daytime when its transmission on the long wavelength (1500 metres) is broadcasting the spoken word. In this way, there will from an early date be made available to listeners a daily programme of continuous popular music from 5.30 a.m. until 6.30 p.m.; and from 10 p.m. until 2 a.m.

Local sound radio

27. No general service of local sound broadcasting, which would be available during hours of darkness as well as in daylight, can be provided only on medium wavelengths allotted to the United Kingdom. The only possibility for such a service lies in VHF. In practical terms, some 150 towns and cities could be served. Of the proposals put to the Government for the provision of a service, some advocate that it should be provided by commercial companies, others that it should be provided by the BBC.

28. In a worthwhile service of broadcasting a local station should, the Pilkington Committee concluded, transmit "for a sufficient part of the broadcasting day [material] of particular interest to the community served by that station rather than to other localities." In their White Paper of July 1962 (Cmd. 1770) the Conservative
administration agreed. "that the justification for local sound broadcasting would be the provision of a service genuinely 'local' in character." The Government share this view.

29. They consider that this objective would prove incompatible with the commercial objectives of companies engaging in local sound broadcasting; and that, in the result, the former would be likely to suffer. In their view it is of first importance to maintain public service principles in the further development of the broadcasting services; and accordingly they reject the view that a service of local sound radio should be provided by commercial companies.

30. Evidence of the expertise and professional enthusiasm which the BBC would bring to local sound broadcasting is to be found in the trial 'programmes' they have prepared. These have been heard, as recordings, by a number of audiences; and have been well received. The scale of the BBC's total operation in broadcasting is, however, already very large, and it has already new and important commitments to meet in the extension of its television services. The Government consider that this operation and these commitments represent as large a burden as the licence fee system should be required for the present to sustain.

31. Accordingly, they propose that the provision of a service of local sound broadcasting should be undertaken by the new corporation to be set up to provide the popular music programme; and that the service of local sound broadcasting should also be financed from the sale of advertising time in the programmes. Again, the new corporation will itself sell the advertising time and produce the programmes.

32. The Government envisage that some 60 stations would be built by the new Corporation. For each town and city served the Corporation would be required to appoint a Local Broadcasting Council. Each Council would be widely representative of community - including youth - and would play a fully formative part in the development of programme policy and content. The Government attach great importance to the need to ensure that the services provided by the stations are local in character and not all moulded to a common pattern imposed from the centre; and it would be required of the new corporation that the Councils would be afforded the maximum possible voice in the direction and performance of the stations.

33. Legislation to incorporate the new Corporation, and to give effect to the Government's proposals for a popular music programme and local sound broadcasting, will be brought before Parliament as soon as possible.

PAY TV

34. The Conservative Government authorised an experiment to last three years and granted a licence which will not expire before January 1969. The Government agree with this decision but they will not allow a situation to develop in which the vast majority of viewers are denied the viewing of major sporting events.

HOURS OF BROADCASTING

35. The first White Paper (Cmd.1770) on the report of the Pilkington Committee stated that the Postmaster General's powers to control the hours of broadcasting would continue. In the Television Act, 1963, and in the BBC's Licence and Agreement, approved by Parliament in January 1964, these powers were re-enacted in a more detailed form.
36. It has been represented to the Government that, ideally, these powers should not be used, but held as a reserve power. Both the ITA and the BBC would then be free to broadcast for as many hours a day as they chose. The Government have also considered whether, instead, there might be authorised a large increase in the number of hours of broadcasting a week.

37. In a typical week BBC 1, independent television and BBC 2 broadcast for some 180 to 200 hours in total. The amount of television broadcast here compares favourably with that of any other Western European country and considerably exceeds that of most.

38. In the Government's view, the amount of broadcasting time will remain a matter of sufficient social importance to require that the Postmaster General should continue to hold and exercise his present powers of control. Nor do the Government consider that any general increase in broadcasting hours will be justified for the present. They do not, however, rule out the possibility of more time for educational programmes.

THE BROADCASTING AUTHORITIES: THEIR COMMON RESPONSIBILITIES

39. Both the BBC and ITA are public corporations, wholly responsible for the content of their programmes and for the day-to-day conduct of their affairs. The principles that the public corporations should be independent of the Government has been upheld by successive Administrations since the beginning of broadcasting in the United Kingdom. The Government adhere to this concept.

40. The Government has discussed with the broadcasting authorities, and with other parties in Parliament, the idea of establishing, subject to this governing principle, a council to consider general issues of broadcasting policy. They have concluded that additional machinery of this sort would serve little useful purpose if the independence of the two public corporations is to be maintained. Since full responsibility is required of them, they must be afforded full authority to secure that their services are conducted in the general interest.

41. Though Parliament has placed them in competition with each other, they have a common objective of public service. In the continuing task of realising this objective matters of common concern are bound to arise. To discuss matters of this kind, the Chairman of the BBC and the Chairman of the ITA have, the Government understand, established regular and frequent meetings. The two broadcasting authorities have now decided to put these meetings on a more formal footing and to use them as the occasion for discussing matters which either Chairman might wish to raise. The meetings will continue to be private and unpublicised.

42. The Government welcome this means of consultation between the two authorities and their ready recognition that they will benefit from an understanding by each authority of the other's view.